



M&S

EST. 1884

TRANSFORMATION
TAKING SHAPE

ANNUAL REPORT &
FINANCIAL STATEMENTS

+

NOTICE OF
ANNUAL GENERAL
MEETING

2019

M&S IS A LEADING RETAILER *with*
**A STRONG AND
UNIQUE HERITAGE
OF BRAND VALUES,
EXTRAORDINARY
COLLEAGUES AND
CUSTOMERS WHO WANT
TO SEE IT SUCCEED AGAIN.**

We operate a family of accountable businesses, including Food and Clothing & Home, using the M&S own-brand model, focused on delivering quality products at great value for money.

Although primarily based in the UK, we sell into 57 countries from 1,487 stores, and 35 websites around the world. We employ over 80,000 colleagues serving about 32 million customers.

We are committed to transforming our business to ensure that once again M&S can fulfil the potential of its brand and deliver long-term, sustainable, profitable growth for our investors, colleagues and the communities that we serve.

+

Read more on
FOOD



+

Read more on
**CLOTHING
& HOME**



+

Read more on
**FINANCIAL
REVIEW**



Cover image
In January, we launched our Plant Kitchen range, a brand new collection of delicious plant-based products, like our Cashew Mac, to broaden our appeal to more customers looking for great tasting vegetarian or vegan ranges.



OVERVIEW

GROUP REVENUE

£10.4bn -3.0%

TOTAL DIVIDEND¹

13.9p -25.7%

* Dividend reset in February 2019. See page 26.

BASIC EARNINGS PER SHARE

2.1p +31.3%

GROUP PROFIT BEFORE TAX

£84.6m +26.6%

PROFIT BEFORE TAX AND ADJUSTING ITEMS

£523.2m -9.9%

PERCENTAGE OF UK CLOTHING & HOME SALES ONLINE

22% +3.0%

NET DEBT

£1.55bn -15.3%

FOOD: VALUE FOR MONEY PERCEPTION¹

59%

STORES: NET PROMOTER SCORE²

68

ADJUSTED EARNINGS PER SHARE

25.4p -8.6%

M&S.COM: NET PROMOTER SCORE²

54

WHY GO DIGITAL?

- Access to more detailed and interactive content
- The money saved on printing and postage will help lower our costs
- Reduces our carbon footprint and saves paper

Join our Digital First community and sign up for online communications only, in time for next year's report. It's much less fuss, much more interactive and you'll be helping M&S to reduce its impact on our environment.

To register, visit shareview.co.uk, a secure platform provided by our Registrar, Equiniti. From the home page, simply click 'Portfolio' followed by 'Open Portfolio Account' and follow the on-screen instructions. You will need your shareholder reference number to register.

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** Shareholder information forms part of the Directors' Report.

1. Based on stores and online data from 2018 onwards following a reset in internal measurements.
2. Net promoter score (NPS) equals the percentage of 'promoters' minus the percentage of 'detractors'. This represents our total NPS score following a reset in internal measurements from which we will measure our future progress against.

APM ALTERNATIVE PERFORMANCE MEASURES

The report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 143-145 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

CHAIRMAN'S LETTER



“Although we are in the hard yards of fixing the basics and arresting decline, we remain ambitious for the business.”

ARCHIE NORMAN CHAIRMAN

FINANCIAL HIGHLIGHTS

INTERIM

Paid on 11 January 2019

6.8p

FINAL

To be paid on 12 July 2019

7.1p

TOTAL DIVIDEND FOR 2018/19

13.9p

In September 2017 I took over as Chairman of M&S in the belief that, despite years of decline, a far-reaching turnaround programme driven by a strong leadership team could revive one of the UK's most special brands. This letter outlines my assessment of our progress in this turnaround.

I made clear at the time that the genesis of any turnaround starts with the unvarnished truth, setting aside corporate vanity to face the facts about the state of a business. Behind most financial failures sits an organisational failure and an inability to be self-critical and embrace the challenges ahead. In our case, a siloed, slow and hierarchical culture that has proved resistant to change.

As I made clear last year, the change needed is not one dimensional, not a touch of the tiller, and not just a question of strategy. Highly capable management teams have come and gone with perfectly sensible plans and the long-term downward trajectory of the business has continued. Our failure to adapt, despite rapidly changing markets, means M&S now stands on a burning platform. So we are aiming to transform all the pieces of the jigsaw: the way we are organised, the way we work, our technology, our store base, our product, our supply chains and our value in the market.

In tackling this challenge, we can draw upon two exceptional qualities: a brand that customers want to succeed again, and fantastic colleagues in our stores who have a remarkable commitment to the business and are longing to be given the freedom to get M&S back to its best.

In November 2017 Steve Rowe, CEO, laid out our five-year transformation programme, Making M&S Special Again. The objective of this programme is not to “manage decline” but to return M&S to sustainable, profitable growth. Our progress against this plan is detailed within the Annual Report.

Despite considerable changes and progress in restoring the basics, we remain in the first phase of the transformation and our in-year performance reflects this. The last year has seen further declines in like-for-like sales in both our Food and Clothing & Home businesses. The drivers for this are many, as we identified at the start of the transformation. We are at the early stages of reshaping our store portfolio which has

been allowed to decay over decades. We have not reshaped our store estate in line with changing customer preferences as our competitors have done and we are paying the price. About 75% of our full-line stores are over 25 years old and many date from before the Second World War. Our store layouts are still often difficult and confusing to shop. In Clothing & Home, we have suffered from "range creep" over the years so our shape of buy is too wide, lacks depth and clarity of choice or scale. In Food, many of our stores lack car parking, scope and reach, our price perception is too high, and our facilities and equipment maintenance are not good enough. Behind all of this, while parts of the organisation have dynamic, and sometimes new management, and have adopted a hands-on way of working, others remain slow, bureaucratic and hierarchical.

Whilst progress feels frustratingly slow, experience tells me this is typical in the first phase of transformation and, while it is right to be frustrated, it is also important to be patient. The majority of the leadership team are new to the business and we recently restructured the organisation to create accountable business units with their own boards to drive clarity of decision-making and pace of action. Some corporate functions have yet to adapt to this new structure which we are addressing. We have started to rekindle the "voice of the stores", which had become disconnected from the centre to put the customer back into the heart of decision-making. Store managers have once again been given sight of their own profit and loss account and information to manage food waste. The drum beat of trading pressure and store feedback is starting to drive a faster pace in the centre. Store managers have been given tablets, therefore no longer bound to their desks and can spend more time on the trading floor with colleagues and customers, and HR is at last being modernised and digitised.

Already as a result of some fairly basic improvements to the online website and fulfilment, we are seeing strong online sales growth when product is available. The relatively small changes in clothing range and shape we have made have proved successful and these changes will accelerate this autumn. If our supply chain and merchandising systems had delivered the right quantity of buy and right size



“We have started to rekindle the “voice of the stores”.



ratios, our sales would have been significantly stronger and we have learnt from our mistakes. In Food, although still negative in value terms, our like-for-like volume sales are beginning to grow again and the energy in that business is palpable.

As a result of these and many other changes, I do expect to see improvement in trading in each of our major businesses in the year ahead and, although we are in the hard yards of fixing the basics and arresting decline, we remain ambitious for the business. This is why we committed to buy half of Ocado retail and we believe this joint venture could create the most advantaged online food business in the UK. The partnership will bring substantial benefits to our core Food business in purchasing scale and innovation speed and the sharing of data should create one of the most powerful consumer data pools in the UK. Together with Ocado, our aspiration is to significantly improve our share of UK food retail by combining our strength in food quality and innovation and Ocado's leading technology and service.

To finance the joint venture, but also to nail down our finances for the next four years, we have reduced the dividend and committed to a £601.3m rights issue. We have substantial debt repayments due on our bond financing and a significant pension obligation to fund. Although painful, these steps provide the business with a stronger balance sheet, resilient to the vagaries of an unpredictable market and risks inherent in rapid operating change. Having reset the dividend to a sustainable level, we will aim to grow returns to shareholders in line with earnings over time.

Within this context I want to thank all our colleagues for their support during a testing time for the business. When we are seeking to drive efficiency, seeing declining sales, reducing hours and closing stores, life has not been easy for our colleagues at any level. Their commitment to making M&S special again has been and continues to be amazing.

I said last year that in an era of a new management team with a mandate for urgent change we needed a strong and dedicated Board. We have now forged a highly capable and energetic Board committed to making the hard decisions required to support the turnaround and drive the pace. Vindi Banga, our Senior Independent Director, stood down from the Board after nearly seven years and leaves with our grateful thanks. Pip McCrostie, Katie Bickerstaffe and Justin King have joined us. Serving on the M&S Board is not going to be the easiest of roads. But none of us are here to eat lunch or soak up applause. We are here to make M&S special again and we are on the road to doing exactly that.

ARCHIE NORMAN CHAIRMAN

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT



STEVE ROWE CHIEF EXECUTIVE

We are deep into the first phase of our transformation programme and continue to make good progress restoring the basics and fixing many of the legacy issues we face. As I have said, at this stage we are judging ourselves as much by the pace of change as by the trading outcomes and change will accelerate in the year ahead.

Whilst there are green shoots, we have not been consistent in our delivery in a number of areas of the business. M&S is changing faster than at any time in my career – substantial changes to our processes, ranges and operations and this has constrained this year's performance, particularly in Clothing & Home. However, we remain on track with our transformation and are now well on the road to making M&S special again.

TRANSFORMING OUR LEADERSHIP AND ACCOUNTABILITY

Over the past two years we have built a substantially new leadership team, bringing fresh perspective, energy and challenge to a business held back by deeply entrenched cultural norms. Alongside this, we are creating clear and accountable businesses supported by common values, shared infrastructure and customer data and have continued the streamlining of corporate functions.

However, over the years a business that was famously product and store led has developed a "Head Office knows best" mentality, remote from the customer. Looking ahead we will up the pace on the steps we are taking to bring back the "voice of the stores". Our colleagues are our biggest asset and unlocking their potential will drive our transformation.

BECOMING A DIGITAL FIRST RETAILER ACROSS M&S

In our digital operations, we began to address the basics of our website which has helped to deliver UK Clothing & Home online growth of 9.8% in FY 2018/19. Online now represents 22% of UK Clothing & Home sales compared with 19% last year.

Improvements in site speed, a redesigned homepage, enhanced product imagery, a simpler check-out and an improved delivery proposition have collectively contributed to over nine percent improvement in the conversion of website traffic to customer purchases. Navigation and personalisation on-site, as well as product marketing, remain a significant opportunity.

Castle Donington had its best peak performance since it opened with significant improvements in most key metrics including a later delivery cut-off, following targeted investment to remedy problems with its reliability and efficiency. We are investing c.£9m in further process improvements to meet our growth plans for this year. However, we expect the need for an additional fulfilment centre has been successfully deferred for another two to three years.

M&S in-store technology and systems have been historically underinvested and require improvement. Already we have started to address this problem, giving all store managers tablet computers and extending the successful Honeywell hand held terminal programme. In the year ahead, we will roll out new applications and accelerate our self-checkout programme to reduce constant queuing issues. Our in-store Wi-Fi will be upgraded to deliver a universal "high speed anywhere" capability for our customers and store colleagues.

We will also improve the personalisation of our shopping experience. With the potential to develop one of the best customer data "lakes" in the UK, our Sparks loyalty programme needs substantial improvement and will be relaunched in the next year.

We have made good progress in restoring the basics of our technology organisation, transitioning to a partnership with TCS, migrating our online platform to the cloud and rolling out new warehouse management software to enable the decommissioning of antiquated systems and the old mainframe base, which will deliver annualised savings of over £30m.

RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME

UK Clothing & Home revenue declined 3.6%, partly due to our store closure programme, with like-for-like revenue down 1.6%. Encouraging progress in Q3 was constrained by weak availability in Q4 as we sold out of fast selling lines and experienced supply issues.

Our range remained too wide in FY 2018/19 with multiple options splintering our buying scale and making our shops challenging to navigate. Our size ratios have been historically misaligned with the profile of the contemporary family age customer we aim to appeal to. However, where we have made progress in pruning options and introducing slimmer fits and more mid sizes, the customer response has been very strong.

Creating a new range architecture in a business with weak processes, a slow supply chain and where buyers are building their confidence has proven challenging, and our sales both in store and online have been frustrated by poor availability in Q4. Although we made good progress reducing overall stock levels, many popular lines have sold out prematurely because of the failure to buy in depth and the slowness of the stock flow.

Despite these teething problems the customer response to the initial changes has been very encouraging. On page 10 we look at the year ahead in Clothing & Home, where we expect to deliver a more marked reduction in options and range duplication. With the new range architecture, we will continue to shift to a "first price, right price" trading philosophy, and further reduce the percentage of Clothing & Home sold at discount, which remains too high.

Our new range architecture and presentation will be combined with a rationalised, more contemporary in-store environment. Progress on renewing the stores has been limited to date, although we have moved a lot of internal walls and sight barriers. A "renewal" brand format and a modernisation will be piloted in the year ahead.

We have reduced the complexity of our logistics network and are rolling out the first phase of our “Fuse” programme deploying new tools which will help us remove excess stock trapped in stores where it does not sell and holding it centrally, improving availability and making our stores easier to shop. We are still at the early stages of modernising our supply chain network, technology and process and this remains a priority.

PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD

The Food business is showing good signs of progress in arresting the decline in like-for-like sales. UK Food revenue declined 0.6%, with like-for-like revenue down 2.3% reflecting the adverse impact of Easter timing in both Q1 and Q4. Adjusted for Easter timing, FY 2018/19 like-for-like revenue declined 1.5% with an improving trend in the second half of the year, and volume growth in Q4.

As set out in further detail on page 8, our Food brand remains very strong and our strategy is to “protect the magic” – based on our unique quality, freshness and innovation credentials – whilst reshaping our store estate, infrastructure, operating systems, cost management and supply relationships. The Ocado Joint Venture (JV) is a natural partner for the brand and, combined with our Food transformation plan, opens up the possibility of substantially increasing our grocery market share in the medium term.

Good progress has been made in restoring trust in our value at relatively little cost to margin. We have very nearly halved our dependence on short-term promotions and confusing multi-buys, reducing promotional participation by over 10 percentage points as a percentage of sales by year end, without significant loss of customers. This enabled us to invest in everyday prices, including reductions in over 400 lines, narrowing our price differential to the lowest it has been for some years.

We have strengthened the communication of value in stores and we began to see encouraging transaction and volume trends in Q4. In the current year, the shift to trusted value will be supported by a series of workstreams designed to simplify supply relationships, reduce costs and increase the pace of innovation.

CREATING A HIGH-QUALITY STORE PORTFOLIO FIT FOR THE FUTURE

We are making good progress with the reshaping of our full-line estate and have closed 35 full-line stores as part of our programme as at 30 March 2019, with sales transfer rates to nearby stores remaining

above 20%. Reshaping the store portfolio means tackling the legacy issues, but also opening new full-line stores as well as Food stores. As part of our Food strategy we are concentrating on higher volume stores with good access and car parking to enable our customers to shop more of our range. Therefore, some of the low volume, higher cost Simply Food stores, mostly on short leases, will also be progressively relocated or rationalised. As we discuss in more detail on page 12, although we anticipate further net reductions in overall retail space, our strategy is as much about right sizing and relocating as it is about closures and we anticipate our owned store base is likely to remain broadly level.

REBUILDING PROFITABLE GROWTH IN INTERNATIONAL

The International business was already fully embarked on rationalisation and repositioning prior to the transformation programme and further good progress has been made. Our objective is to create a much more competitive localised version of M&S in those selected markets where we can attain a sustainable market share.

As we aim to build a scalable business internationally, we continue to localise our ranges for the market. This included a substantial increase to around 15% of locally designed clothing range including in our growing Indian joint venture, which now has 77 stores. In addition, we launched six country specific websites and re-platformed the website for our business in the Republic of Ireland.

COST SAVINGS OF AT LEAST £350M BY 2020/21

Last year we set out firm targets for cost savings as part of the first phase of transformation. We have made good progress in the year, delivering savings of c.£100m, in addition to the operating costs of stores that have closed, and are on the way to creating a leaner, more efficient cost base for the business.

Savings in 2018/19 derived from the retail management restructure, the IT transformation plan, property costs, depreciation and central costs enabled the business to offset inflation, new space and channel shift with the result that full year UK operating costs declined by 1.2%.

As we change the culture of the business, we are clear that challenging costs will become a core part of our philosophy. In 2019/20, we anticipate ongoing savings from the annualisation of current year initiatives and additional benefits in areas, including a new contract for store maintenance and in central costs, which should result in a further decline in total UK operating costs.

JOINT VENTURE WITH OCADO

In February 2019, we announced the creation of a new 50/50 JV with Ocado Group Plc, the UK’s leading pure play digital grocer, which will transform online grocery shopping for UK consumers.

Under the JV, M&S is acquiring a 50% share of Ocado’s UK retail business, which will be supported by Ocado Smart Platform technology, for an initial consideration of £562.5m and deferred consideration of up to £187.5m, plus interest. The Ocado JV is expected to be recognised by M&S as an associate applying the equity method of accounting, reflecting the significant influence that M&S will have over the entity.

The JV combines the strength of M&S’s brand and its leading food quality and innovation with Ocado’s unique and proprietary technology, to create an unrivalled online offer for customers. In bringing the best together, the JV will benefit existing and new UK customers, colleagues and suppliers.

The JV will trade as Ocado.com but will benefit from access to M&S’s brand, products and customer database from September 2020 at the latest, following the termination of the current Waitrose sourcing agreement and migration of JV sourcing to M&S.

We anticipate synergies of at least £70m by the third full financial year following completion through increased buying scale, harmonised buying terms on branded products and improved efficiencies on new product development. We expect some churn in customers as the JV transitions from the previous sourcing arrangements; however following the ‘frictional’ transition we plan to accelerate growth in the JV. There is a significant opportunity to reduce customer acquisition costs in the JV by marketing directly to our customer data base.

LOOKING AHEAD

Whilst we have made progress, our priority in the year ahead must be to increase the pace of change. M&S has an extraordinary workforce of loyal colleagues and I am lucky and humbled to lead them. Unlocking this power to build a faster, more commercial culture will help us drive transformational change. I would like to thank all my colleagues for their passion, dedication and hard work over the past year in delivering our transformation. We are now well on the way to making M&S special again.

STEVE ROWE CHIEF EXECUTIVE

STRATEGIC REPORT

M&S BUSINESS OPERATING MODEL

Marks and Spencer Group plc is one of the United Kingdom's leading retailers, with a unique heritage of brand values, extraordinary colleagues and strong and deep relationships with customers. We operate as a family of accountable businesses, bound together not only by a common consumer brand but also by shared sites, employment values and customer data.



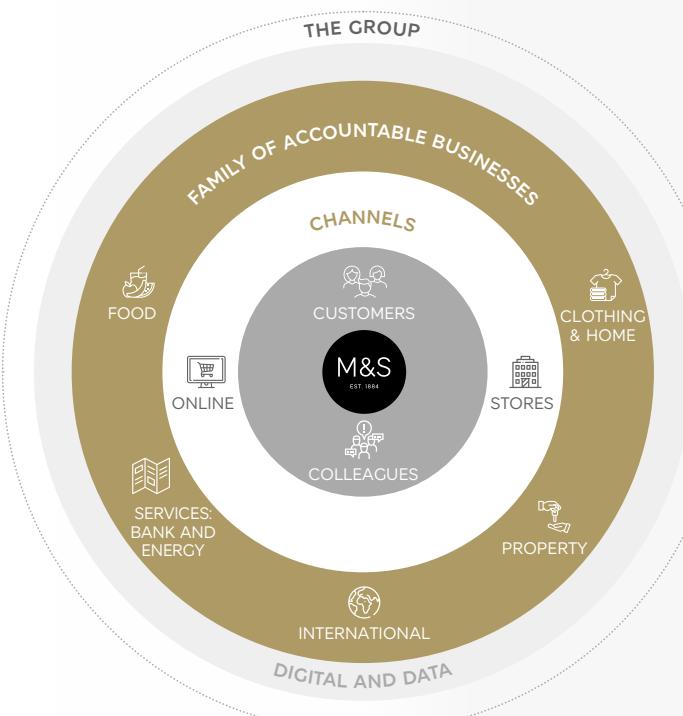
OUR CUSTOMERS

M&S serves about 32 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services for our target customers, who we reach through a channel network of 1,487 stores and online services across 57 international markets.



OUR COLLEAGUES

We employ over 80,000 colleagues who demonstrate extraordinary passion for the business, deliver great customer experience through our channels, and bring extensive technical skills giving us strength in areas such as ingredients, sourcing, size and fit.



A FAMILY OF ACCOUNTABLE BUSINESSES

M&S generates revenue and delivers value for shareholders through a family of accountable businesses. Each is led by its own integrated management team, with functional accountability for their divisions, including marketing, supply chain, finance and technology.

We predominantly sell own-brand products manufactured and marketed exclusively under the M&S brand with quality, innovation and trusted value at their core.



Food: M&S Food sells sustainably sourced, fresh, convenient products of outstanding quality through five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals dessert and frozen; hospitality and 'Food on the Move'.



Clothing & Home: M&S sells stylish own-brand clothing and homeware through our principal product departments: Womenswear, Menswear, Lingerie, Kidswear and Home.



International: M&S exports the best of M&S Food and Clothing & Home around the world in select target markets across Europe, the Middle East and Asia, and with an online presence in markets such as the United States and Australia.



Services: Through M&S Bank (operated by HSBC) we provide a range of financial services, including credit cards, current account and savings, insurance and mortgages. M&S Energy is a competitive fully renewable energy source provider (operated by Octopus).



Property: We are building an active property management team to maximise the value of our property assets through investment and development opportunities.

DIGITAL AND DATA

All of our businesses can draw from the same customer data. We are investing in our data analytics and digital capabilities to create a strong customer insight function, so we can better leverage our insight to build customer loyalty.

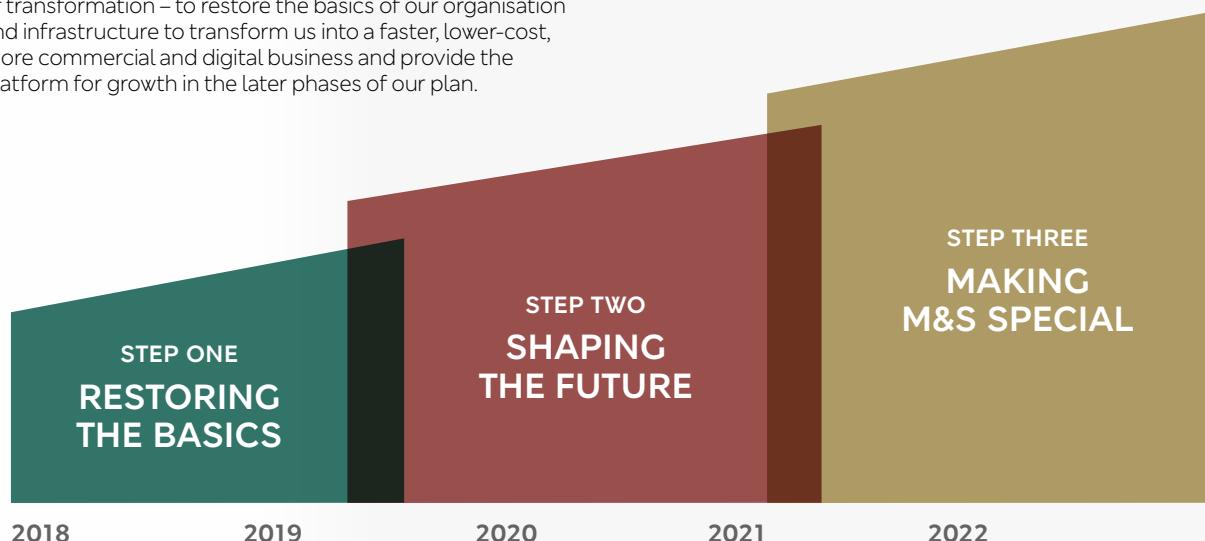
THE GROUP

Our lean central team includes Group Finance, Corporate Governance, Strategy and support functions such as Communications and HR. The Group supports the business as a whole, setting direction of its growth strategy, allocation of capital and overseeing cost efficiencies.

OUR STRATEGIC PRIORITIES

The objective of our transformation programme, Making M&S Special Again, is to restore the business to sustainable, profitable growth over three to five years.

Last year we set out the nine key pillars of our first phase of transformation – to restore the basics of our organisation and infrastructure to transform us into a faster, lower-cost, more commercial and digital business and provide the platform for growth in the later phases of our plan.



TRANSFORMING OUR LEADERSHIP

1

[+ Read more on page 04 & page 15](#)

BUILDING GREATER ACCOUNTABILITY

2

[+ Read more on page 15 & page 16](#)

BECOMING A DIGITAL FIRST RETAILER

3

[+ Read more on page 13](#)

RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME

4

[+ Read more on page 10 & page 11](#)

PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD

5

[+ Read more on page 08 & page 09](#)

REBUILDING PROFITABLE GROWTH IN INTERNATIONAL

6

[+ Read more on page 14](#)

CREATING A HIGH-QUALITY STORE ESTATE FIT FOR THE FUTURE

7

[+ Read more on page 12](#)

MODERNISING OUR FOOD AND CLOTHING & HOME SUPPLY CHAINS

8

[+ Read more on page 09 & page 11](#)

COST SAVINGS OF AT LEAST £350M BY 2020/21

9

[+ Read more on page 05](#)

FOOD

PROTECTING THE MAGIC AND MODERNISING THE REST



WHAT WE SAID LAST YEAR

In 2018 we acknowledged that our Food business had become too premium and lost some of its broader appeal. While customers still recognised us for quality, the competition had worked hard to match our success by copying our innovation and fresh product ranges and we hadn't kept up. The challenges were compounded by our outdated supply chain, with excessive waste, poor availability and high operating costs eroding our profits.

We were clear that we needed to protect the things that make M&S Food special: industry-leading quality, exceptional sourcing and famous innovation. But against the relentless rise of the discounters at one end, and supermarket price competition at the other, M&S had to become more relevant, more often – with great value, everyday prices and products that appeal to a family customer.

We outlined the action needed to address these challenges and restore like-for-like growth:

→ Re-establish our value for money credentials.

- Accelerate the pace of relevant innovation to deliver commercial impact.
- Give more customers access to the full M&S Food range of c.6,500 SKUs.
- Fix our outdated supply chain.

WHAT'S HAPPENING

The Food business saw encouraging signs of progress with an improving trend in like-for-like revenue in the second half of the year as well as volume growth in the final quarter. However, the business continued to remain in decline with like-for-like revenue for the year down 2.3% overall. Our performance gains have continued to be offset by the deep-rooted challenges of our supply chain and systems resulting in disappointing levels of waste and availability.

We continued to perform well on special occasions, particularly Christmas, where we saw strong volume growth. Meat was one of our best-performing Christmas categories – with lamb and beef proving particularly popular with our customers. We are beginning to capture these core weekly shop categories all year round: 30% of customers' baskets contain a meat, fish or poultry item and 34% include fresh produce.

Under the direction of our Food Managing Director, Stuart Machin, our new leadership team is injecting much needed pace and energy into our transformation. The team was strengthened by the arrival of our new Commercial Director, George Wright, who joined us from Tesco in April 2019, and the return of April Preston in November 2018 as Product Development Director, as well as other important leadership appointments.

We're working hard to rebuild trust in our value credentials. Over the last 12 months we have reduced our dependency on short-term promotions and reduced promotional participation by over 10%. This has enabled us to maintain our quality and invest in better everyday value and reduce prices on over 400 of our most popular lines. For example, we invested in prices of staple products like our beef mince and saw a positive customer response with sales up 29% as a result.

We have also started to tackle value perception through our marketing and, for the first time, our campaigns consistently called out prices alongside product quality. We also began showcasing the best of M&S Food into millions of homes each week through our sponsorship of the 2019 series of ITV's *Britain's Got Talent*.

We are re-engineering our development pipeline to up the pace on delivering more relevant innovation with commercial impact. For example, in January we launched our Plant Kitchen range in response to the growing demand for a plant-based diet and sold over 4.8 million items from the range in its first three months. We are also working to improve our product development timeline from 24 weeks to 6 to make us more efficient in bringing products to market, as the case study on Our Best Ever Prawn Sandwich opposite explains.

Our end-to-end supply chain transformation programme is now well under way. With support of outside expertise, our “Fuse” project team has pinpointed the causes and solutions to the most critical problems and identified a number of savings. We are determined to modernise and improve our waste and availability and open up our growth potential in Food. We have set up a number of Academy stores across the UK, so we can test and refine the new processes using the expert knowledge of our store colleagues.

While efforts have been focused on restoring the basics, we have taken the first major step in shaping our future growth with the announcement of our JV partnership with Ocado. Online food retailing is set to grow from an £11bn market in 2018 to £17bn in 2023 and, to date, M&S has not had a viable online grocery platform.

Combining the quality of M&S Food with Ocado’s leading technology and award-winning service will enable us to build an unrivalled online offer for UK customers and provide M&S with immediate, scalable

and profitable access to the fastest-growing channel in food retailing.

WHAT'S STILL TO DO

Our objective in phase one is to restore like-for-like sales growth, by driving frequency of shop and broadening our appeal beyond special occasions.

We will continue to invest in price on key items to restore our value for money credentials. However, delivering trusted value is much more than lowering prices. It means offering easy to understand, simple price points and providing better value on large-size family packs. Confusing multi-buys have been stripped back and when we do run promotions, we need to ensure that they are relevant to a family customer's specific needs and offer real value. For example, our Family Meal Deal for £8 provides an effortless solution to ‘dinner tonight or tomorrow’.

To fully unlock the volume opportunity, we need to enable customers to shop more of our range. From September 2020, our Ocado partnership will provide immediate access to our full range of 6,500 products and reach our 12 million food customers who account for one-third of online grocery market spend – none of which currently comes into M&S. But today, in the absence of an online offer, access is constrained by our portfolio of small food halls, with only a dozen stores able to stock the full range. Our property strategy looks to bigger and better located stores that offer the family-friendly facilities and experience our target customer wants. Our 2019/20 store-renewal programme will enable us to develop a blueprint with the

potential to be applied cost-effectively to new and existing M&S sites.

This activity will be underpinned by a series of workstreams designed to lower costs and improve the quality of sourcing. Although M&S retains a core of very strong supplier relationships, over the years the uniqueness and commitment of our supply base has been eroded, as competitors seek to copy our recipes and emulate our quality. And in pursuit of innovation and promotional complexity, we have often become expensive to source. This programme will therefore mean restoring our sourcing capability, going back to livestock and field, and creating more joined up, vertically integrated programmes with selected strategic suppliers.

Our waste levels remain among the highest in the industry and availability has not significantly improved. However, the modernisation of our supply chain is taking shape, and the new ways of working and management information tools will be rolled out across stores and support teams in the year ahead. This is only the start and there is still much to do but there will be significant commercial gain in getting it right.

The UK food market is in the midst of seismic change and hard work lies ahead. But our strength in innovation, quality and time-saving fresh food, coupled with the evolution of customer shopping habits towards convenience and health, presents a real opportunity to significantly improve our market share in the medium term. Underpinned by our far-reaching plans, we are building a platform for like-for-like growth.

FINANCIAL HIGHLIGHTS

REVENUE

£5.9bn -0.6%

CONTRIBUTION TO UK REVENUE

62.5% +1.2%

LIKE-FOR-LIKE SALES

Like-for-like sales performance was down but we saw encouraging volume growth in the final quarter.



AVAILABILITY

Our availability is behind the industry average and we are tackling this through our “Fuse” programme.

92.6% +0.3%

STRATEGIC KPIS

VALUE FOR MONEY PERCEPTION¹

The proportion of customers who rated us highly on value for money. We have started to address our value for money perception through our marketing and price reductions.

59%

QUALITY PERCEPTION¹

The proportion of customers who rated us highly on quality. Our Food strategy is to “protect the magic” including our unique quality, freshness, and innovation credentials.

85%

1. Based on data covering stores from 2018 onwards following a reset in internal measurements.

CLOTHING & HOME

RESTORING OUR REPUTATION FOR STYLE AND VALUE



Above Denim is one of our key categories with a loyal customer base and strong customer franchise, and our Best Ever Fit campaign in February helped us build on this position resulting in a 20% sales uplift.

Left Shoppable Instagram has been a key part of this year's Holly's Must-Haves marketing campaign with our ambassador Holly Willoughby. Our social media followers were given first access to Holly's edit which led to our biggest ever social revenue day on M&S.com.

WHAT WE SAID LAST YEAR

In 2018 we outlined the threats to our Clothing & Home business including the erosion of our style credentials, increasing pressure from new and existing competitors, an online business behind the curve, and a delivery service unable to meet customer demand at peak times. These factors had combined over many years to reduce our market share, resulting in a process of gradual decline and the ageing of our customer base. Restoring the brand and customer appeal requires far-reaching change in the range, shape of buy, supply chain and systems. In addressing these challenges, we set out what we needed to do to deliver the change required:

- Restore our style and value credentials to broaden our appeal to a younger family age customer.
- Restructure our shape of buy, reducing breadth of range and focusing on backing winning lines in high volume.

Our aspiration is to be famous for contemporary, wearable style at great value. Our efforts in restoring our style credentials and value perceptions made progress and saw some wins this year. Sales of our £15 women's jeggings were up 30% over the campaign period. And when we got the product fit and price right for the contemporary, family-age customer we aim

- Build on our loyal customer base and strong customer franchise in denim, lingerie, suits and back to school.
- Target one-third of our sales online by 2022.
- Reform our supply chain and systems to improve availability and deliver for customers.

WHAT'S HAPPENING

Despite underlying progress this year, our transformation in Clothing & Home is yet to be reflected in like-for-like sales. While we saw a rise in customer numbers and growth in our online Clothing & Home sales ahead of the market, we remain at the early stages of our programme.

to appeal to – such as our denim campaign case study above – we saw product fly off the shelves. But all too often our initial tentative steps to buying in depth meant many of the most popular lines sold out prematurely and our sales were constrained by poor availability.

Our digital capabilities have historically been well behind the market. Our platforms have not offered an inspirational or effective customer experience and our digital marketing hasn't kept pace with how our customers want to shop. This year we delivered important enabling improvements by redesigning and improving our homepage to become top quartile among our peers on page load speed. We have invested in better navigation and product imagery and are delivering a more mobile-first and feature rich experience, with new tools such as Style Finder visual search. Digital marketing of our Holly's Must-Haves range generated 1.7 million clicks through to our website, with tools such as Instagram Shoppable, helping drive sales. As a result of these actions, we saw UK Clothing & Home online

growth of 9.8% and improved our online clothing market share. UK Clothing & Home sales online now stand at 22%, up from 19% last year.

We have begun to tackle our unwieldy supply chain operation, which hampers our speed to market, creates in-store handling costs and exacerbates our availability problems through slow-moving stock that sits trapped in the network. The opening of our new national Clothing & Home distribution centre at Welham Green and the closure of four regional sites has taken us a step closer to creating a more efficient and cost-effective single-tier network, where products are moved to stores via one single touch point. Alongside this, the improvements made at our national online fulfilment centre at Castle Donington resulted in increased peak capacity.

WHAT'S STILL TO DO

Over many years the M&S clothing range has widened and extended – resulting in a fragmented buy, reductions in buying power and stores that are confusing to navigate.

We have made a start in reducing option count in some areas. Our plan is to substantially increase the number of '£1m' high-volume great-value lines for which M&S should be famous.

However, repositioning the range architecture in a business that has been habituated to covering every option, and where buyers are building their confidence, is a difficult process. Our chunky systems and tools deepen this challenge, for example our size ratios have been weighted towards larger sizes and fit, rather than the mid to smaller sizes of our target customer – aggravating availability problems. To address this, we plan to deliver a more marked reduction in options and range duplication. We will embed new range planning processes and size ratio tools, so we are set up to back more winning lines and target the family-aged customer. This will be reinforced by the update of the sub brand strategy, including the Per Una range where we have seen positive initial customer reaction since it relaunched.

With the move to more volume and value, our intention is to switch to a "first price, right price" approach to help drive a more active trading mentality across Clothing & Home. If we are successful, this will remove our reliance on discounted sales and reduce the volume of goods we sell in clearance mode.

A deeper buying plan will also give us the scale to forge more strategic relationships with suppliers and improve the value we can offer our customers. We will uphold our quality and maintain a "good, better and best" pricing hierarchy, so that alongside great everyday prices, we can highlight the stunning value of designer-class products such as leather jackets and cashmere coats.

The changes we are making will improve the customer experience and make our range easier to shop by decluttering stores with fewer but better and more relevant product lines. Alongside this, work is under way to free up store colleagues from the unnecessary administration created by our out-of-date systems and allow them to focus on what they do best: serving our customers. As set out on page 12 of this report, we are radically enhancing the quality of our store space and a store renewal trial will commence this year. In addition, we will treat our top 70 stores as flagships, which offer a destination shopping experience.

We will continue to accelerate our drive towards delivering one-third of our Clothing & Home sales online and improve our integration of digital and store sales. Our delivery to customers still lags behind the market, both to home and in-store collections. Our intention is to extend our order cut-off point from 10pm to 11pm during 2019/20 and further improve our product presentation to reduce returns rates.

And finally, underpinning our transformation is the reformation of our supply chain. "Fuse", our supply chain taskforce, has started to tackle our distribution network weaknesses, but modernisation of our technology and processes is at a very early stage.

FINANCIAL HIGHLIGHTS

REVENUE

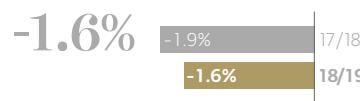
£3.5bn **-3.6%**

CONTRIBUTION TO UK REVENUE

37.5% **-1.9%**

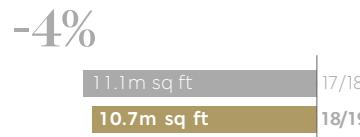
LIKE-FOR-LIKE SALES

Like-for-like revenue was down this year. Encouraging progress in Q3 was offset by weak availability in Q4.



CLOTHING & HOME SPACE

We have made good progress in reshaping our Clothing & Home space, with a reduction of 4%.



STRATEGIC KPIs

VALUE FOR MONEY PERCEPTION¹

The proportion of customers who rated us highly on value for money. We are focused on restoring our reputation for style and value.

65%

STYLE PERCEPTION¹

The proportion of customers who rated us highly on style. We saw an encouraging customer response to some of our ranges this year such as our Denim Best Ever Fit.

58%

1. Based on stores and online data from 2018 onwards following a reset in internal measurements.

STRATEGIC REPORT

CHANNELS

STORES

RESHAPING THE STORE ESTATE 2019-24

Estimated number of stores



Includes format changes such as full-line to Simply Food

STRATEGIC KPIs

FOOTFALL (AVERAGE PER WEEK)

18.6m -4.5%

TRANSACTIONS (AVERAGE PER WEEK)

11.4m +0.3%

NET PROMOTER SCORE*

68

WHAT WE SAID LAST YEAR

Last year we set out how a reluctance to close underperforming stores and years of chronic underinvestment in rotating and modernising our estate had become a drag on like-for-like performance and damaging to the M&S brand. This combined with the rapid migration of customers online left us with a store estate that required urgent transformation.

To make M&S fit for the future, our store estate needs reshaping to meet the changing shopping behaviours of our customers. We therefore committed to the following actions:

- Accelerate the reshape of our store estate programme to ensure that we have the right stores in the right locations for our customers.
- Reduce and redirect our opening programme in Food to focus on the highest-returning locations.
- Experiment with new "renewal" formats in both Clothing & Home and Food.

WHAT'S HAPPENING

Our store reshape programme, which is a combination of relocating, right sizing or closing stores, has made good progress through the year.

We have an estate of 1,043 stores in the UK which is older than those of our competitors with numerous legacy issues.

About three-quarters of our Clothing & Home stores were opened over 25 years ago and nearly 75 of these were before the Second World War. During the year we concentrated on addressing the legacy issues while also developing a forward pipeline of high-volume stores where we can better serve our target customer. Although we anticipate further net reductions in overall retail space, and we currently expect to close a further c.85 full-line stores and c.25 Simply Food stores in addition to the 35 full-line stores closed in FY18/19, we believe the current retail environment will allow us to secure some excellent sites for relocations.

The changing sales pattern and rising costs of real estate continues to put pressure on low-performing stores and declining high streets and shopping centres. Most of our Clothing & Home stores saw declining sales in the last year. The pressure of business rates remains onerous, although we are beginning to see some benefit from rent reductions as we negotiate lease renewals.

We also began a programme to reduce some of our existing store space. Our large old town centre stores remain in prime locations but have surplus space. During the year we appointed a new Property Development Director to review and unlock value from our portfolio by identifying opportunities to redevelop sites, releasing value and creating new modern, fit-for-purpose stores.

WHAT'S STILL TO DO

Looking ahead our three commitments from last year remain to be fulfilled. We plan to maintain the pace of our store estate reshape, opening bigger and better stores. Alongside this we will also expand the programme to include low volume, high cost Simply Food stores alongside larger store redevelopment planning, with our owned store base likely to remain broadly level.

We plan to continue maximising the value of our existing space alongside this, and can expect to announce a number of redevelopments in the year ahead.

As we shift our strategic focus from locations to formats, we know our in-store experience still requires improvement. Up to 50% of our store estate has not had major cosmetic refurbishment in the last 10 years. Our smaller stores lack authority and our larger ones are either too cluttered or have too much space to deliver inspiration. We have seen some progress on this front, such as our St Helens store, which last year was relocated to a larger format better suited to our target customer and has performed ahead of expectations. For now our immediate priority is to continue restoring the basics and ensuring that we have stores in the right locations for our customers.

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'. This represents our total NPS score following a reset in internal measurements from which we will measure our future progress against.

M&S.COM

WHAT WE SAID LAST YEAR

We have been clear that to make M&S special again we need an M&S.com platform that supports and inspires our customers, however they choose to shop, and end-to-end digital capabilities and skills across the business to fulfil this ambition. Historically, M&S has been a business that has neglected our online offer to customers and last year we outlined the scale of the task that faced us.

Our digital platforms were well behind the best in market, which was rapidly moving away from us. Our speed and search capacities were slower than the best, and Castle Donington – our online distribution centre – was unable to meet peak demands. In addressing these challenges, we set out the following areas which required our urgent attention:

- Accelerating our journey towards becoming a Digital First retailer.
- Targeting one-third Clothing & Home sales online.
- Fixing our base platform capability.
- Improving the performance of Castle Donington.
- Creating better links for customers between stores and our website.
- Improving our M&S.com customer experience through technology and AI.

STRATEGIC KPIs

PERCENTAGE OF UK CLOTHING & HOME SALES ONLINE

22% +3.0%

TRAFFIC (VISITS PER WEEK)

8.8m +5.7%

NET PROMOTER SCORE*

54

WHAT'S HAPPENING

We have seen improvements in M&S.com with site speed enhanced to rank in the top quartile among our peers on load speed, a redesigned homepage and better product imagery, and an improved checkout and delivery proposition. Alongside this we moved the website to the cloud to reduce performance issues and costs. This collectively contributed to over nine percent in the conversion of website traffic to customer purchases.

We also improved our mobile shopping experience, which is one of our fastest-growing areas of customer traffic, with an increasing number of customers becoming confident in choosing to shop on mobile with us and an improved conversion rate as a result.

In our supply chain, following investment in reliability, efficiency and capacity, Castle Donington had its best peak performance since it opened.

This combined to deliver UK Clothing & Home online growth of 9.8% improving our online clothing market share by 0.3 percentage points.

WHAT'S STILL TO DO

While we are seeing upward trends in the performance of our website as a result of addressing the basics, we still have much further to go to deliver a seamless and inspirational shopping environment for customers. We will improve our search functions and customer personalisation to get the customer to the product they want faster and enhance our end-to-end journey across the ranges.

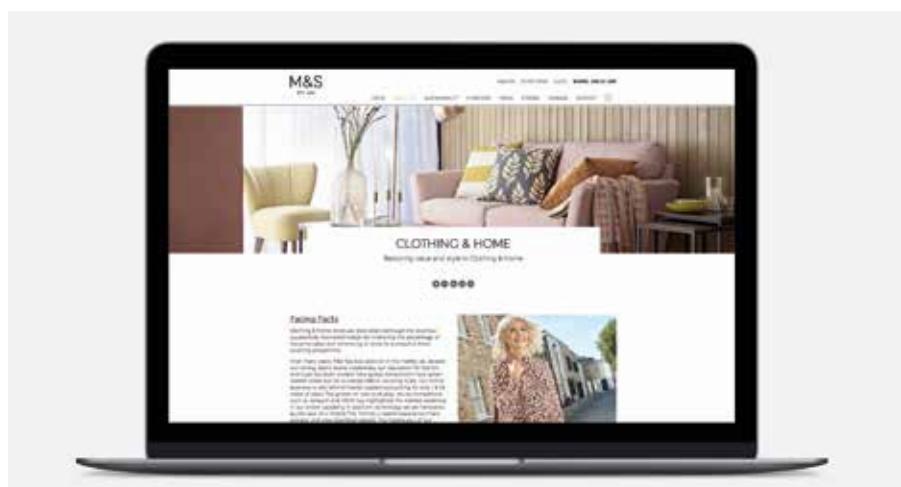
We will also improve the customer experience across Click and Collect adding more collection points in stores, improve fulfilment times and free up time for our colleagues in stores to provide a better service. This requires significant re-engineering across many areas of the business but is critical to putting our customers' needs at the heart of what we do.

Our Sparks loyalty programme should be an integrated part of the way we deliver personalised marketing to customers and a combination of Sparks, online, the M&S credit card and Ocado would be one of the best customer data 'lakes' in the UK. But these customer data bases are currently disconnected and ineffective. Sparks needs substantial improvement and in the next year it will be repositioned, revamped and relaunched.

Underpinning all of this is the need to create a data-driven, digitally savvy culture. This means making M&S a much more attractive, fast-moving and less stuffy place for digital engineers and data analysts to work.

Our long-term partnerships with Microsoft, Decoded, Founders Factory and True Capital will also help give M&S the opportunity to access the best of digital innovation and entrepreneurial ideas and to become a data-driven digitally enabled workforce.

We have made improvements to M&S.com to bring us back to level and made improvements to better meet the needs of our customers. But there remains a long way to go if we are to become a truly Digital First business and be able to adapt to the continuously changing behaviours of our customers in future.



STRATEGIC REPORT

INTERNATIONAL, PROPERTY AND SERVICES

HIGHLIGHTS

INTERNATIONAL CUSTOMER SATISFACTION SCORE

77% ^{+6%}

Overall satisfaction score provided by customers from across the International business, including both owned and franchise stores.

RETAINED MARKET SALES

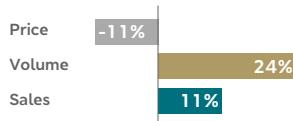
+1.1%

Sales from the International business including sales from owned business and sales to franchisees. Excludes sales from owned exit markets and Hong Kong following transition to franchise. At constant exchange rates.

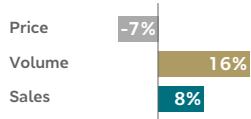
IMPACT OF MARKET RIGHT PRICING

Percentage performance in 52 weeks since launch

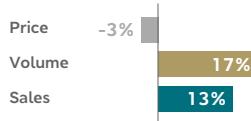
INDONESIA



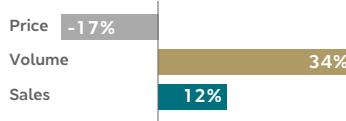
CYPRUS



INDIA*



KUWAIT



* Lingerie

M&S is structured as a business with strong shared brand values. An update on the development of our wider family of businesses is outlined below.

INTERNATIONAL

Last year our International business made headway in its transformation, closing loss-making stores and changing the business model to focus on partnering with a limited number of strong local franchisees in large markets where we can build a significant market presence. With this, profits improved and we established a platform for growth ahead. We said, however, that we had much to do to improve our competitiveness, with our supply chain to local partners not yet flexible enough and pricing too high in local markets to enable our partners to compete with major fashion retailers.

We committed in the year ahead to continue to improve our supply chain arrangements, modernise and open stores in growth markets, further adapt our ranges in both price and style better to local markets, and provide effective online support for our franchise partners through "pay and play" local websites.

This year we saw revenue decline by 13.4%, driven primarily by store closures in loss-making markets. Excluding this, revenues grew by 1.1%.

We grew our presence in key strategic markets, opening 37 new stores and modernising a further 56. We launched six transactional websites during the year, increasing the number of international countries where customers can buy our products online to 35. We completed the roll-out of 'market right pricing', across markets in Clothing & Home with average price reductions of 10% to improve our relevance to local customers, resulting in sales up 8% and volumes up 20%. These results give us confidence that we are moving in the right direction.

We strengthened the management of our international supply chain to increase fulfilment rates in both Clothing & Home and Food. These improvements ensured a better service for our partners and helped deliver more impactful seasonal launches in market.

In the year ahead we will continue to improve how and when we get product to market, improving our speed and reducing costs. We will continue to substantially localise our ranges for our target markets, as well

as continuing to build our online offering, better adapting to how our international customers want to shop.

As a result of the decisive early action taken in implementing our transformation strategy, the outlook remains positive for our International business unit and demonstrates the potential for the wider business.

PROPERTY

M&S owns a portfolio of £1.8bn of property at alternative use value and it is important we manage this to safeguard its value, as well as support the retail business. Many of the larger legacy properties have significantly underutilised space, and scope for more management. We have therefore appointed a Property Development Director, accountable for active management of our property assets and maximisation of value.

SERVICES

Through M&S Bank (managed by HSBC) we provide financial services to our customers, including credit cards, savings accounts, mortgages, and personal loans, online and at our in-store branches and bureaux. M&S Bank income before adjusting items was down £12.7m to £27.6m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £6.7m.

M&S Energy

We launched our strategic partnership with Octopus, an energy industry disruptor with strong digital capabilities, in September 2018 following the end of our relationship with SSE earlier in the year. We selected a new partner, despite the challenges that this presented, to align with a company that closely mirrors our transformation ambitions. We are at an early stage of this relationship and in FY19 M&S Energy represented 0.1% of the Group's total operating profit. However, the compelling combination of our brand strength and the digital capabilities and customer service focus of Octopus, underpinned by a fully renewable energy offer, gives us confidence that we can grow M&S Energy into a digital, progressive and commercially competitive part of the family of businesses.

STRATEGIC REPORT

OUR PEOPLE AND CULTURE

We believe it can be too easy for businesses to treat culture in a formulaic way: talking in generic terms about business purpose and values that are hard to disagree with but are meaningless to its employees. At Marks & Spencer we know our culture has great historic depth but it also has flaws that we need to address if we are to succeed in our transformation.

Culture is made up of how people feel about a business, think and act at work, and how that translates into how things get done. Our culture is a function of process, governance and strategy implemented with good intent by recent boards and we seek to measure these. But it is also informed by 135 years of history and a business that has filled people's lives in a powerful and emotional way. The M&S culture today is traceable back to the "glory years" under past leadership, and our people yearn to see it reincarnated in a modern, up-to-date way, whilst staying true to those core beliefs and values. At its heart the M&S of the past believed strongly in people, product and value for money and was a vibrant energetic place where the leadership was close to the front line and acted with pace and responsibility. People at M&S believed instinctively in acting with high integrity, in building close trusted relationships with suppliers, and taking a long term view of innovation and business

investment. That is why our leadership today is very focused on bringing back the best of the M&S spirit but creating a more involving and engaging organisation.

Most importantly, and unusually at that time, Marks & Spencer fostered a strong culture, which placed great emphasis on caring for its people. At the heart of this was a deeply held commitment to treat every colleague in the business with equal respect: to listen to them, value them and help them to develop. As Marcus Sieff remarked as Chairman, a business is only as good as its people, and the work led by Flora Solomon in the early 1930s in introducing chiropody, dentistry and doctors for colleagues, as well as new training schemes, was truly revolutionary and created a highly motivated workforce with specialist skills.

This focus on creating a supportive and caring environment was not borne of a patriarchal philanthropic view of society; the Marks & Spencer leadership were highly commercial, entrepreneurial traders. It came from a singular focus on the customer and a belief that only by supporting and empowering each and every colleague would you recruit the best people and create a culture where the customer was king. By association, this meant that the voice of store colleagues – the front line to the customer – drove the business and

Simon Marks famously paid more attention to feedback from customer assistants than anyone else. As he remarked, it is easier to buy than sell. It also drove a clarity of communication and plain speaking – the eponymous phrase that "good goods will sell arse upwards" is indicative of this – and an unremitting focus on data with detailed trading figures and store performance reviewed in depth at the start of every week. Putting the customer at the heart of the business also kept buyers honest; goods were to be of the highest quality but sold at the most competitive price to give the customer the best value, and this was delivered through forming partnerships with suppliers built on mutual trust, as well as listening keenly to the store managers.

Altogether, this created an involving, fact-driven culture, where everyone was worthy of equal respect and had a voice, stores were the centre of the business, with an "operator knows best" philosophy which empowered stores to lead on execution, and all colleagues, regardless of role, viewed their role as serving customers. It created a business much loved by its employees, customers and suppliers, which we are fortunate to continue to enjoy and our staff turnover remains lower than the industry average.

Right Store colleagues are shaping the changes in our academy stores this year.



OUR PEOPLE AND CULTURE CONTINUED

Some of the founding tenets of the business remain visible today at least in intent. We remain committed to helping all of our colleagues to develop, and continue to offer some specialist skills such as bra fitting. We try to recruit on attitude and make efforts – through our Marks and Start programme – to help people furthest from the workplace into employment. To give colleagues a voice and access to the leadership, the business recently created a powerful way to listen to colleagues' views and ideas through the Business Involvement Group (BIG), which is made up of over 3,000 colleagues from across stores, operations and offices. We offer a broad package of measures to support health and wellbeing, including breast screening for colleagues aged 40-49, time off for events such as fostering, having a grandchild and adoption, and we have pledged to make a positive difference to mental health at work.

However we are very clear that much of the power of the original culture has been lost. Once the direct line of leadership from Simon Marks through Marcus Sieff down to Rick Greenbury had gone, the drum beat of energy and authentic personal leadership was dissipated. The driving, plain-speaking, sometimes authoritarian, style was replaced with professional management, which was in many cases from outside the business. Top-down entrepreneurial pace was replaced with committees' controls and well-intended bureaucracy. As M&S started to struggle with a changing market,

it became defensive and developed its own rationalisation of the reasons for failure, and as a result became inward-looking and resistant to change. An organisation used to hard-driving top-down leadership reacted by creating complex corporate functions with no profit accountability and matrix decision-making. This enabled a culture of collaboration to act as a cloak for indecision. Progressively, the voice of the stores – our critical link to the customer – was diluted and the centre became detached from the operators on the front line. The corporate functions exploited the faith of employees and created their own hierarchies with an almost deferential attitude so the feedback loop was lost and decision-making was slow and often based on consensus or corporate politics not data. This cultural failure has been the root cause of the underperformance of the business and transforming the business and transforming the culture of Marks & Spencer are indivisible tasks.

Over the last 20 years, successive talented leadership teams overseen by accomplished boards have grappled with the problems facing the business but struggled to arrest the decline. In many cases, their strategies are not so different from those we are pursuing today. However, what never changed was the slow corporate culture, the lack of accountability, hierarchy and sense of corporate vanity. It was against the rocks of these intractable problems that the well-intended plans of our predecessors floundered. Today, as a result, we have a

legacy store portfolio, weak systems and infrastructure. But despite all this, we still have great people in our stores, passionate store management and on the front line the spirit of the original M&S is still alive. That is why transforming the culture of Marks & Spencer is critical to phase one of our transformation plan.

Our objective is to make M&S a special place to work again by drawing on the principles of the past to create a renewed and reinvigorated workplace. Product, value for money, innovation and choice will be at the heart of our marketplace mission, underpinned by high levels of service and quality. That has always been our customer promise when we are at our best and it is what we need to get back to.

Organisational, we aim to create a fast-moving environment, where people take responsibility and make things happen in a commercially responsible way, safeguarding shareholders' money. In place of the old-fashioned hierarchy, we will embrace an attitude of equal respect, humility and involvement. We are approaching this in a holistic way as the change required is total.

To break down the old attitudes of corporate vanity and defensiveness, we have, from the inception of the transformation plan, adopted a different tone of voice, "facing the facts" and being willing to talk openly about the business failings and the challenges ahead. By expressing through the leadership what colleagues on the shop floor feel, we have helped release energy and invite

"At its heart the M&S of the past believed strongly in people, product and value for money and was a vibrant energetic place where the leadership was close to the front line and acted with pace and responsibility."

Below Flora Solomon (centre) championed the Staff Welfare Service at Marks & Spencer including setting up a training department and a subsidised medical service.



a new willingness to challenge. That spirit is, we hope, also reflected in this Annual Report and we believe humility and the ability to be open about our mistakes is critical to corporate learning.

To shift the driving force away from the corporate functions we have fractured the old structure: we have created a new operating model recognising that we manage not one business but several ones operating in different markets with different operating requirements. They are joined by common systems, brand philosophy and infrastructure. But they need their own management teams and ability to deliver without referring to the corporate bureaucracy. We have therefore given functional accountability to the Food business and separately to the Clothing & Home business. Bank and International also report in separately. We have brought in leaders for each who are energetic, highly capable and bring new perspectives. Our senior leaders are clear that transforming our culture will only happen by "walking the talk".

To embody the principles of equal respect and ensure that everyone has a voice, we have taken a number of important steps. BIC representatives have joined Board meetings to share the views of colleagues and every colleague can make a suggestion

on how to improve the business to the CEO and expect a response to be given and action to be taken. We will make far-reaching improvements to our colleague engagement survey, making an integral part of line management looking not only at how engaged colleagues are but how empowered and enabled they feel. To put the store voice back at the heart of the business, we have initiated weekly trading calls chaired by Steve Rowe between buyers and sellers. A focus on data as a driver of decisions rather than position in the hierarchy and gut feel has also begun with the appointment of a Chief Digital and Data Director, partnerships with digital data-driven start-ups and the introduction of NPS as a customer measure across the business.

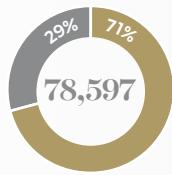
To bring back the idea that the store manager is a critical position in the business and "the operator knows best", we are embracing the principle of academy stores and systematic piloting of change. For instance, the "Fuse" supply chain programme has been rolled out through the academy stores and the store labour scheduling programme was suspended last year while we invited the leading implementation stores to feed back on the programme, as a result of which it was substantially improved. In the year ahead,

we are investing significant capital to give store managers the tools and data they need to run their businesses with the roll-out of tablets and store-level profit and loss accounts. As a result, they will have the information to be businessmen or women in their own right and we are freeing up their time from sitting in the office to walking the shop floor.

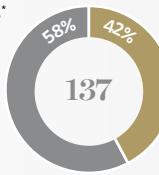
Our ambition is to make M&S the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat organisational structure. Because by good fortune we have great colleagues in our stores and a brand people profoundly believe in, we truly believe our people can be a source of competitive advantage again. We recognise that we are in the foothills of this project today and there are many colleagues who have yet to climb on board with the change. Transforming a deeply entrenched culture, reinforced by years of retreat in the marketplace, will take the life of the transformation programme at least. But the foundations of change have been laid and we have a substantially new leadership team who have joined the business because they believe that we can turn it around and who are determined to live the change.

COLLEAGUE REPRESENTATION MEASUREMENTS

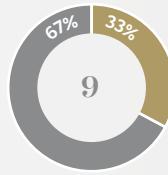
TOTAL EMPLOYEES*
● Female 55,961
● Male 22,636



TOTAL SENIOR MANAGERS*
● Female 58
● Male 79



TOTAL BOARD*
● Female 3
● Male 6



SENIOR MANAGERS FROM ETHNIC MINORITIES**

5% Level

We remain firmly committed to our target of having 50% women and 15% BAME colleague representation in our senior management team by 2022, and we continued to expand and support our range of colleague diversity networks across the business this year.

GENDER PAY GAP (MEAN)

12.5% +0.2%

Our Gender Pay Gap, the percentage difference between average hourly earnings for men versus women, increased this year but remained lower than the UK average. These measures tell us that like many businesses we have further to go to be more inclusive and diverse. We're proud that three quarters of our Customer Assistants are women but we need to do more to encourage diversity in senior roles.

EMPOWERMENT

83% -1%

Of our colleagues feel that they are trusted and have the freedom to perform their role effectively.

ENGAGEMENT

81% -1%

Of our colleagues feel proud to work at M&S and enjoy what they do.

ENABLEMENT

76% -2%

Of our colleagues feel that they have the right processes, support and tools to do their job well.

* Employee diversity as at 30 March 2019.

** Updated from Board level diversity to Senior Managers in 2019 to better reflect internal measurements.

STRATEGIC REPORT

PLAN A REVIEW

Plan A is a multi-year sustainability transformation plan that has been updated several times (2010, 2014 and 2017) to reflect the evolution of our business and the risks and opportunities that social and environmental issues pose for us.

As we go through our business transformation we are currently updating Plan A to reflect our new structures and commercial priorities. This process is not yet complete but as in previous years we are publishing datasets on our most material issues in our 2019 Plan A Performance update.

These datasets show a mixed performance this year, reflecting a period of considerable change across the business. We also offer an audit trail where we highlight existing commitments that we know already we will not be pursuing in the future. Leadership on social and environmental issues remains central to our promise to our customers and colleagues. Once our current comprehensive review of Plan A is completed we will publish our new approach.

Our actions are aligned in support of the United Nations Sustainable Development Goals (symbols shown). Further details about Plan A, our policies, performance and activities can be found online at:

- + marksandspencer.com/plana
- + M&S 2019 Plan A Performance update

OUR HIGHLIGHTS

PLACES

To help transform 1,000 communities.



BEING PART OF THE COMMUNITY

This year we completed the first phase of our programme to help positively transform 1,000 communities by 2025. We supported over 230 activities which benefited an estimated 2,800 people.



PEOPLE

To help 10 million people live happier, healthier lives.



PLANT KITCHEN RANGE

As part of our mission to provide sustainable diets, we launched our extensive Plant Kitchen range in January 2019, with prepared meals, snacks and drinks suitable for customers who want to adopt a vegan diet or just eat less meat and dairy.



PLANET

To become a zero-waste business.



PRINCIPLES ON PLASTIC

To take a lead in responding to the global concerns over pollution from plastic we've developed a set of five Plastic Principles (Re-use, Re-design, Re-duce, Re-turn and Re-cycle). We're working on projects to eliminate 1,000 tonnes of plastic packaging usage and our plastic-free fruits and vegetables trial has just been extended to a further two stores.



RAISING MONEY FOR CAUSES THAT MATTER TO OUR CUSTOMERS

During the year, we worked with our customers and employees to help raise a total of £11.5m for causes close to their hearts. This included £1.6m for Macmillan Cancer Support and £1m for Breast Cancer Now.

RAISED WITH OUR CUSTOMERS AND EMPLOYEES

£11.5m -5%

TACKLING FOOD WASTE

During the last year, we've reduced our UK retail food waste by 24%. We also used surplus food to distribute 2.8 million meals to a range of charities.

REDUCTION IN UK RETAIL FOOD WASTE

24%

EASY TO RECYCLE PACKAGING

In the next 12 months we're aiming to have collection points for difficult to recycle plastic packaging in a selection of stores across the UK. The plastic collected will be recycled into more recycling bins, furniture and playground equipment.



SUPPLY CHAIN CONFIDENCE

Last year it was beef, this year we've added information on our sourcing of seafood, wool, and tea and coffee to an interactive digital map.



 interactivemap.marksandspencer.com

PROMOTING DIVERSITY AND INCLUSION

We supported Purple Tuesday accessible shopping day on 13 November 2018 and provide accessibility information for UK stores through our partnership with AccessAble. For colleagues we hold an annual diversity festival, celebrated Pride events throughout the year and recognised International Women's Day, Black History Month and the International Day of Disability.

Our employee-led diversity networks help us find ways to be more inclusive and collectively involve over 3,000 colleagues.



 accessible.co.uk/organisations/marks-and-spencer

SUSTAINABLE COTTON CLOTHING

As part of our wider approach to ethical clothing, we're now committed to sourcing all the cotton used to make M&S clothing from sustainable sources such as the Better Cotton Initiative.

COMMITMENT TO SUSTAINABLE COTTON FOR M&S CLOTHING

100%



 bettercotton.org

PLAN A REVIEW CONTINUED

PLAN A MEASUREMENTS

PLACES

TRANSFORMING COMMUNITIES

10 New

The number of communities engaged as part of our Helping to Transform Communities initiative. In 2019/20, we'll be starting to extend the programme to the next 100 locations.

VOLUNTEERING HOURS

47,218 ^{+54%}

We provided 47,218 hours of work-time volunteering across the UK and Republic of Ireland.

WORK PLACEMENTS

2,554 ^{-12%}

2019 marks 15 years since we launched our Marks & Start programme. This year, we offered 2,554 work placements to people from disadvantaged groups in the community, so that they could gain key skills leading to employment. 63% went on to find employment.

PEOPLE

EMPOWERMENT

83% ^{-1%}

Of our colleagues feel that they are trusted and have the freedom to perform their role effectively.

ENGAGEMENT

81% ^{-1%}

Of our colleagues feel proud to work at M&S and enjoy what they do.

ENABLEMENT

76% ^{-2%}

Of our colleagues feel that they have the right processes, support and tools to do their job well.

PLANET

PACKAGING RECYCLED

70% New

70% of all M&S product packaging that ends up with our customers is classified as being widely recycled in the UK. We're aiming to make it all widely recycled or recycled in store as soon as possible.

WASTE SENT TO LANDFILL

Zero Level

This year, the total amount of waste generated by our stores, offices and warehouses in the UK and ROI was down by 7% on last year. For the seventh consecutive year, the amount sent to landfill was zero.

M&S GREENHOUSE GAS EMISSIONS (CO₂e)

360,000 ^{-16%}

The gross carbon dioxide emissions from M&S stores, offices, warehouses and vehicles worldwide was down 16% on last year and 75% on 2006/07.

STRATEGIC REPORT

NON-FINANCIAL INFORMATION STATEMENT

PEOPLE

We are committed to driving a sustainable business that is both commercially successful and socially and environmentally responsible. This includes providing our employees in the UK and overseas with a safe and healthy working environment and having an organisational culture which promotes diversity, inclusivity, personal development and respect. We know it's our people who make M&S successful. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. In order to achieve this we adhere to set policies and principles which ensure outcomes of responsible operations and supportive environments for our colleagues.

- ⊕ Read more about our responsibilities towards our people at marksandspencer.com/plana
 - People principles
 - Code of Ethics and Behaviours
 - Responsible Marketing Principles
 - Equal Opportunities Policy
 - Inclusion strategy
 - Inclusion networks

HUMAN RIGHTS

M&S has a long history of respecting human rights in the UK and standing up for those values internationally. Our commitment to human rights is reinforced in our Human Rights Policy and Code of Ethics and Behaviours and, for all suppliers and business partners, in our Global Sourcing Principles. We are also a signatory to the principles of the United Nations Global Compact. We strive to be a fair partner by paying a fair price to suppliers, supporting local communities and ensuring good working conditions for everyone working in our business and supply chains. We are committed to building our employee and supplier knowledge and awareness on human rights, encouraging them to speak up about any concerns without fear of retribution, the outcomes of which also enable us to comply with legislation and meet the expectations of shareholders.

- ⊕ Read more on our commitment to human rights at marksandspencer.com/plana
 - Human Rights Policy
 - M&S Global Sourcing Principles
 - Code of Practice on Ethical Trading
 - Child Labour Procedure
 - M&S grievance procedure for Food and Clothing & Home supply chains
 - Modern Slavery Statement

ANTI-CORRUPTION AND ANTI-BRIBERY

M&S is committed to the highest standards of ethics, honesty and integrity. Our Anti-Corruption and Anti-Bribery Policy outlines the expected standards of conduct that employees, contractors, suppliers, business partners, and any other third parties who act for and on behalf of M&S, are obliged to follow. The policy also includes detailed procedures around giving and receiving gifts, hospitality and entertainment; procedures for engaging new suppliers and partners, specifically those who are based in higher-risk jurisdictions, and standard contract clauses; and clear reporting channels, including confidential reporting. For colleagues who work in areas that may pose a higher risk, we provide mandatory Anti-Bribery and Anti-Corruption e-learning. The Company will consider taking disciplinary action against anyone who fails to comply with its anti-bribery policy up to and including dismissal. The outcomes of this are that any potential incidents reported internally or to the confidential whistleblowing hotline are followed up and full investigations launched where such action is deemed appropriate following preliminary enquiries. All investigations are subsequently reported to the Audit Committee.

- ⊕ Read more on our commitment to anti-corruption and anti-bribery at marksandspencer.com/plana
 - Anti-Corruption and Anti-Bribery Policy
 - Code of Ethics and Behaviours
 - Whistleblowing Policy

M&S GREENHOUSE GAS EMISSIONS 2018/19

This table shows the Group's greenhouse gas emissions against a 2006/07 baseline.

	2018/19 000 tonnes	2017/18 000 tonnes	2006/07 000 tonnes	% change on 2006/07
Direct emissions (scope 1)	167	182	246	-32
Indirect emissions from energy (scope 2)	193	248	394	-51
Total gross/location-based emissions (scope 1 and 2)	360	430	640	-44
Carbon intensity measure (per 1,000 sq ft of salesfloor)	19	23	40	-42
Green tariffs and bio-methane procured	202	273	0	–
Remaining market-based emissions	158	157	640	-75
Carbon offsets	158	157	0	–
Total net operational emissions	0	0	640	–

REDUCTION IN EMISSIONS
(AGAINST 2006/07)

75%

NET EMISSIONS
AFTER OFFSETTING

Zero

Emissions are from operationally controlled activities in accordance with the WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2018 BEIS conversion factors. As these emissions account for less than 10% of M&S's total carbon footprint we also engage with suppliers to address the most significant sources. M&S has an approved Science Based Target for reducing emissions. Full disclosure in accordance with Task Force on Climate Disclosure guidance can be found at cdp.net.

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

£10.4bn -3.0%

15/16	10.4
16/17	10.6
17/18	10.7
18/19	10.4

Group Revenue decreased, adversely impacted by store closures in Clothing & Home, Easter timing and our investments in trusted value in Food. International revenue also declined largely due to the closure of stores in exit markets and the sale of the Group's business in Hong Kong.

RETURN ON CAPITAL EMPLOYED (ROCE)

14.1%

15/16	15.0
16/17	13.7
17/18	14.0
18/19	14.1

The increase in ROCE largely reflects the reduction in the carrying value of property, plant and equipment outweighing the decrease in EBIT.

DIVIDEND PER SHARE¹

13.9p -25.7%

15/16	18.7
16/17	18.7
17/18	18.7
18/19	13.9

Announced final dividend of 7.1p per share, resulting in a total dividend of 13.9p.

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

£523.2m -9.9%

15/16	684.1
16/17	613.8
17/18	580.9
18/19	523.2

Profit before tax and adjusting items was down year-on-year principally due to the reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

ADJUSTED EARNINGS PER SHARE (EPS)

25.4p -8.6%

14/15	34.8
15/16	30.4
16/17	27.8
17/18	25.4

Adjusted basic earnings per share decreased due to lower adjusted profit year-on-year. The weighted average number of shares in issue during the period was 1,624.1m (last year 1,624.0m).

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

£584.1m +39.9%

15/16	539.3
16/17	585.4
17/18	417.5
18/19	584.1

The business generated an increase in free cash flow year-on-year primarily as a result of working capital inflow, lower capital expenditure and lower interest and taxation payments.

APM

APM

APM

STRATEGIC REPORT

FINANCIAL REVIEW

FULL YEAR REVIEW

	52 weeks ended		
	30 Mar 19 £m	31 Mar 18 £m	Change %
Group revenue	10,377.3	10,698.2	-3.0
Food ¹	5,903.4	5,940.0	-0.6
Clothing & Home ¹	3,537.3	3,671.0	-3.6
UK	9,440.7	9,611.0	-1.8
International	936.6	1,087.2	-13.9
Group operating profit before adjusting items	601.0	670.6	-10.4
UK	474.0	535.4	-11.5
International	127.0	135.2	-6.1
Net finance costs	(77.8)	(89.7)	13.3
Profit before tax & adjusting items	523.2	580.9	-9.9
Adjusting items	(438.6)	(514.1)	14.7
Profit before tax	84.6	66.8	26.6

1. Prior year revenue has been restated for the reclassification of cards & gift wrap from Clothing & Home to Food. For further detail please see Note 2 to the financial statements.

UK: FOOD

Food revenue decreased 0.6%, with like-for-like revenue down 2.3%, or 1.5% when adjusted for the timing of Easter. Revenue reflected the effects of price investment and a change in product mix as we reduced promotions. However, during the second half, we saw an improving trend with volumes up 1.8% in the fourth quarter, adjusted for Easter. We opened 48 new stores during the year in line with our plan to focus new store expansion on only the highest returning locations, although the contribution from space diminished through the year as our full-line closure programme progressed.

Gross margin was down 15bps year-on-year at 31.1%. The benefit of promotional savings and our cost reduction programmes largely offset the effects of cost inflation and price investment.

UK: CLOTHING & HOME

UK Clothing & Home revenue declined 3.6%, partly driven by our store closure programme, with LFL sales down 1.6%. Discounted sales decreased, as a result of the planned reduction in stock-into-sale. UK Clothing & Home online revenue grew 9.8%, which was ahead of the clothing market, with strong growth in womenswear, as we made improvements to our website and delivery proposition and focused on key categories such as dresses in our 'Must Haves' campaign.

Gross margin increased 20bps to 57.1%. Buying margin was down 20bps as adverse currency headwinds more than offset sourcing gains across the year. Discounting reduced by 40bps, largely as a result of the 14% reduction in stock into sale.

UK OPERATING COSTS

	52 weeks ended		
	30 Mar 19 £m	31 Mar 18 £m	Change %
Store staffing	1,044.7	1,070.6	-2.4
Other store costs	950.4	992.1	-4.2
Distribution & warehousing	564.6	538.0	4.9
Marketing	155.1	151.6	2.3
Central costs	694.8	698.0	-0.5
Total	3,409.6	3,450.3	-1.2

UK operating costs decreased 1.2%. Store closures more than offset the cost of new space and channel shift. Cost savings across the business outweighed inflation related increases.

Store staffing costs reduced, as savings from store management restructuring, closures and other efficiencies more than offset pay inflation. Other store costs reduced driven by lower depreciation, due to our closure programme and as a number of assets have reached the end of their useful life, which more than offset rent and rates inflation in the year.

The growth in distribution and warehousing costs was largely driven by inflation and the costs of channel shift, as well as costs associated with the closure of an equipment warehouse, with some offset achieved from improved efficiencies at Castle Donington.

The increase in marketing costs reflected investments in our Food brand and the planned increase in costs in the second half of the year due to the timing of campaigns.

Central costs reduced as lower incentive costs year-on-year, the benefits of technology transformation programmes and other cost efficiencies more than offset system investment write offs and expenditure on the Fuse programme.

M&S BANK

M&S Bank income before adjusting items was down £12.7m to £27.6m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up, as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £6.7m.

FINANCIAL REVIEW CONTINUED

INTERNATIONAL

Revenue	52 weeks ended			Change % CC % excl. Hong Kong	Change CC %
	30 Mar 19 £m	31 Mar 18 £m	Change %		
Franchise	409.1	360.6	13.4%	13.3%	2.2%
Owned Retained ¹	527.5	660.2	-20.1%	-19.3%	0.3%
Total Retained	936.6	1,020.8	-8.2%	-7.7%	1.1%
Owned Exit ¹	—	66.4	—	—	—
Total	936.6	1,087.2	-13.9%	-13.4%	-6.1%
Operating profit before adjusting items					
Franchise	72.2	86.1	-16.1%		
Owned Retained ¹	52.7	53.1	-0.8%		
Total Retained	124.9	139.2	-10.3%		
Owned Exit ¹	2.1	(40)	152.5%		
Total	127.0	135.2	-6.1%		

1. Hong Kong results reported in owned retained until the business was sold to our franchise partner in December 2017.

Total International revenue decreased 13.4% at constant currency ('CC'). Excluding the impact from exit markets and Hong Kong, revenue at constant currency increased 1.1%. This was driven by our franchise operations where Food revenue increased by 8%, with notable growth in France, the Middle East and Singapore. In Clothing & Home we implemented market right pricing across most markets and saw an improving trend in retail sales in Q4. Owned retained revenue reflects solid growth in India and Greece, which largely offsets ongoing difficult trading conditions in the Republic of Ireland.

International operating profit before adjusting items decreased 6.1% with total retained operating profit down 10.3%. This was largely driven by the sale of our business in Hong Kong and the implementation of market right pricing. The decline in franchise operating profit reflects the allocation of £8m of costs from owned to franchise following the closure of owned markets and the sale of our business in Hong Kong, in addition to the implementation of market right pricing. Owned retained profit increased, excluding the effects of the disposal of Hong Kong. The £2.1m profit in owned exit markets largely reflects the recovery of an historical VAT receivable.

NET FINANCE COST

	52 weeks ended			Change £m
	30 Mar 19 £m	31 Mar 18 £m	Change %	
Interest payable	(82.0)	(95.4)	13.4	
Interest income	7.6	6.0	1.6	
Net interest payable	(74.4)	(89.4)	15.0	
Pension net finance income	25.8	17.7	8.1	
Unwind of discount on Scottish Limited Partnership liability	(8.8)	(10.9)	2.1	
Unwind of discount on provisions	(17.3)	(5.2)	(12.1)	
Ineffectiveness on financial instruments	(3.1)	(1.9)	(1.2)	
Net finance cost	(77.8)	(89.7)	11.9	

Net finance cost decreased by £11.9m to £77.8m, primarily due to a decrease in interest payable as a result of the repayment of the US\$500m bond which matured in December 2017. Pension net finance income increased by £8.1m driven by a higher UK defined benefit pension scheme surplus at the start of the year compared to the start of the prior year. The unwind of discount on provisions reflects our UK store estate programme and our central London office reorganisation.

PROFIT BEFORE TAX AND ADJUSTING ITEMS

Profit before tax and adjusting items was £523.2m, down 9.9% on last year. The decrease was principally due to a 2.3% reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

ADJUSTMENTS TO PROFIT BEFORE TAX

The Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. Further material charges relating to our strategic programmes are anticipated as programmes progress. For further detail on these charges and the Group's policy for adjusting items please see Notes 1 and 5 to the financial statements.

	52 weeks ended		
	30 Mar 19 £m	31 Mar 18 £m	Change £m
Strategic programmes			
– UK store estate	(222.1)	(321.1)	99.0
– Organisation	(51.8)	(30.7)	(21.1)
– Operational transformation	(16.4)	—	(16.4)
– IT restructure	(15.6)	(15.5)	(0.1)
– UK logistics	(14.3)	(13.1)	(1.2)
– Changes to pay and pensions	(6.2)	(12.9)	6.7
– International store closures and impairments	(5.3)	(5.0)	(0.3)
UK store impairments and other property charges	(62.1)	(63.4)	1.3
M&S Bank charges incurred in relation to the insurance mis-selling provision	(20.9)	(34.7)	13.8
GMP and other pension equalisation	(20.5)	—	(20.5)
Establishing the Ocado JV	(3.4)	—	(3.4)
Other	—	(17.7)	17.7
Adjusting items	(438.6)	(514.1)	75.5

We have recognised a number of charges in the period relating to the implementation of our strategic programmes including:

→ A charge of £222.1m in relation to our accelerated and expanded store closure programme, which has been expanded to include a number of Food stores. This charge includes accelerated depreciation, impairment of assets, estimated onerous leases and other closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change through-out the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges before the adoption of IFRS 16 are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m;

→ A charge of £51.8m largely in relation to costs associated with centralising and rationalising our London office functions as well as redundancy costs related to the review of the retail organisational structure;

→ A charge of £16.4m in relation to the transformation and simplification of our supply chain and operations across Clothing & Home and Food. This includes initiatives to reengineer the end to end supply chain, remove costs and complexity and working capital;

→ A charge of £15.6m in relation to our technology transformation programme which we began in the prior year; and

→ A net charge of £14.3m as we continue to transition to a single tier Clothing & Home UK distribution network, including the closure of two of our distribution centres.

In 2016/17 we announced our intention to close owned stores in ten international markets. A net charge of £5.3m has been recognised in the period reflecting the actualisation of previously estimated closure costs.

In response to the ongoing pressures impacting the retail industry, as well as reflecting our strategic focus towards growing online market share, we have revised future projections for certain UK stores. As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. The charge has been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group. Additional detail is in note 15 and 22 to the financial statements.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a charge of £20.9m during the year. The deadline for any claims to be brought by customers expires on 29 August 2019. The estimated liability continues to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

We have recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of guaranteed minimum pensions ("GMP") and other pension equalisation costs following a High Court ruling in October 2018. Additional detail on the Group's GMP assessment is detailed in Note 11 to the financial statements.

In February 2019 we announced the creation of a new 50/50 Joint Venture with Ocado, the UK's leading pure play digital grocer. Transaction costs of £3.4m were incurred in the year.

TAXATION

The effective tax rate on profit before tax and adjusting items was 20.3% (last year 21.6%). This is higher than the UK statutory rate predominantly due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure, partially offset by the recognition of deferred tax assets in our India entity, following its return to profitability. The effective tax rate on statutory profit before tax was 55.9% (last year 56.4%) due to the impact of disallowable adjusting items.

EARNINGS PER SHARE

Basic earnings per share increased 31.3% to 2.1p, primarily due to the impact from the lower adjusting items year on year. The weighted average number of shares in issue during the period was 1,624.1m (last year 1,624.0m).

Adjusted basic earnings per share decreased by 8.6% to 25.4p due to lower adjusted profit year-on-year.

CAPITAL EXPENDITURE

	52 weeks ended		
	30 Mar 19 £m	31 Mar 18 £m	Change £m
UK store environment	26.0	26.6	(0.6)
New UK stores	40.1	72.1	(32.0)
International	11.0	11.6	(0.6)
Supply chain	48.7	23.8	24.9
IT & M&S.com	88.2	91.9	(3.7)
Property maintenance	69.0	72.9	(3.9)
Capital expenditure before disposals	283.0	298.9	(15.9)
Proceeds from property disposals	(48.1)	(3.2)	(44.9)
Net capital expenditure	234.9	295.7	(60.8)

Group capital expenditure remains tightly controlled resulting in a 5.3% reduction year-on-year, before disposal proceeds.

UK store environment spend was slightly down reflecting investment in store layout in the prior year, partially offset by investment in improved visual merchandising and click and collect facilities in a number of stores. Spend on UK store space was lower as we opened 15 fewer owned Food and full-line stores than the prior year. International expenditure remains focused on the store opening and modernisation programme.

Supply chain expenditure increased due to our investment in the Welham Green distribution centre as we moved towards a single tier network for Clothing & Home, and in improvements to our capabilities in Castle Donington. Spend in IT and M&S.com was driven by the migration from our mainframe system, investment in the Welham Green distribution centre and website enhancements to optimise user experience. Spend was slightly lower than last year due to the on-going move towards more cloud-based solutions and following the Technology transformation programme. Property maintenance spend largely relates to investment in our stores as well as investment in energy efficiency projects and reconfiguring our central London office building to rationalise the use of office space.

Proceeds from property disposals relate to the closure of six stores and the sale and leaseback of eight Food stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £2,680.9m at the year end, a decrease of 9.3% on last year.

CASHFLOW & NET DEBT

	52 weeks ended		
	30 Mar 19 £m	31 Mar 18 £m	Change £m
Adjusted operating profit	601.0	670.6	(69.6)
Depreciation and amortisation before adjusting items	544.9	580.6	(35.7)
Working capital	59.1	(96.8)	155.9
Defined benefit scheme pension funding	(37.9)	(41.4)	3.5
Capex and disposals	(264.8)	(346.0)	81.2
Interest and taxation	(184.7)	(200.5)	15.8
Investment in Joint Venture	(2.5)	–	(2.5)
Non-cash share based payment charges	19.2	18.9	0.3
Share transactions	(4.9)	(3.0)	(1.9)
Free cash flow before adjusting items	729.4	582.4	147.0
Adjusting items cash outflow	(145.3)	(164.9)	19.6
Free cash flow	584.1	417.5	166.6
Ordinary dividends paid	(303.5)	(303.4)	(0.1)
Free cash flow after shareholder returns	280.6	114.1	166.5
Opening net debt	(1,827.5)	(1,934.7)	107.2
Exchange and other non-cash movements	1.8	(6.9)	8.7
Closing net debt	(1,545.1)	(1,827.5)	282.4

The business generated free cash flow before adjusting items of £729.4m, up £147.0m on last year primarily as a result of working capital inflow, lower capital expenditure and lower interest and taxation payments. The working capital inflow was driven by the planned reductions in Clothing & Home inventory levels and the timing of creditors at year end.

FINANCIAL REVIEW CONTINUED

Lower interest and taxation payments reflect both the repayment of a bond in December 2017 and lower taxable profit in the prior year.

Defined benefit scheme pension funding in the year of £37.9m largely reflects the second limited partnership interest distribution to the pension scheme in the year.

Adjusting items in cash flow during the year were £145.3m. These included £27.3m in relation to our store closure programme, £24.9m in relation to organisational change, £20.9m for M&S Bank, £12.7m relating to the closure of stores in International markets and £11.1m in relation to our technology transformation programme. Total adjusting items in cash flow are anticipated to be a similar amount in 2019/20, prior to the implementation of IFRS 16.

After the payment of our final dividend from FY 17/18 and interim dividend from H1 18/19, net debt was down £282.4m on last year.

DIVIDEND

On February 27th we announced the Board's decision to reset our dividend per share by 40% to a sustainable level, which we aim to grow in line with earnings over time. We are declaring a final dividend of 7.1p (full year dividend 13.9p). This will be paid on 12 July 2019 to shareholders on the register of members as at close of business on 31 May 2019, subject to approval of shareholders at the Annual General Meeting, to be held on 09 July 2019. The 2018/19 final dividend per share and prior dividends per share will be restated in future accounts to reflect the bonus factor adjustment resulting from the Rights Issue in due course. The bonus factor adjustment arises due to the Rights Issue involving an element of bonus shares because the Rights Issue price is below the Closing Price of 271.2 pence per share.

PENSION

As indicated at our Interim Results, M&S plc (the Company) reached an agreement with the Trustee of its UK Defined Benefit Pension Scheme with regards to the triennial actuarial valuation as at 31 March 2018. This resulted in a statutory surplus of £652m and is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements and which are included in the calculation of the statutory surplus – see Note 12).

At 30 March 2019, the IAS 19 net retirement benefit surplus was £914.3m (last full year £948.2m). The IAS 19 surplus includes the first partnership interest in the scheme assets, valued at £278.5m (Note 12). The decrease in the surplus is largely due to a decrease in the discount rate partially offset by a change in mortality assumptions and by the return on scheme assets.

In April 2019, following the year-end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for around two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Company's exposure to changes in longevity, interest rates, inflation and other factors.

IFRS 16

IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019. The financial statements for the 52 weeks ending 28 March 2020 will be the first prepared under IFRS 16. The Group has decided to adopt using the fully

retrospective transition approach meaning the comparative period will also be restated at this time.

There will be a significant impact on the balance sheet as at 31 March 2019. It is expected on a pre-tax basis that a right of use asset of approximately £1.7bn and lease liability of approximately £2.6bn will be recognised, along with the derecognition of onerous lease provisions of approximately £0.2bn and other working capital balances (including lease incentives) of approximately £0.4bn, which results in an overall adjustment to retained earnings of approximately £0.3bn.

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the maturity of the lease.

Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

- Profit before tax when applying IFRS 16 is c.£10m higher than that reported in these financial statements under current accounting standards, including IAS 17 Leases;
- Profit before tax excluding adjusting items is c.£10m lower; and,
- Operating profit before tax and adjusting items is c.£130m higher.

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral.

For further detail on IFRS 16 please see Note 1 to the financial statements.

BREXIT

The continued delay in agreeing the nature and timing of the UK's exit from the European Union creates uncertainty that could impact the performance of our business. Whilst an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact. Either outcome is expected to place increased pressure on how our business performs.

The potential impacts include:

- A continued deterioration in customer sentiment
- Operational complexity and costs due to restrictions on the movement of goods and stricter border controls
- Costs passed through from our suppliers
- Continuity of supply and supplier viability
- The impact of import and export duties
- Volatility in currency and corporate bond rates
- Tightening of the labour market
- Additional regulatory responsibilities and costs
- Increased complexity and cost in our international operations, including our franchise partners.

The Board continues to monitor the ongoing negotiations between the UK and the EU to assess the potential impact and any transitional arrangements that may be agreed.

The Strategic Report, including pages 27-33, was approved by a duly authorised Committee of the Board of Directors on 21 May 2019, and signed on its behalf by



HUMPHREY SINGER CHIEF FINANCE OFFICER
21 May 2019

STRATEGIC REPORT

RISK MANAGEMENT

The risks and uncertainties that we face as a business evolve. M&S recognises that effective risk management is an essential tool to support the achievement of our strategic and operational objectives.

APPROACH TO RISK MANAGEMENT

Our approach to risk management is simple and practical. The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including the identification of principal risks facing M&S. An overview of the process and the principal risks and uncertainties is summarised on the following pages.

Our risk management process fully reflects the M&S operating model with each business and functional area being responsible for the ongoing identification, assessment and management of their risks. This includes:

- Risks consistently identified, measured and reported against a set criteria considering the likelihood of occurrence and potential impact to the Group.
- Risk added to the agenda for the business boards established during the year. This creates a forum to align risk activities with business performance and enables senior oversight and challenge.

→ Periodic Audit Committee updates on risk by business leadership teams.

→ A formal half-yearly review of all risk registers with the Group Risk Team.

This is overlaid with a Group-wide review of risk to combine top-down and bottom-up perspectives and create a consolidated view in the Group Risk Profile. In compiling the Group Risk Profile, an assessment is made of changes in the external environment, our strategy and transformation programme, core operations and our engagement with external parties. This also includes consideration of emerging risks.

The output from the above process is subject to periodic review and challenge with the executive directors. Following which, the resulting principal risks are agreed by the Audit Committee ahead of final review and approval by the Board.

The directors' assessment of the long-term viability of the Company is also reviewed annually, mindful of the principal risks faced. M&S's approach to assessing long-term viability can be found on the following page.

OUR APPROACH TO RISK MANAGEMENT

Parties involved in the process:

- Audit Committee
- Business and functions
- Group Risk team

- Business boards
- Operating Committee members
- Business and functions
- Group Risk team

- Audit Committee
- Executive Directors
- Group Risk team

- M&S Board
- Audit Committee
- Executive Directors
- Group Risk team

INTERNAL
REPORTING

EXTERNAL
DISCLOSURE

RISK MANAGEMENT CONTINUED

KEY AREAS OF FOCUS

We believe that the quality of risk management improves as business accountability and embedding increases, with review and challenge at senior levels of M&S. To drive this, we have focused on the following activities over the past year:

- Realigned our risk reporting process with the changes in our operating model.
- Reinforced accountability and ownership for risk management across the underlying business leadership teams.
- Completed a full review of all risk registers to confirm relevance and linkage of risk to the transformational changes under way.
- Improved visibility of risk at business boards and at the Audit Committee to allow enhanced challenge.

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

The UK Corporate Governance Code requires us to issue a "viability statement" declaring whether we believe the Company can continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls.

The Board is required to assess the Company's viability over a period greater than 12 months. The increased levels of uncertainty within the global economic and political environment and the macro-economic challenges being experienced within the retail sector mean the Board continues to believe a three-year period is appropriate for business planning, measuring performance and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

The process adopted to assess the viability of the Company involves collaborative input from a number of functions across the business to model severe but plausible scenarios in which a number of the Group's principal risks and uncertainties materialise within the period of the three-year plan.

We have modelled scenarios focused on both external factors, such as Brexit and lower than expected market growth, and internal factors, such as strategic programmes delivering lower than expected benefits. None of these scenarios individually threatens the viability of the Company, therefore the compound impact of these scenarios was reviewed against the current and projected liquidity position to conclude on the Company's viability. The assessment also took account of additional potential mitigations available in the event of further downside factors, including a reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board.

In assessing viability, the Board considered a number of key factors, including our business model (see page 6), our strategy (see pages 4-5), approach to risk management (see page 27) and our principal risks and uncertainties (see pages 29-33). These have been reviewed in the context of our financial plans, specifically the annual budget and three-year plan, the rights issue and the proposed creation of a new 50/50 joint venture with Ocado. The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

In making the statement, the directors have applied the following assumptions in preparing the scenarios:

- Bonds maturing during the assessment period will be repaid through our existing bank facilities.
- The actions included in our plan to improve sales performance are not fully realised or are offset by lower than expected market growth.
- The actions included in our plans to mitigate expected input cost increases are not delivered in full or the input cost increases are greater than expected.
- The expected benefits from the proposed creation of a new 50/50 joint venture with Ocado Group plc are not delivered in full.
- The UK's exit from the European Union will have adverse financial impacts, including input cost inflation from increased tariffs and a weakening in sterling, as well as reduced UK consumer spending.

The Board's assessment is that M&S is a viable business. The Viability Statement can be found on page 79.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS AND UNCERTAINTIES

The details of our principal risks and uncertainties and the key mitigating activities can be found below and on the following pages. We disclose those risks that could have the greatest impact on our business at this moment in time. This risk profile has also been reviewed at recent Board and Audit Committee meetings. As our transformational journey

continues and we undergo significant changes to our business, our principal risks and uncertainties also evolve to reflect this.

As such, we have included four new risks relevant to our business. These include the implications of the UK's decision to leave the European Union and the risks

associated with our intention to enter into the recently announced joint venture with Ocado.

In addition to the risks that we have disclosed below, we actively monitor and manage a wide range of other risks that M&S is exposed to.

PRINCIPAL RISKS & UNCERTAINTIES

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
1 N	<p>BREXIT</p> <p>An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.</p> <p>The continued delay in agreeing the nature and timing of the UK's exit from the European Union (EU) creates uncertainty that will impact the performance of our business. While an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact. Either outcome is expected to place increased pressure on how our business performs.</p> <p>The potential impact includes:</p> <ul style="list-style-type: none"> - A continued deterioration in customer sentiment. - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls. - Costs passed through from our suppliers. - Continuity of supply and supplier viability. - Import and export duties. - Volatility in currency and corporate bond rates. - Tightening of the labour market. - Additional regulatory responsibilities and costs. - Increased complexity and cost in our international operations, including our franchise activities. 	<ul style="list-style-type: none"> - A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive "day 1" requirements. - An Operational Brexit Team has been established. - Updates are provided to the Board and Audit Committee outlining risks and actions being undertaken. - We are engaged with the government and industry bodies to represent M&S's views, including the UK Border Development Group with access to the Department for Environment, Food and Rural Affairs (Defra), HM Revenue and Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning. - Specific mitigation plans have been developed and are being refined for our core businesses. For example: <ul style="list-style-type: none"> - In Food, plans are in place to build additional stock cover in ambient and frozen in anticipation of a projected period of disruption. We have secured additional ambient warehouse capacity to hold product, extended our warehouse management systems and put plans in place with our fresh suppliers to build raw material stocks in key areas. We have also mapped the processes to import goods from the EU, including certification and import notification, and continue to maintain regular dialogue with our Top 30 food suppliers to track readiness. - While most Clothing & Home product is sourced from outside the EU, we have engaged with suppliers to ensure trade flows are maintained and are modelling the impact of changes to tariffs and border processes. We have also accelerated delivery of certain stock lines from key countries. - For International, we have developed plans to minimise operational and supply chain disruption to serve overseas operations. This includes building additional food stock cover in EU markets and setting up an ambient warehouse outside Paris. We have modified aspects of our supply chain for exporting from UK warehouses and to prepare for potential new customs requirements. We have also worked with our franchise partners and owned businesses to set up new import systems and evaluated options to maintain the flow of products across our operations in Ireland.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
2  	IMPROVING TRADING PERFORMANCE A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment would adversely impact business performance. The retail industry is highly competitive, both on the high street and online. M&S competes with a diverse range of retailers in both Food and Clothing & Home. These operate different models and formats through a variety of physical, digital and integrated distribution channels and offer a range of distinct product propositions, from the premium to the value end of the market, in the various markets in which we operate. Continued cost and pricing pressures, the migration of customer activity online and the consumer impact of the UK's departure from the European Union, as well as broader macroeconomic conditions, are all contributing to the challenge that is faced. A failure to successfully reshape the Clothing & Home and/or the Food business would have an adverse effect on business results.	<ul style="list-style-type: none"> Targeted recruitment to strengthen the capabilities of our senior leadership teams in both Food and Clothing & Home has continued during the year. Implementation of a revised operating model to create a family of accountable businesses who share M&S brand values, colleagues, technology and customer data. Managing Directors for each of these businesses who have full accountability for their divisions including for marketing, supply chain, finance and technology. Establishment of business boards to enable executive oversight and effective governance of each business. Development of, and delivery against, business-specific transformation plans incorporating revised disciplines around prices, availability, value, ranges and promotions across both businesses. Continued progress against our stated target to deliver 30% of Clothing & Home sales online by 2023 including a programme of investment in technology and marketing to support an improved online proposition. Announcement of the joint venture with Ocado for Food online. Ongoing implementation of a cost reduction plan.
3  	BUSINESS TRANSFORMATION A failure to execute our business transformation activities with pace and agility could impede our ability to improve operational efficiency and competitiveness. The business is undertaking a number of projects connected to the five-year transformation programme. The first phase of the programme is enabling the organisation and infrastructure to be fit for the future. Key activities include (although are not limited to): <ul style="list-style-type: none"> Reshaping, modernising and managing the UK store estate (at a time when external factors such as falling property values and other retailers also exiting space create further complexity). Modernising our supply chain and logistics activities to improve speed, operational effectiveness and reduce costs. Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business (discussed further in the Technology Capability and Talent, Culture and Capability risks below). Underlying activities are significant in their own right but the level of interdependency and volume of change create additional delivery risk. Any delays in delivery of the transformation plan, or a key component, could adversely impact the planned improvements in business performance.	<ul style="list-style-type: none"> Established programme governance to track progress against the overall transformation plan, resourcing and capability, and to monitor critical interdependencies. High levels of cross-functional engagement to ensure consistency and collaboration in setting and achieving objectives. Periodic independent audit reviews of key programme delivery. Increased alignment of retail operations and property through the appointment of a single Managing Director. Continued operation of the UK Retail & Property Board and Store Renewal Steering Group to oversee planned changes to our store estate. The appointment of a single service provider to support the efficient and effective delivery of all store maintenance activities. Ongoing delivery of "Fuse", looking at how we plan, buy and manage stock end to end across both Clothing & Home and Food businesses. Targeted operational improvements at Castle Donington to improve our M&S.com fulfilment capacity. Establishment of a simpler, single-tier Clothing & Home logistics network to reduce costs and working capital and improve speed. Rollout of new warehouse management software.
4  	FOOD ONLINE JOINT VENTURE A failure to effectively plan for and execute the go-live of the proposed joint venture with Ocado on time would hamper achievement of our food online objectives. The proposed joint venture (ocado.com) with Ocado Group Plc will enable us to take our food online in a profitable, scalable and sustainable way, operating as a fully aligned partnership with complementary skills and assets. Completion is scheduled for Autumn 2019, with our commitment to provide M&S product ranges and establish development capabilities to the proposed joint venture from September 2020 at the latest. Delivery of this commitment is overlaid with the challenge of applying and managing existing resources effectively across our full transformation programme, including the joint venture, so that all necessary steps are in place to achieve timely completion and successful commencement of operations. Activities to be completed include: <ul style="list-style-type: none"> Satisfaction of all contractual completion conditions. Successful separation of the joint venture operations and establishment of associated services arrangements. Creation of an effective oversight and governance framework. Mobilisation of resources. Development of appropriate M&S range and interfaces to ensure that M&S products are ready to go live in September 2020. 	<ul style="list-style-type: none"> Identification of M&S-nominated directors to form part of the Ocado.com Board. Co-appointment of an appropriate management team to lead Ocado.com. Establishment of a dedicated M&S programme team with senior M&S leadership to support the Ocado.com set-up and ensure that M&S interfaces and processes are developed to support the M&S products going live online. This includes providing ongoing support of sourcing and branding activities to the joint venture. Joint working group in place with Ocado Group Plc to establish the systems, processes and ways of working to coordinate sourcing, product development, product ranging, customer data and marketing.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
5 	FOOD SAFETY & INTEGRITY Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand. <ul style="list-style-type: none"> Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers, while also considering how external pressures on the food industry and wider economic or environmental changes could impact the integrity of our food, our reputation and shareholder value. Many of these external pressures, including inflationary costs, labour quality and availability, increased regulatory scrutiny and the unknown impact of Brexit, are outside our control but are nevertheless being monitored. 	<ul style="list-style-type: none"> Clearly defined requirements through Terms of Trade, Codes of Practice, Standard Operating Procedures and Specifications "from farm to fork", including in-store processes. Maintenance of a qualified and capable technical team. Professional status is maintained through training and an independently validated Continuing Professional Development Programme. Clear accountabilities for policy and standard development at technical leadership level coupled with individual accountability for product safety at technologist level. Long-established store, supplier and depot auditing programmes are in place, including unannounced visits and raw material testing. Quarterly review of our control framework by the technical leadership through established governance procedures and the Customer Brand Protection Committee. Established processes for the development and legal sign-off for product packaging. Clear and tested crisis management plan to respond to future incidents. Membership of the Food Industry Intelligence Forum at both Board and Operating Committee level. Periodic Internal Audit reviews to consider process design and operating effectiveness.
6 	CORPORATE COMPLIANCE & RESPONSIBILITY Failure to deliver against our legal, regulatory or social commitments undermines our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers. <ul style="list-style-type: none"> Responsible corporate behaviour is a basic requirement of all businesses and the expectations of our customers and stakeholders (including regulators) are increasingly demanding. The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on both business performance and market sentiment requiring continual improvements in how we operate as a business to maintain compliance. Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as have an impact on our reputation and financial results. Similarly, speed is vital to respond to heightened customer expectations, such as the environmental impact of food packaging. Public sentiment towards any business can change rapidly, especially in the age of social media, if expected standards are not met. While our business operates appropriate controls, we recognise that potential non-compliance remains a risk and that there can be no room for complacency. 	<ul style="list-style-type: none"> Clear policies and procedures in place, including on human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health & safety, food safety, cyber and data security. Immediate response to new requirements, such as for minimum alcohol pricing in Scotland, implemented during the last financial year. Mandatory induction briefings and annual training for relevant colleagues on key regulations. Oversight from committees and steering groups where necessary, including on data protection, fire health & safety, food safety and human rights. In-house regulatory legal team, including specialist solicitors, with external expertise available as needed. Dedicated non-legal regulatory specialists and advisers in place across the business responsible for driving compliance. Ongoing engagement with regulators, legislators, trade bodies and policy makers. Published, monitored and reported commitments in relation to environmental and social issues. Established auditing and monitoring systems in place. Customer contact centre insight and analysis of live social media issues. Continuous improvement initiatives such as in-store trial of plastic-free fruit and vegetable lines or launch of an initiative where customers can drop non-recyclable plastic at our stores, to be re-used in making equipment for use in stores and schools.
7 	TECHNOLOGY CAPABILITY Failure to rapidly improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably. <ul style="list-style-type: none"> The digital world continues to evolve at an unprecedented rate, enabling competitive advantage, influencing consumer behaviours or expectations and increasing demands on IT infrastructure. We have clearly communicated our aim to be Digital First, and recognise the need to invest to achieve this. In addition, our existing IT infrastructure needs to be more flexible to lower costs, leverage development opportunities and enable us to move with pace to meet customer and colleague needs. As well as technology, we need to continue to develop the skills and capabilities of our people. This will be critical to providing a top-quartile, seamless customer experience. 	<ul style="list-style-type: none"> A technology transformation programme is ongoing, supported by project governance principles, to enable the Digital First ambitions and to deliver improved customer experience. An established Technology Operating Model to drive clear accountabilities and efficiencies, including the adoption of industry standard agile methods. Appointment of a leading technology company as our principal partner, coupled with consolidation of the technology supplier base. Simplification of IT infrastructure through clearly defined technology roadmaps for all business areas, including the migration from an ageing mainframe environment and improvements to our website, such as the completed re-platform of our web sales site to the cloud. Improvements to our in-store technology. Development of strategic partnerships, such as with Microsoft and Founders Factory. Establishment of Decoded - an externally developed and delivered training and qualification programme to improve digital people skills. Cross-channel technology investment strategy in place and aligned to the family of businesses to mutually agreed priorities. Quarterly reviews to track benefits realisation.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
8 	INFORMATION SECURITY Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of stakeholder confidence, and/or loss of information for our customers, employees or business. <ul style="list-style-type: none">– The increasing sophistication and frequency of cyber-attacks, coupled with the General Data Protection Regulation (GDPR), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties to host and hold data also means the risk profile of our information security is changeable.– This risk is more pronounced due to the pace at which our business is changing and the volume of activities under way, both of which add to the complexity of maintaining a secure environment.– We recognise the importance of challenging our existing capabilities, supporting the education of our teams and maintaining vigilance across the business. This holistic approach is needed to reduce the likelihood of attack or breach in an environment that is undergoing significant change and facing an external threat that is changing at pace.	<ul style="list-style-type: none">– A Data Governance function, overseen by the Data Governance Steering Group.– Mandatory data protection training for colleagues, including responsibilities for the use of personal data in compliance with GDPR.– Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security.– Dedicated Cyber Security function, comprising a multi-disciplinary team of cyber security specialists, with 24/7 monitoring and defence tools.– Established security controls, including policies and procedures and adoption of security technologies, subject to periodic independent testing and improvement.– Completion of a comprehensive maturity review by an independent consultancy during the last financial year covering network security, identity and access management, security software development, and project and programme assurance.– Third-party cyber maturity assessments performed and periodically refreshed. Targeted reviews of third-party control compliance.– Ongoing monitoring of developments in cyber security threats, engaging with third-party specialists as appropriate.– Periodic penetration testing by Internal Audit.– Corporate Security team with ongoing focus on improving the physical security environment.
9 	BUSINESS CONTINUITY & RESILIENCE Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders. <ul style="list-style-type: none">– The effective operation of the Castle Donington distribution centre is vital as it is the sole fulfilment centre for our online Clothing & Home business. A major incident leading to a sustained period offline, while unlikely, would not only impact current sales but potentially also hinder the growth of the M&S.com business and achievement of the one-third online target.– Operational risks also exist in other parts of the business, such as the high volumes of goods sourced from Bangladesh, and at the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK.– Our ability to develop effective continuity plans, build resilience in our networks and capabilities to manage associated risks remains an area of focus.	<ul style="list-style-type: none">– A dedicated Business Continuity team.– A Group Crisis Management team is in place and subject to periodic testing.– Business continuity plans for key areas of the business and critical points of failure, including offices, depots and IT sites, are developed and tested.– Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties.– Insurance cover to mitigate the impact of remediation and business interruption.– Participation in the Retail Business Continuity Association, which provides insight across the sector.– Regular participation at government-led exercises at key locations.– Membership of the National Counter Terrorism Information exchange.– Mechanisms for checking that suppliers have appropriate business continuity plans in place.– Ongoing contingency planning for Brexit.
10 	THIRD-PARTY MANAGEMENT An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, may have an impact on delivery of transformational initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation. <ul style="list-style-type: none">– Our business is increasingly dependent on significant third-party relationships. These span M&S and include products and services, franchise relationships, our joint ventures and our banking partner.– To fully leverage these relationships we continue to focus on developing clear and consistently applied processes to track performance, ensuring that commercial expectations and outcomes are met and to put in place plans to manage potential business interruption risk created by such dependencies.	<ul style="list-style-type: none">– Clear procurement and supplier management policies in place, including specific requirements for strategic suppliers with dedicated relationship ownership.– Defined service level agreements and key performance indicators in place for key contracts.– Established franchise governance and management processes with regular relationship meetings with partners for the UK and International businesses.– Integrated business planning processes to support franchise and joint venture reviews in International.– Customer satisfaction surveys introduced for franchise partners with agreed performance targets.– Regular review of franchise and joint venture markets.– Engagement of in-house legal and procurement teams.– Key supplier business contingency planning, selectively subject to review by our Business Continuity team.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
11 	TREASURY & FUNDING An inability to maintain short and long term funding to meet business needs or to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rates, may have an adverse impact on business viability. <ul style="list-style-type: none"> Availability of, and access to, appropriate funds is crucial in supporting core business operations and the successful and timely delivery of our transformation plan. The Group's indebtedness primarily consists of bonds, bilateral facilities and finance leases. The Group's ability to make payments on its debt and to fund working capital, capital expenditures and other expenses will depend on the Group's future operating performance and ability to generate cash from operations and to refinance its existing debt. Brexit adds a further dimension to this financial risk because of the potential impact on currency movements, corporate bond rates, changes in credit regulations and the extent of government support of credit markets. Additionally, we have a pensions fund commitment that requires active management and regular monitoring. 	<ul style="list-style-type: none"> A £1.1bn undrawn committed credit facility in place until April 2023 and £285.4m of cash on deposit. Treasury executes forward buying of currency requirements and is 90% hedged for FY2019/20. Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics, in line with our performance actuals and outlook. Regular dialogue with the market and rating agencies. Review of counterparty credit risk and limits in line with our risk appetite and treasury policy. Pension fund assets fully offset pension scheme liabilities. At the last triennial review in March 2018, the fund had a surplus of £652m.
12 	TALENT, CULTURE & CAPABILITY A failure to attract, develop and motivate the right talent could slow down our ability to achieve operational and strategic objectives, including successful cultural and business transformation. <ul style="list-style-type: none"> As we transform our business, the calibre of our people is integral to delivering operational and strategic objectives and is especially important in our drive to be Digital First. Attracting, developing and retaining quality individuals is influenced by many factors, a number of which are outside our control such as labour availability and the challenges facing the UK retail sector. Our focus, however, cannot solely be outward looking – our existing workforce is one of our greatest assets. We need to ensure that our colleagues and culture are developed to drive a Digital First and customer-centric mindset and ensure that colleagues feel empowered to drive change at pace. Building cross-functional experience for high-potential colleagues to accelerate their development and to better prepare them for more senior roles, as well as expanding our focus on early careers is important in helping us build a bigger pool of future potential talent. 	<ul style="list-style-type: none"> Talent is identified as a critical component of our people strategy and a key enabler in the delivery of our overall business strategy. Targeted external hires to strengthen capability including in Womenswear and Menswear, Food transformation and logistics, digital, Bank & Services and cyber. People key performance indicators are in place supported by talent reviews at all levels of the organisation. Established biannual employee engagement survey, enhanced during the year to provide additional insight. Clear focus and transparent action on fair pay, including gender, ethnicity, disability and age. A dedicated forum to lead the inclusion and diversity agenda on behalf of the Operating Committee. Simplified, outputs-focused framework for performance management. Ongoing culture assessment and roll-out of revised M&S Behaviours. Active engagement with our Business Involvement Group. Employee suggestion process directly overseen by the Chief Executive's office.
13 	BRAND, LOYALTY & CUSTOMER EXPERIENCE An inability to successfully evolve our brand, customer experience and loyalty in line with expectations and innovations in the retail environment could have an impact on our ability to attract and retain customers and result in a decline in our market share. <ul style="list-style-type: none"> Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. We are proud of our strong brand recognition, but external pressures make it more difficult for all businesses to drive brand relevance and attract and retain customers, especially in our target markets. Failure to do so creates the risk of a decline in market share. Our organisational design and operating model need to support our aim to be a customer-centric, Digital First business and our Sparks loyalty programme, marketing strategies and cross-functional ways of working will be key enablers in achieving this, supported by meaningful measurement of customer experience. 	<ul style="list-style-type: none"> Brand and marketing teams aligned with the operating model to better address the specific needs of our family of businesses. Chief Digital & Data Officer in post to head Insights and Loyalty programmes. Investment in capability to measure customer experience through introduction of an end-to-end and multichannel net promoter score programme, supported by third-party expertise. Established Customer Insight Unit and focus groups in place. Review of our Sparks loyalty programme. Increasing our presence and proactive monitoring of social media to observe and respond to trends in customer experience with initiatives such as Try Tuesday. Targeted use of celebrity engagement.

GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW



"The long-term, sustainable success of M&S has been, and will continue to be, the Board's primary objective."

ARCHIE NORMAN CHAIRMAN

AN ENGAGED BOARD

We continue to face significant headwinds in delivering our transformation strategy. We are, however, ambitious for the future and confident that we are on the road towards making M&S special again.

Driving this agenda forward with an eye on the long-term, sustainable success of M&S has been, and will continue to be, the Board's primary objective. It is therefore essential for us to be highly engaged, able to support and challenge senior management and committed to making the hard decisions required to support the turnaround. We also continue to fulfil our other core duties to oversee M&S's culture, governance, financial controls, risk and change management.

This year saw the completion of a substantial but necessary refresh of the Board's structure, which has ensured that we have in place a strong non-executive team with a breadth of skills, experience and perspectives. Full details of these changes are provided in the Nomination Committee Report on pages 46-47.

M&S has long championed the benefits of a diverse Board and has a strong track record of female representation on the Board. As at the date of this report, we are pleased that female directors comprise 30% of our Board.

BOARD ACTIVITIES

During the year, we complied with all the provisions of the UK Corporate Governance Code 2016 and have also sought to incorporate some of the changes introduced by the substantially revised 2018 Code. The Governance section that follows is by intention concise, in keeping with our approach over the past couple of years. In support of our digital ambitions, greater detail on the Board is available at marksandspencer.com/thecompany.

Over the last few months, the Board has reviewed its activities and the roles of its committees to ensure that it can focus on driving transformational change at pace. In particular, the remit of the Remuneration Committee was enhanced to cover senior leadership reward, pay policy, gender pay and employee engagement. While we implemented this change ahead of the Financial Reporting Council's (FRC's) consultation on the revised UK Corporate Governance Code, we feel that it remains appropriate for M&S. The Nomination Committee will also now take on greater responsibility for the development of the wider talent pipeline, rather than focusing only on our Board and Operating Committee.

An overview of the range of matters that the Board discussed and debated at its meetings during the year is presented on pages 40-41.

The reports of the Audit and Remuneration Committees for 2018/19 are available on pages 48-53 and 54-75 respectively.

OCADO DEAL AND RIGHTS ISSUE

In February, we announced that M&S would create a joint venture (JV) with Ocado Group plc that the Board believes will transform online grocery shopping for UK consumers. The JV combines the strength of M&S's brand and its leading food quality and innovation with Ocado's unique and proprietary technology to create an unrivalled online offer for our customers.

As announced in February, the transaction will be primarily equity financed. The Board intends to conduct a rights issue to raise up to £601.3m, which will be launched in due course following the publication of a prospectus in May. While I recognise that

this will be dilutive for existing shareholders, the Board strongly believes that the deal with Ocado will create significant, sustainable shareholder value over the longer term and that it demonstrates our commitment to becoming a truly digital retailer that can thrive in the competitive online landscape.

The process by which the deal was negotiated and agreed was undoubtedly a complex one and represents an excellent case study of the importance of good governance at M&S. An overview of this, covering the process followed, the deal controls that the Board ensured were in place and the involvement of the Board, its committees and key business areas, can be found on pages 42 and 43.

DIVIDEND

In February, we also announced that we had taken the difficult decision to reset our dividend per share, reducing it by 40%. We took this proactive step to strengthen our balance sheet and to provide a secure platform for the Group's transformation programme. It is our belief that this strikes the right balance between investing in our business and providing returns for shareholders with the aim of creating a sustainable, successful business in the long term.

ENGAGING WITH OUR STAKEHOLDERS

Engagement with and feedback from our colleagues across the business is vital, especially as we drive forward with our transformation. Open dialogue is key to this, which is why I host numerous listening groups with colleagues from stores, distribution centres and offices. My Board colleagues have also spent time meeting with staff throughout the business as part of our Board Involvement Programme to understand fully the challenges we face as a business.

Following the success of the pilot last year, we have extended the number of Board meetings that the chair of our Business Involvement Group (BIG) (which represents the interests of over 80,000 colleagues) is invited to attend so that she can share with us our colleagues' perspectives on the issues under discussion. This was particularly constructive when we

considered the challenges facing the store estate and consequently the number of stores that we have taken the decision to close.

The Chair of BIC will be invited to attend two Board meetings a year and will also be invited to attend at least one Remuneration Committee meeting each year. This approach pre-dated the UK Corporate Governance Code 2018 changes, but we believe that this model is the best fit for the business as it gives our employees direct access to the Board.

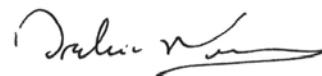
Good engagement with our colleagues is vital as we continue this period of transformational change, and to support this we will look at ways to step up our dialogue with them during the year ahead. Details of the ways in which we engage with, and have considered, our stakeholders are available on pages 44-45.

RETAIL SHAREHOLDERS

Now in its third year, our successful Private Shareholder Panel continues to meet with members of the Operating Committee, Board and senior leadership, discussing a diverse range of topics relating to the Company and its performance in an open and honest fashion.

The candour of these discussions and the insights they provide continue to reinforce the importance of the Shareholder Panel as a key element of our overall stakeholder engagement programme. In line with our policy of rotating its membership annually, we have now recruited a new panel and have an active programme to drive our engagement with them over the course of the coming year.

Additionally, we are arranging for additional Private Shareholder Panels to take place to focus on the specific topic of the Ocado deal and resulting rights issue. We are inviting back panelists from previous years to participate in discussions about this key strategic event, as it is important to us that our private shareholders, not just institutions, are engaged with and able to participate in the rights issue.



ARCHIE NORMAN CHAIRMAN

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured ourselves in 2018/19. We have also chosen to adopt some key elements of the new UK Corporate Governance Code, as published in 2018 (the "2018 Code"), early and intend to comply in full in our next Annual Report. Copies of the Code and the updated 2018 Code are available from the Financial Reporting Council's website.

We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review. To keep this report concise, we have focused on the key governance issues only. Our compliance with key areas of the Code and the 2018 Code are summarised below, together with cross references, where applicable, to the relevant sections of this report where more information can be found.

Full details on how we comply with the Code, including full biographies of our directors and our Corporate Governance Statement, is available on our website. Where reference is made to the availability of further information on our website, it can be found at marksandspencer.com/thecompany.

→ Independence*

Over half of our Board (excluding the Chairman) comprises independent non-executive directors and the composition of all Board Committees complies with the Code. Additionally, the Chairman was considered independent on his appointment. More information about the Board is available on pages 36-37.

→ Senior Independent Director

Our Senior Independent Director is Andy Halford.

→ Accountability and election

There is a clear separation of duties between the Chairman and CEO roles, and all the directors are to stand for annual re-election.

→ Evaluation

Following an external evaluation undertaken in 2016/17, an internally facilitated performance evaluation of the Board and its Committees was undertaken during the year in accordance with the requirements of the Corporate Governance Code.

→ Attendance

The directors have all attended an acceptable level of Board and Committee meetings, details of which are available on page 38.

→ Committee Chair Experience*

1. The Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience throughout 2018/19.

2. Andrew Fisher had been a member of a remuneration committee (for Moneysupermarket.com Group PLC) for more than 12 months prior to his appointment as Chair of the Remuneration Committee.

→ Governance Framework

Our full Governance Framework, setting out full details of our corporate governance practices, is available on our website.

→ Auditor tenure

We changed our auditor in 2014/15, following a thorough tender process. After five years as lead audit partner, Ian Waller will be replaced by Richard Muschamp following the completion of the 2018/19 audit.

→ Non-audit policy

This is disclosed on our website, along with the limited non-audit work undertaken during 2018/19. Details of non-audit fees can be found on page 52.

→ Auditor appointment

We disclose our external auditor appointment policy on our website.

→ Internal Audit

Details of the Internal Audit function are provided within this report on page 53.

→ Culture*

Information about how the Board has assessed and monitored culture can be found on pages 15-17 of the Strategic Report.

→ Performance-related pay*

A significant part of performance-related pay is delivered through shares. Our reward framework is simple, transparent and designed to support and drive our strategy.

More information on our approach to investing in and rewarding our workforce is available in the report of the Remuneration Committee from page 54.

→ Workforce engagement*

The Chair of the Company's workforce advisory panel, the Business Involvement Group (BIG), is invited to attend two Board meetings and one Remuneration Committee meeting each year. More detail on how M&S engages with its key stakeholder groups is presented on pages 44-45.

→ Diversity*

Information about the diversity of our Board, including its consideration of diversity in its succession plans and in developing senior management, can be found on pages 36, 41, 44 and 47.

* Newly incorporated or amended disclosures to align with the 2018 Code.

GOVERNANCE

OUR BOARD

CHAIRMAN



Archie Norman
Chairman

EXECUTIVE DIRECTORS



Steve Rowe
Chief Executive



Humphrey Singer
Chief Finance Officer

Appointed: September 2017

Key strengths and experience

- Extensive retail and business leadership experience.
- Long-term track record of value creation and change in major British companies.

Archie is an experienced Chairman and former Chief Executive having led major transformation programmes at ITV, Lazard, Asda, Energis and Hobbycraft. He was previously Deputy Chairman of Coles Limited and, in 2016, was appointed Lead Director at the Department for Business, Energy & Industrial Strategy.

Appointed: April 2016 (as Chief Executive)

Key strengths and experience

- Very extensive in-depth commercial and retail experience.
- Extensive knowledge of M&S having worked in all major areas of the business.

Steve joined M&S in 1989 and worked in senior roles across all areas of the business prior to his appointment as CEO, including Director of Home, Director of Retail, Director of Retail and E-commerce, Executive Director, Food, and Executive Director, General Merchandise.

Appointed: July 2018

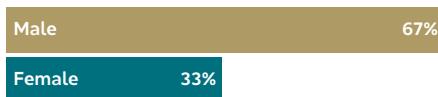
Key strengths and experience

- Strong financial background and extensive retail expertise.
- Significant experience in delivering the transformational strategies of large listed businesses.

Humphrey joined M&S in July 2018 from Dixons Carphone plc, where he was Group Finance Director. He was previously Group Finance Director of Dixons Retail plc and is currently a non-executive director of Taylor Wimpey plc.

BOARD DIVERSITY

BOARD GENDER DIVERSITY

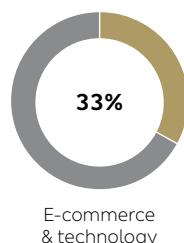
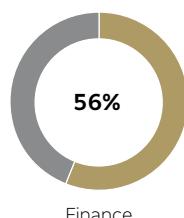
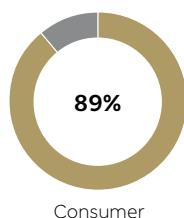
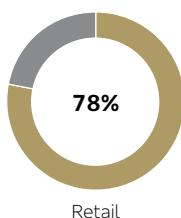


NON-EXECUTIVE DIRECTOR TENURE

- 0-1 years 43%
- 1-3 years 14%
- 3-4 years 14%
- 4-6 years 29%



SECTOR EXPERIENCE



DEPARTURES AND APPOINTMENTS SINCE 1 APRIL 2018

Exec appointments in year:
Humphrey Singer

Exec resignations in year:
Patrick Bousquet-Chavanne

Exec resignations after year end:
None

NED appointments in year:
Katie Bickerstaffe
Justin King
Pip McCrostie

NED resignations in year:
Vindi Banga
Richard Solomons

KEY TO COMMITTEES

 Audit

 Nomination

 Remuneration

 Committee Chair

Full biographical details of each director are available on marksandspencer.com/thecompany.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Andy Halford
Senior Independent Director

Appointed: January 2013

Key strengths and experience

- Significant recent and relevant financial experience.
- International, consumer and digital experience.

Andy's strong finance background and broad knowledge of the UK and international consumer market was gained from CFO positions held in global listed companies. He is Chief Financial Officer of Standard Chartered, which he joined after 15 years at Vodafone, nine of which were spent as Chief Financial Officer.



Katie Bickerstaffe
Non-Executive Director

Appointed: July 2018

Key strengths and experience

- Extensive experience of retail and operations.
- Significant understanding of UK retail and leading consumer-focused businesses.

Katie was Chief Executive (Designate) of the new independent British energy supply and services company created by the proposed merger of SSE plc's retail unit and npower and is subsequently working on a separate project for the SSE Retail Business. She was previously Chief Executive, UK and Ireland of Dixons Carphone plc, having also been on the board of Dixons Retail plc prior to its merger.



Alison Brittain CBE
Non-Executive Director

Appointed: January 2014

Key strengths and experience

- Financial and commercial experience.
- Considerable knowledge of running large-scale consumer businesses.

Alison is CEO of Whitbread, a global organisation with a broad portfolio of hospitality brands, and was previously Group Director at the Retail Division of Lloyds Banking Group, with responsibility for its retail branch networks as well as its Retail Business Banking and UK Wealth businesses.



Andrew Fisher OBE
Non-Executive Director

Appointed: December 2015

Key strengths and experience

- International consumer and technology sector experience.
- Extensive knowledge of high-growth digital businesses.

Andrew was instrumental in establishing mobile lifestyle app Shazam, where he was Executive Chairman until October 2018, as a leading mobile consumer brand, and brings over 20 years' experience leading and growing numerous technology-focused enterprises.



Justin King CBE
Non-Executive Director



Appointed: January 2019

Key strengths and experience

- Extensive experience of working in and leading large businesses.
- Considerable knowledge of retail transformation and operations.

Justin is currently Vice Chairman of TerraFirma, acting as adviser to the General Partner. Between 2004 and 2014, he was the CEO of Sainsbury's, leading the business through a major transformation. He has also previously held senior positions at M&S as Head of Food, as well as Asda, Haagen-Dazs, PepsiCo and Mars.



Pip McCrostie
Non-Executive Director

Appointed: July 2018

Key strengths and experience

- Substantial experience of corporate finance and tax.
- Extensive knowledge of global businesses and corporate transactions.

Pip's extensive financial experience was gained from a career at Ernst & Young, where she transformed and led the Global Corporate Finance business. She was the founder of the Global Transaction Tax network, and has been a non-executive director of Inmarsat since 2016.

GROUP SECRETARY



Nick Folland
Group General Counsel and
Company Secretary

Appointed: February 2019

Nick has extensive legal and governance experience, having been General Counsel and Company Secretary in FTSE 100 businesses since 2001. More recently, he has held positions as Chief Executive of the Crown Prosecution Service and Chief External Affairs Officer and Chief of Staff to the CEO of the Co-op.

GOVERNANCE

BOARD COMPOSITION AND MEETING ATTENDANCE

BOARD MEETING ATTENDANCE AND DIRECTOR RESPONSIBILITIES IN 2018/19

CHAIRMAN	MAX ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2018/19	LINKED TO REMUNERATION		
Archie Norman*	10	10		Board governance and performance, shareholder engagement			
* Considered independent on appointment							
EXECUTIVE DIRECTORS							
Chief Executive Steve Rowe	10	10		Strategy and Group performance	<input checked="" type="checkbox"/>		
Chief Finance Officer Humphrey Singer (appointed 9 July 2018)	8	8		Group financial performance, IT, investor relations and data governance	<input checked="" type="checkbox"/>		
Executive Director Patrick Bousquet-Chavanne (resigned 18 April 2018)	1	1		Customer, marketing and M&S.com	<input checked="" type="checkbox"/>		
NON-EXECUTIVE DIRECTORS							
Vindi Banga (retired 1 October 2018)	6	6	<input checked="" type="checkbox"/>	Role at Board meetings Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board.			
Katie Bickerstaffe (appointed 10 July 2018)*	6	7	<input checked="" type="checkbox"/>				
Alison Brittain	10	10	<input checked="" type="checkbox"/>				
Andrew Fisher	10	10	<input checked="" type="checkbox"/>				
Andy Halford	10	10	<input checked="" type="checkbox"/>				
Justin King (appointed 1 January 2019)*	2	3	<input checked="" type="checkbox"/>				
Pip McCrostie (appointed 10 July 2018)*	6	7	<input checked="" type="checkbox"/>				
Richard Solomons (resigned 10 July 2018)	2	2	<input checked="" type="checkbox"/>				
* At the meeting on 13 March 2019, Katie Bickerstaffe was unable to attend due to illness and Justin King was unable to attend due to a previous business commitment. Pip McCrostie was unable to attend the meeting on 9 January 2019 due to a previous personal commitment.							
Attended by invitation							
Sacha Berendji – Retail, Operations & Property Director	5	N/A		Role at Board meetings The Operating Committee comprises the Company's senior leadership team below board level and is tasked with running the day-to-day operations of the business and facilitating delivery of the strategy as approved by the Board.			
Stuart Machin – Managing Director, Food	4	N/A					
Jill McDonald – Managing Director, Clothing, Home & Beauty	7	N/A					
Melanie Smith – Strategy Director	10	N/A					
Paul Friston – International Director	3	N/A					
David Guise – HR Director	1	N/A					
Jeremy Pee – Chief Digital and Data Director	1	N/A					

This table provides details of scheduled meetings held in the 2018/19 financial year.

BOARD MEETINGS HELD IN 2018/19

The Board held 10 scheduled meetings during the year, and individual attendance is set out above.

Sufficient time is provided, periodically, for the Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising.

For information on what the Board did during the year, see Board activities on p40-41

MONITORING NON-EXECUTIVE DIRECTOR INDEPENDENCE

The Board reviews the independence of its non-executive directors as part of its annual Board Effectiveness Review.

The Chairman was considered to be independent on appointment and is committed to ensuring that the Board comprises a majority of independent non-executive directors who objectively challenge management, balanced against the need to ensure continuity on the Board.

The Company maintains clear records of the terms of service of the Chairman and non-

executive directors to ensure that they continue to meet the requirements of the UK Corporate Governance Code (the "Code"). Neither the Chairman nor any of the non-executive directors have exceeded the maximum nine-year recommended term of service set out in the Code, with our longest-serving non-executive director, Andy Halford, having served less than seven full years on the Board.

As such, the Board considers that all of its non-executive directors continue to demonstrate independence.

For information on the skills and experience of each director, see p36-37

GOVERNANCE

LEADERSHIP AND OVERSIGHT

THE ROLE OF THE BOARD AND ITS COMMITTEES

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture and overseeing its conduct and affairs to create sustainable value for the benefit of the Company's members over the long term.

It recognises that it has a wider duty to a broad community of stakeholders whose support is essential, and that the business has impact on colleagues, customers, shareholders, suppliers and the communities in which it operates. Pages 44 and 45 highlight how the Board and the wider business have sought to effectively engage with, and encourage participation from, our shareholders and stakeholders.

The Board discharges some of its responsibilities directly and others through its board committees and senior management. Terms of Reference for the

Board and its committees are available in our Governance Framework, published on marksandspencer.com/thecompany.

The Board agrees, and has collective responsibility for, the strategy of the Company, which is outlined in the Strategic Report on pages 1-33.

Execution of the strategy and day-to-day management of the Company's business is delegated to the Operating Committee, with the Board retaining responsibility for overseeing, guiding and holding management to account. The Board is also responsible for:

- Assessing, monitoring and promoting the Company's culture, and ensuring that this closely aligns with its strategy.
- Ensuring the necessary resources are in place for the business to meet its strategic objectives.

→ Establishing workplace policies and business practices that align with the Company's culture and values and support its strategy.

→ Overseeing the implementation of a robust controls framework to allow effective management of risk. Much of this work is delegated to the Audit Committee (see pages 48-53).

→ Effective succession planning for key senior personnel, much of which is delegated to the Nomination Committee (see pages 46-47).

While the above summarises the key areas of board responsibility, it is not intended to be exhaustive. More detail on this, together with information on the roles of individual board members, is covered by the Schedule of Matters Reserved to the Board, which is also available at marksandspencer.com/thecompany.

ANNUAL BOARD EVALUATION

Our annual Board Evaluation gives us the opportunity to reflect on the effectiveness of our activities, the quality of our decisions and for board members to consider their performance and contribution.

This year, our evaluation was facilitated internally by our Group General Counsel and Company Secretary, Nick Folland, who was considered by the Board to be a suitably independent sounding board for this process. In line with previous years, focused one-to-one discussions were held between Nick and each member of the Board. These covered a broad range of topics relating to the Board, its Committees and to the directors individually, including:

- What worked well during the year and where improvements could be made.
- Board culture, teamwork and relationships with management.
- Shareholders and stakeholders, including communication and relationships.
- Board composition and succession planning.
- Resourcing of meetings, agenda planning, quality of information.
- Strategic oversight and implementation.

- Corporate governance, regulatory compliance and associated support.
- Committee effectiveness and communications to the Board.

The Senior Independent Director also met with directors to review the Chairman's performance. This review was then shared with the Chairman.

All recommendations arising from the review are based on best practice as described in the UK Corporate Governance Code and other applicable guidelines.

FINDINGS IN 2018/19

Overall, the Board was considered to have a deep passion for the business and a good mix of skills and experience of particular relevance to M&S in its turnaround phase. The degree of support and challenge demonstrated by the directors was at the correct level, albeit there was acknowledgement of the fact that a number of new non-executive directors (NEDs) had joined during the year and that it would therefore take time to settle into a normal pattern of working.

The Chairmanship of Archie Norman was viewed positively, particularly in focusing

the business agenda and facilitating meaningful debate. The level of involvement and engagement of the NEDs was considered strong and the overall quality of discussion during board meetings high. There was a view that work was needed to encourage more focused presentations to allow even more time for board debate. Coverage of governance, regulatory compliance and risk management was viewed positively, with good line of sight to all key regulatory communications.

Board papers were seen as clear and the specific actions the Board was required to take helpfully sign-posted; however, improvements could be made in terms of making them more succinct and reducing repetition.

Board committees were all considered to work well with thorough debate, a clear grasp of issues and subject knowledge. Committees are considered to be well chaired and managed.

The Board has agreed an action plan for the year ahead, focusing on the key areas of board oversight and on driving the transformation forward, reviewing key performance indicators and ensuring that these are linked to the business objectives.

GOVERNANCE

BOARD ACTIVITIES

WHAT WAS ON THE BOARD'S AGENDA IN 2018/19?

The following pages offer some insight into how the Board uses its meetings as a mechanism for discharging its duties under s.172 of the Companies Act 2006, including the breadth of matters it discussed and debated during the year and the key stakeholder groups that were central to those discussions (see the Stakeholder key to the right).

Each Board meeting follows a carefully tailored agenda agreed in advance by the Chairman, CEO and Company Secretary. A typical meeting will comprise reports on current trading and financial performance from the CEO and CFO, legal and governance updates, a review of the strategic transformation programme and one or two detailed deep dives into areas of particular strategic importance. Details of the directors' attendance at the 10 scheduled meetings that took place during the year can be found on page 38.

PRINCIPAL COMMITTEE UPDATES

The Chairs of the Audit, Remuneration and Nomination Committees updated the Board on the proceedings of those meetings, including the key discussion points and any particular areas of concern.

TRANSFORMATION PROGRAMME REVIEW AND KPI UPDATES

The Strategy Director attended each Board meeting to update and discuss with the Board the progress of the transformation programme, as well as strategic key performance indicators (KPIs).

STRATEGY AND COMPANY PERFORMANCE

The CEO led discussions focusing on recent trading, general business performance and the key strategic initiatives under way:

Trading updates



- Considered trading performance updates from across the Group's family of businesses.
- Discussed operational issues arising and responses, such as stock availability, supplier relationships and general systems operations and their impact on colleagues in stores.
- Discussed wider retail market pressures and challenges, competitor performance and the implications of these on trading.

⊕ For more detail, see **p4-5**

Strategic progress and KPIs



- Discussed the ongoing transformation strategy, with a continued focus on the key strategic KPIs and the progress the Company was making in achieving them.

- Agreed the cross-businesses strategic KPIs and key enablers, as well as those for each of the family of businesses, with regular updates provided throughout the year.
- Received updates on key milestones and the progress made under each programme of work underpinning delivery of the transformation strategy.

Digital



- Discussed new and planned initiatives under the Digital First strategy, including the Decoded programme to increase digital awareness among our colleagues and improve capability across the business.

- Received updates regarding the ongoing improvements to M&S.com, including site speed, fulfilment and impact on overall customer experience and sales.

⊕ For more detail, see **p13**

Property and store estate



- Reviewed progress in the store rationalisation programme and its impact on colleagues in stores, covering colleague redeployment and sales transfer rates, and the future redevelopment plans for older stores within the estate.
- Discussed the combined pressures of rising business rates and rent increases on the Company's cost base and the challenges these pose to the UK high street.

⊕ For more detail, see **p12**

FINANCIAL UPDATES

Budget



- Considered performance vs the 2018/19 budget and agreed the budgets for each of the family of businesses for 2019/20.
- Considered anticipated performance against the agreed budget for the coming financial year, including implications on long-term performance, planned store investment and the colleague perspective on these issues.
- Discussed funding requirements for the next phases of the transformation strategy, including the proposed joint venture (JV) with Ocado.

⊕ For more detail, see **p42-43**

Cash flow and dividend



- Reviewed cash flow, dividend cover and shareholder returns, taking into consideration financial performance, liquidity and credit metrics, and agreed a dividend reset of 40%, resulting in a full year dividend of 13.9p.

⊕ For more detail, see **p26**

Costs



- Reaffirmed the ambition to create a more efficient cost base and generate savings of at least £350m by 2020/21.
- Reviewed cost savings achieved during the year relating to management structure, property costs, IT transformation programme, procurement and costs linked to store closures.

Risk



- Conducted half-yearly reviews of the Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.
- Agreed the Group-level risks to be monitored and appropriate mitigating activities, and delegated responsibility to the Audit Committee to review the processes and Group policies underpinning these.

⊕ For more detail, see **p27-33**

KEY: STAKEHOLDER GROUPS



Shareholders



Colleagues



Customers



Community



Suppliers

GOVERNANCE AND LEGAL

Board Involvement Programme

- Agreed a Board Involvement Programme for 2019/20 to enhance the directors' engagement with and understanding of different areas of the business.

- Clarified developments in the roles of the Nomination and Remuneration Committees in light of changes to the UK Corporate Governance Code.

⊕ For more detail, see [p39](#)

- Received regular litigation reports from the Company's legal team.
- Monitored regulatory and legislative developments and considered any potential impact on the Company's operations.

Board Action Plan and Evaluation

- Reviewed progress against the 2018/19 Board Action Plan and set the Action Plan for 2019/20, with a clear process for monitoring progress over the course of the year.
- Conducted an internally facilitated Board Evaluation covering the Board's effectiveness, processes and ways of working, with feedback from individual directors provided and the outcome discussed by the Board.

Board succession and diversity

- Considered and reviewed the Board's composition, diversity and succession plans, facilitating the transition to a new CFO and the addition of three new non-executive directors, including their inductions.

⊕ For more detail, see [p47](#)

Legal and regulatory

- On the recommendation of the Audit Committee, reviewed and approved the Annual Report and Accounts, Notice of AGM, Modern Slavery Statement and the Half and Full Year Results announcements.

Annual General Meeting (AGM)

- Reviewed specific issues raised by shareholders throughout the year to be addressed in the Chairman's AGM statement.
- Agreed to deliver a hybrid AGM in 2019, introducing the ability for shareholders to participate by electronic means for the first time without having to be physically present.

STRATEGIC DEEP DIVES

At each meeting, the Board received presentations on and discussed selected strategically significant matters in greater depth to evaluate progress, provide insight and, where necessary, decide on appropriate action. These included:

Brexit



- Discussed preparations, scenario planning and impact assessments covering tariffs, import and export compliance and continuity of product supply, and the options for potential mitigating actions.
- Considered the potential impact on our international partners and the ways in which the business was able to support them in a range of scenarios.

Clothing & Home



- Discussions covered team structure, talent pipeline, store closure impact, marketing structure, range planning and phasing changes, customer experience and logistics.
- Reviewed progress in the project to modernise the Clothing & Home end-to-end supply chain and the impact on availability, waste and costs.
- Considered market positioning and strategic priorities in Womenswear, and discussed potential opportunities to drive growth.

- Considered relationships with international partners and the opportunities to develop these further.

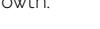
⊕ For more detail, see [p14](#)

Culture and organisation



- Reviewed the results of the annual Your Say colleague feedback survey, identified areas for improvement and appropriate courses of action.
- Received an update from the Chair of our employee representative body, the Business Involvement Group (BIC), and discussed with her the Company's strategy and future plans from the perspective of colleagues.
- Discussed gender pay in the context of the wider market, the development of women into senior roles and driving greater diversity and inclusion in terms of gender, ethnicity and social background.

Food



- Discussed the key strategic priorities of availability, store standards, price investment and promotions, organisation and people.
- Discussed product innovation, development, supplier relationships, customer quality perception and the key areas of focus for the Food business over the next three years.

Joint venture with Ocado



- Evaluated the success of the limited Food Online trial and potential solutions for a wider roll-out, discussed options, agreed the preferred course of action and approved the final deal.
- Agreed the Audit Committee's recommendation to partially fund the deal through a rights issue and considered the impact of this on the Company's shareholders.
- Considered the colleague perspective on the joint venture with the assistance of BIC, and reviewed and approved the shareholder communications plan.

⊕ For more detail, see [p15-17](#)

⊕ For more detail, see [p42-43](#)

International



- Discussed the Company's international operating model and opportunities for profitable growth.
- Discussed pricing strategy and brand positioning to improve competitiveness in key markets.

GOVERNANCE

CREATING A JOINT VENTURE

In February 2019, we announced that we would be creating a new 50/50 joint venture (JV) with Ocado Group plc ("Ocado"). The JV will transform online grocery shopping for our customers in the UK and represents one of the most significant strategic initiatives undertaken by M&S for many years.

Good governance is vital in ensuring that projects of this type are delivered in an efficient, effective and legally compliant way. It provides a framework for challenge, external input and leadership. The timeline below provides an overview of the governance of each of the key stages of this complex project, from its early conceptual stages to date.

OUR AMBITION: To deliver a market-leading online food offer for our customers by no later than September 2020.

PLANNING PHASE

TO DECEMBER 2018

NEGOTIATION PHASE

DECEMBER 2018 TO JANUARY 2019

CONSIDERING OPTIONS

Having closely monitored the development of the online food market for some time, in 2018 the Board determined that securing access to online as the UK's fastest-growing retail channel was crucial for delivering the Food strategy.

The Board tasked the business to assess the successes and limitations of the limited food online trial launched in 2017 and to investigate other viable options, including mergers and acquisitions (M&A), and to report its findings back to the Board.

GROUP BOARD

- Identified food online as a key strategic priority under the transformation programme.
- Considered online food market and approved limited online trial to test viability.
- Instructed Food and M&S.com departments to assess trial findings.

RESEARCH AND FEEDBACK

A Board sub-committee was formed, comprising the Chairman, CEO and at least one non-executive director, to review market context, consider potential next steps and identify targets.

It was concluded that M&A was the approach most likely to deliver the best results within an appropriate timeframe. The food online project was formally launched, with Ocado identified as a preferred partner.

GROUP BOARD

- Agreed the creation of a Board sub-Committee to review options.
- Identified Ocado as the preferred partner with which to explore the potential for a deal.

NEGOTIATION AND DUE DILIGENCE

The Board appointed a Deal Team comprising key personnel to take the deal forward with Ocado, with clear negotiating parameters established and instructions to report back as necessary.

The Board considered the market sensitivity of the project and instructed the Disclosure Committee to convene as often as necessary to ensure that the Company's ongoing obligations under the Market Abuse Regulation (MAR) could be met.

GROUP BOARD

- Appointed, set the negotiating parameters for and received weekly updates from the Deal Team.

DEAL TEAM

- Initiated and progressed discussions with Ocado.

DISCLOSURE COMMITTEE

- Held regular meetings to ensure MAR compliance.
- Assessed whether the Company could at all times ensure confidentiality of relevant information.

CHECKING COMMERCIAL ASSUMPTIONS

During the progression of talks with Ocado, the Deal Team engaged a Review Team of individuals who had not had any prior involvement in the project and whose purpose was to provide an entirely fresh perspective, with particular emphasis on the pricing of the proposals.

Feedback was provided to the Deal Team, which retained responsibility for formulating a commercial view of the viability of the project.

REVIEW TEAM

- Provided a cold review of the commercial rationale and structure of the deal.
- Reviewed the pricing of the deal and fed back directly to the Deal Team.

RT

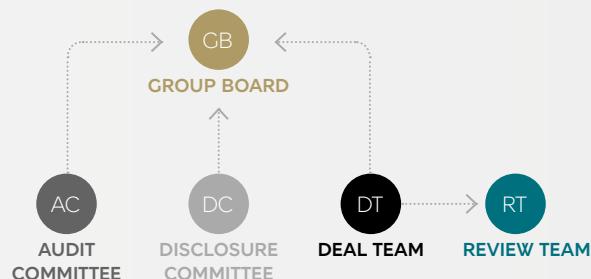
GOVERNANCE STRUCTURE

The chart to the right illustrates the committees and teams involved in the negotiation process and the flow of information to the Board so that decisions of a strategic nature could be taken at pace.

The Board instructed each of the Audit and Disclosure Committees and the Deal Team in their specific roles and ensured that a strict governance process was followed. This allowed for negotiation to progress efficiently and confidentially until such time as both parties were ready to announce an agreement.

In addition to receiving weekly progress updates from the Deal Team, the Board met a further seven times outside of its agreed meeting schedule between December 2018 and February 2019, when the deal was announced.

Read more about the role of the Board on p39 and its activities during the year on p40-41



COMPLETION PHASE

FEBRUARY 2019 ONWARDS

EVALUATING FUNDING OPTIONS

As talks progressed and gained pace, both parties considered and evaluated the appropriateness of different methods of funding the potential deal.

It was concluded that a rights issue was the method that most closely aligned with the Company's strategy to restore M&S to sustainable, profitable growth and maintain a strong balance sheet, and was therefore in the best interests of shareholders.

OVERCOMING GOVERNANCE CHALLENGES

Outside of the challenges that could be expected for a deal of this complexity, the negotiation process was subject to two occurrences of press speculation.

In line with the clear requirements of MAR, the Company issued a public announcement addressing this speculation on 26 February 2019, confirming that talks were under way and that there was no certainty of an agreement being reached at that stage.

AGREEMENT AND DISCLOSURE

An agreement was reached and the deal concluded, with public announcements made to the London Stock Exchange. It was approved by Ocado's shareholders on 20 May 2019.

Finally, formal approval was granted to make arrangements to conduct a rights issue to raise up to £601.3m to fund the acquisition of 50% of the Ocado Retail business that forms the basis of the JV.

DELIVERING THE RIGHTS ISSUE

The Board intends to formally launch the Rights Issue, which will be fully underwritten on a standby basis by Morgan Stanley, in due course.

GROUP BOARD

→ Approved Audit Committee recommendation to fund via a rights issue.

CB

DEAL TEAM

→ Continued to progress talks and reported on key milestones and negotiation challenges to the Board.

DT

AUDIT COMMITTEE

→ Analysed funding options and formally recommended the Rights Issue to the Board as being most appropriate.

AC

DISCLOSURE COMMITTEE

→ Considered press speculation in the context of the Company's MAR obligations.
→ Approved the form of Regulatory News Service (RNS) announcement and authorised its release to the market.

DC

GROUP BOARD

→ Assessed the final proposal and formally approved the deal.

CB

DEAL TEAM

→ Concluded talks and brought a cohesive final proposal to the Board.

DT

DISCLOSURE COMMITTEE

→ Approved form of RNS announcement and authorised its release to the market.

DC

GROUP BOARD

→ Will formally approve the Rights Issue terms.
→ Will agree the process by which shareholders will be invited to participate.

CB

AUDIT COMMITTEE

→ Will review the financial information to be contained in the Prospectus.
→ Will meet to consider relevant matters when required.

AC

GOVERNANCE

HOW WE ENGAGE, CONSIDER AND RESPOND

Our rich network of stakeholder relationships supports the values on which M&S was founded. These relationships are even more vital during this period of transformation.

OUR APPROACH

Engaging with our stakeholders is fundamental to the way we do business at M&S. We have over 150,000 registered shareholders, 80,000 colleagues, and 32 million customers. We source our products from suppliers worldwide. These individuals, businesses and communities are all integral to our business. We will only be able to transform M&S successfully with their input, cooperation and trust.

We have invested in the development and involvement of our stakeholder communities, as we believe it is the right thing to do, not only for our stakeholders but for our business. These pages provide a snapshot of just some of the ways in which we do this.

On these pages you will also find examples of how we considered our stakeholders when making key decisions during the year. As a Board, we have a duty to promote the success of M&S for the benefit of our members. In doing so, however, we must have regard for the interests of our colleagues, for the success of our relationships with suppliers and customers, for the impact of our operations on the community, and for the desirability of maintaining a reputation for high standards of business conduct. These stakeholder considerations are woven throughout all of our discussions and decisions. Like any business, sometimes we have to take decisions that adversely affect one or more of these groups and, in such cases, we always look to ensure that those impacted are treated fairly.

More information about how the directors have discharged their duty under s.172 of the Companies Act 2006 is available in the Strategic Report, on pages 2-33.

Key

 Link to Plan A

SHAREHOLDERS



BOARD CONSIDERATIONS

All Board decisions are made with M&S's success in mind, which is ultimately for the long-term benefit of our members. This year in particular though, we made the decision to reduce our dividend and proceed with a rights issue to finance our JV with Ocado. We considered the impact of this action on our shareholders in detail, and agreed that our Ocado partnership could have a transformational impact on our future success, and consequently increase value for shareholders in the long term.

ANNUAL GENERAL MEETING (AGM)

Our 2018 AGM was well attended and all our proposed resolutions were passed, with votes in favour ranging from 91.56% to 99.99%. We have also been providing live webcasts of our AGMs and preliminary and interim announcements for over a decade, bringing these events to thousands of shareholders all over the world.

ANNUAL REPORT AND ACCOUNTS

We go beyond our statutory obligations to provide what we hope is a holistic and engaging view of the business in a language that everybody can understand. Added to this is a wealth of online content which is publicly available on our corporate website.

ONGOING INVESTOR ENGAGEMENT

The Investor Relations team alongside management maintains a regular dialogue with key institutional investors. Over the course of the past year, the team met with over 270 investors, from over 170 institutions and participated in a dozen industry conferences and roadshows. In the course of their meetings, the team engaged with investors representing well over half of our issued share capital.

PRIVATE SHAREHOLDER PANEL

This year, we continued to hold regular meetings with groups of private shareholders. These are typically attended by either the CEO or a member of senior management and give our private shareholders the opportunity to share their views in an informal setting.

ASSET REUNIFICATION

Through our asset reunification programme, M&S proactively seeks to re-unite shareholders promptly with their shares and unclaimed dividend payments. Additionally, our move to mandatory direct credit as our only means of issuing dividend payments, which came into effect in July 2018, will assist us in substantially reducing the quantity of payments that go unclaimed each year and to ensure that more of our private shareholders receive their dividends as cleared funds on the payment date.

COLLEAGUES



BOARD CONSIDERATIONS

This year the chairman of BIC attended two Board meetings, providing us with the colleague perspective on key issues. We discussed our transformation programme, and how our colleagues feel about the improvements being made to the way we work. Our colleagues' positive feedback and enthusiasm for our transformation initiatives have spurred us on in driving to maintain our programme of changes throughout the business.

BUSINESS INVOLVEMENT GROUP (BIC)

Engagement with our colleagues is facilitated through BIC, a network of elected representatives from across all parts of the business. Local BIC teams regularly feed back to National BIC, whose chairman in turn represents the collective colleague voice through regular meetings with the Chairman and CEO and by attending Board and Remuneration Committee meetings during the year. Operating Committee members also attend National BIC meetings to understand the issues that are important to our colleagues.

COLLEAGUE UPDATES

Colleagues are kept informed of performance and strategy through regular business area "huddles" as well as email, Skype and social media updates from members of the Board and senior management, and we encourage colleagues to respond to all of these updates by sharing their views, ideas and work experiences. Dedicated information is also provided on our pension schemes.

A DIVERSITY & INCLUSION

This year we were recognised in The Times Top 50 Employers for Women for the ninth year running. We actively support employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+) and disabilities and health conditions. These networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. We also held our third Diversity & Inclusion festival, engaging thousands of colleagues across M&S.

TRAINING AND DEVELOPMENT

A range of learning offerings and development programmes are available to colleagues, including technical courses, inspirational talks and mentoring programmes, as well as coaching support on behavioural and leadership skills.

A VOLUNTEERING

During 2018/19, thousands of colleagues volunteered over 47,000 hours of work time to help hundreds of community projects. Our stores also used surplus food to distribute 2.8 million meals to local charities.

YOUR SAY SURVEY

Our annual Your Say Survey gives us an informed picture of how colleagues feel about the business. Over 63,000 of our colleagues chose to participate and share their feedback. The engagement score this year was strong at 81%.

CUSTOMERS



BOARD CONSIDERATIONS

The customer experience is crucial in our Board discussions. This year, we especially considered how our transformation programme has helped us to improve our operations and efficiency, and ultimately improve our customer experience. In doing so, we have agreed to continue our transformation at pace, and push on with our plans to make M&S special again for our customers.

DIRECT FEEDBACK

We get direct feedback from our customers through a variety of channels including surveys, interviews and online input. Customers also have the opportunity to feed back, either online or by phone, on every transaction using information from their online or store receipt. This information is collated centrally and allows us to spot common themes quickly. Insight is then routed to the relevant teams so that action can be taken.

A SPARKS CARD

7.2 million Sparks card holders currently receive tailored offers plus the chance to engage with a Plan A charity partner of their choice. Over £5m has been raised to date.

RETAILER CHOICE

Over 25,000 people took part in our study to find out what motivates customers to shop at a particular retailer, how important the drivers are and how M&S and our competitors perform against them.

A SUSTAINABILITY

3,000 people were asked about the areas of sustainability and Plan A that were of greatest importance to them, and how we and our competitors perform in these areas. Their feedback helped us identify a number of clear areas of focus for the future development of our Plan A strategy.

IRELAND PRICE INVESTMENT

We held 40 focus groups and directly engaged with over 900 customers in Ireland to understand the impact of our investment in everyday lower prices. The insights from this directly influenced changes made to the tone, emphasis and content of our campaign marketing materials.

TOP TIER

Quality is the reason people choose to shop at M&S for food; however, competition remains fierce and we are therefore reviewing our premium offer in each of our major food categories. This workstream, which includes an online study involving over 2,000 customers, will help us identify areas in which our premium offer can be developed further and will ensure that we continue to deliver in accordance with the high expectations of our customers.

HOME POSITIONING

500 customers were surveyed to find out what they thought of M&S Home, with the insights received helping to define our Home Marketing Strategy.

COMMUNITY



BOARD CONSIDERATIONS

The impact of our operations on the communities in which we work is an important consideration in our Board discussions. When we have decided to push forward with our stock improvement initiatives, we have considered how improving our efficiency has helped us to reduce our waste and our impact on the environment. In continuing our store closure programme, we have considered the views of each of our store's communities, and how we can better address their needs with an improved store offering.

TAX CONTRIBUTION

M&S remains one of the UK's largest contributors of taxes to the UK exchequer and we are committed to paying our fair share of tax. We were identified in PwC's annual survey of the total tax contribution of FTSE 100 constituents as the 27th highest payer of tax and the 4th highest payer of business rates in the UK in 2018. While this illustrates our commitment to paying our way, it also highlights the burden placed on "bricks and mortar" retailers relative to other industries.

A COMMUNITY TRANSFORMATION

We aim to secure meaningful economic, social and environmental benefits to 1,000 communities around our stores and beyond by 2025. This year we completed the first phase of our programme and engaged 10 communities benefiting over 2,800 participants.

A CHARITABLE GIVING

With the help of our customers, this year we raised a total of £11.5m for a range of charities including Macmillan Cancer Support, Breast Cancer Now and the Royal British Legion.

A WORK EXPERIENCE

Through Marks & Start we provide work experience for thousands of disadvantaged people across the UK and internationally. This year we offered over 3,200 work placements worldwide, with over 63% of those completing a placement in the UK or Republic of Ireland going on to find work.

A LOCAL FUNDRAISING

This year 630 of our stores in the UK and the Republic of Ireland adopted a charity of the year and helped to raise £1m. M&S stores in India also raised in excess of £40,000 in aid of two Indian charities.

M&S COMPANY ARCHIVE

16,700 people visited the Marks in Time Exhibition during the year to learn more about our long history and rich heritage. The Archive also continued to drive a range of engagement initiatives in 2018/19 through its schools, events and community outreach programmes. Visit marksintime.marksandspencer.com for more details.

SUPPLIERS



BOARD CONSIDERATIONS

Our supplier relationships are vital to our overall success, so as a Board we carefully consider the selection of, and engagement and continued relationship with, our key suppliers. This year, in line with our transformation programme, we reviewed our major suppliers and engaged new suppliers that represent our ideals and are equipped to assist us on our transformation.

PREVENTING MODERN SLAVERY

We have continued to increase the depth and breadth of our work in the area of preventing modern slavery, ensuring that we have in place the most effective responses to potential risk. Further details of our efforts to eradicate modern slavery throughout our supply chains and operations are available in our 2019 Modern Slavery Statement, which is available online.

A GLOBAL COMMUNITY PROGRAMME

The M&S Global Community Programme aims to improve the lives of one million people in our suppliers' communities by 2025. Between April 2017 and March 2019 over 190,000 people were helped either directly or indirectly.

GLOBAL SOURCING PRINCIPLES

All our suppliers of goods and services are required to comply with our Global Sourcing Principles, which require them to provide good working conditions, respect workers' human rights, and be subject to appropriate ethical monitoring. Food suppliers are also considered as part of our annual Grocery Supplier Code of Practice (GSCOP) report.

SUPPLIER COLLABORATION

We work with our suppliers to streamline processes and optimise volumes through collaborative workshops and toolkits. The resultant savings are reinvested in price and quality and shared with suppliers to help them create further efficiencies.

TRAINING AND SUPPORT

We offer our suppliers and partners a range of training and development opportunities, including conferences and practical workshops. These cover a range of topics including local laws and sharing best practice examples to accelerate embedding respect for human rights into their businesses.

DAIRY FARM INITIATIVES

We continue to guarantee our pool of dedicated dairy farmers a set price for fresh milk under our Milk Pledge Plus programme. We were also the first major food retailer to have all its milk-producing dairy farms assured by the RSPCA for animal welfare.

SUPPLIER SATISFACTION

Measuring supplier satisfaction is critical to our understanding of how well we are engaging with them. We use the independent Advantage Report Mirror to survey a proportion of our supplier base each year. In 2018, we were again ranked second overall out of the seven participating retailers.

GOVERNANCE

NOMINATION COMMITTEE REPORT



"We have in place a strong non-executive team with a breadth of skills, experience and perspectives that are relevant to our transformation."

ARCHIE NORMAN CHAIRMAN OF THE NOMINATION COMMITTEE

INTRODUCTION

In the Chairman's governance overview, I noted that this year saw the completion of a substantial, but necessary, refresh of the Board. This work, undertaken by the Nomination Committee (the "Committee") during the year, has ensured that we have in place a strong non-executive team with a breadth of skills, experience and perspectives that are relevant to the transformation we are in the midst of at M&S.

During the year, the Committee continued to focus on the combined skillset and capabilities of the directors to ensure their effectiveness in driving our transformation strategy forward. It also continued to fulfil its core responsibilities of reviewing the structure of the Board and committees, recommending new Board appointments and ensuring adherence to formal appointment and induction processes.

In July, we welcomed Humphrey Singer as Chief Finance Officer and Katie Bickerstaffe and Pip McCrostie as non-executive directors. Richard Solomons stepped down at the 2018 AGM while Vindi Banga, Senior Independent Director (SID) and Chair of the Remuneration Committee, retired as a director in October after seven years of dedicated service. Vindi was succeeded as SID by Andy Halford and by Andrew Fisher as Chair of the Remuneration Committee. As a result of this, Andrew stepped down from the Audit Committee.

Most recently, in January we welcomed Justin King to the Board. In February, Nick Folland joined as Group General Counsel and Company Secretary, while Amanda Mellor, our Group Secretary and Head of Corporate Governance since 2009, left the business with our sincere thanks.

NOMINATION COMMITTEE GOVERNANCE SNAPSHOT

COMMITTEE ROLE

The Committee reviews the leadership and succession needs of the organisation and ensures that appropriate procedures are in place for nominating, training and evaluating directors. Due regard is given to the benefits of diverse senior leadership, including gender, social background and ethnicity.

In addition, the Committee ensures that the Group's governance facilitates efficient, effective and entrepreneurial management that can deliver shareholder value over the longer term.

ACTIVITIES AND EVALUATION

During the year, the Committee recommended the appointment of Justin King as a non-executive director and continued to support the search for senior appointments and the development of our senior talent.

The Committee's performance was reviewed as part of the 2018/19 Board Evaluation (see page 39). It was regarded as maintaining an effective oversight of senior management changes and succession during the year.

COMMITTEE MEMBERSHIP

The Committee comprises the non-executive directors and is chaired by Archie Norman, with members of executive management invited to attend meetings as appropriate.

Details of individual attendance at the meetings held during the year are set out below. More information on the skills and experience of all Committee members can be found on pages 36 and 37.

More information on the Nomination Committee is available in our full response to the UK Corporate Governance Code at marksandspencer.com/thecompany.

MEETINGS HELD IN 2018/19

	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS
Archie Norman	1 Sept 2017	3	3
Vindi Banga	3 Sept 2011	2	2
Katie Bickerstaffe	10 Jul 2018	2	2
Alison Brittain ¹	1 Jan 2014	2	3
Andrew Fisher	1 Dec 2015	3	3
Andy Halford	1 Jan 2013	3	3
Justin King ²	1 Jan 2019	0	1
Pip McCrostie	10 Jul 2018	2	2
Richard Solomons	13 Apr 2015	1	1

1. Alison Brittain was unable to attend the meeting on 17 May 2018 due to a prior business commitment.

2. Justin King was unable to attend the meeting on 13 March 2019 due to a prior business commitment.

BOARD DIVERSITY POLICY

Our objective of driving the benefits of a diverse board, senior management team and wider workforce is underpinned by our Board Diversity Policy (the “Policy”), which can be viewed on our corporate website. The Board keeps the Policy under review to ensure that it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, social background, skillset and breadth of experience.

PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short to medium term.

Following the appointments of Katie Bickerstaffe and Pip McCrostie to the Board in July 2018, three of our nine Board directors are women (33%). As such, the Board’s minimum target has been met as at the date of this report.

The Board remains committed to its minimum 30% target for female representation and is also pleased to have now met the target set out in the Hampton-Alexander Review of 33% female representation by 2020. Setting these targets aside, the Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they offer.

Our principles for Board diversity also apply to our Operating Committee, three of whom are women from a total membership of 11 (27%). The Board continues to strengthen the pipeline of senior female executives within the business, and to ensure that there are no barriers to women succeeding at the highest levels within M&S. We are pleased that M&S was again listed in The Times Top 50 Employers for Women in 2019 for the ninth year running. More information on the gender balance of our senior management can be found on page 17.

Ensure long lists of potential non-executive directors include 50% female candidates.

All long lists of potential appointments include at least 50% female candidates.

Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside of traditional listed boards.

During the year, the Nomination Committee discussed non-executive director appointments and succession. It worked closely with executive search agencies in compiling long and short lists of candidates from various backgrounds and industries. Candidates were identified, interviewed and measured against pre-determined criteria. Although we do not currently openly advertise our non-executive director positions, we keep this under review.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.

The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. During the year, our work on succession was supported by Russell Reynolds and JCA Group. Neither firm has any other connection with the Company aside from the provision of recruitment services.

Assist the development of a pipeline of high-calibre candidates by encouraging a broad range of senior individuals within the business to take on additional roles to gain valuable board experience.

The Board supports and encourages initiatives that strengthen the pipeline of executive talent in the Company. It continues to learn from existing programmes, while introducing new initiatives to provide development opportunities to drive the quality of talent throughout the business. Key activities include:

- A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles.
- Initiatives for high-potential talent to broaden their skillsets and experience to prepare them for future senior roles; for example, through boardroom exposure, non-executive and trustee roles outside of M&S and involvement in our Leadership Programme.

→ Providing access to business school training as appropriate.

→ Senior management mentoring schemes and engagement forums sponsored by Board directors and Operating Committee members.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.

Diversity and inclusion have continued to be promoted across the business with a number of initiatives, including:

- Employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+), and disabilities and health conditions. This year, we held our third Diversity & Inclusion festival, engaging thousands of colleagues across M&S.
- Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards.
- Signing up to Business in the Community’s (BITC) Race at Work Charter, affirming our commitment to removing barriers that ethnic minorities experience in the workplace.
- Launching the Breakthrough Leaders programme – a pilot leadership and development programme targeting women and BAME talent and providing inclusive leadership training for delegates and their line managers.
- Active involvement in key campaigns including LGBT+ Pride celebrations, International Women’s Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World International Day of Disability, raising awareness and our profile as an inclusive place to work.
- Our Marks & Start and Marks & Start International programmes continue to support young people, the homeless, lone parents and those with disabilities in finding work in our stores and distribution centres.

⊕ See p19 of our Plan A Review for further information on diversity across M&S.

GOVERNANCE

AUDIT COMMITTEE REPORT



“The Committee provides valuable independent challenge and oversight, ensuring shareholder interests are protected, and the Company’s strategy is supported.”

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

As Chairman of the Audit Committee (the “Committee”), I am pleased to present the Committee’s report for the year ended 30 March 2019. The following pages offer insight into how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, as well as the key topics it considered in doing so.

The Committee’s primary functions were unchanged this year, and included monitoring the integrity of the Company’s financial statements and the effectiveness of its Internal Audit function, maintaining an appropriate relationship with and reviewing the independence and effectiveness of the Company’s external auditor, Deloitte, and reviewing the Company’s systems of internal control and risk management.

In addition to these principal activities, the Committee continued to assess the progress being made to maintain and improve the Company’s data governance, cyber security systems, business continuity procedures and financial controls, and monitored the pace with which its recommendations in respect of internal controls were remediated. It also considered

property valuations, including carrying values and disclosures relating to the M&S Scottish Limited Partnership. Additionally, it assessed the implementation of IFRS 16, the new accounting standard relating to the presentation of leases, particularly reviewing its impact on the Company’s balance sheet and the appropriateness of disclosures to be made. In addition to its scheduled meetings, the Committee convened as and when required to evaluate the various potential financing options for the Ocado joint venture (‘JV’), ensuring that any underlying assumptions were robustly challenged. This ultimately led to the Committee’s recommendation to the Board that a Rights Issue was the appropriate funding model for this transaction.

In exercising its duties, the Committee undertakes a vital role in the Company’s governance framework, providing valuable independent challenge and oversight across the Company’s financial reporting and internal control procedures. Ultimately, it ensures that shareholder interests are protected and the Company’s long-term strategy is supported.

AUDIT COMMITTEE GOVERNANCE SNAPSHOT

COMMITTEE MEMBERSHIP

The Committee solely comprises independent non-executive directors. Pip McCrostie joined the Committee upon her appointment to the Board in July 2018, and Andrew Fisher stood down from the Committee on 1 October 2018 as a result of his appointment as Chair of the Remuneration Committee. Detailed information on the experience, skills and qualifications of all Committee members can be found on pages 36 and 37.

INDEPENDENCE AND EXPERIENCE

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, including the retail sector.

The Board has also confirmed that it is satisfied that both Andy Halford and Pip McCrostie possess recent and relevant financial experience.

MEETINGS HELD IN 2018/19

The Committee held five meetings during the year, with members of senior management invited to attend as and when specialist technical knowledge was required.

The Committee met without management present before each full meeting. It also met privately with the lead audit partners, and separately with the Head of Internal Audit & Risk, after each meeting.

It is important for the Committee Chairman to fully understand any topics of particular concern in order to facilitate meaningful dialogue during Committee meetings. To support this, Andy Halford meets regularly, on a one-to-one basis, with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk, members of senior management and the lead audit partners.

More information about the Audit Committee is available in our full response to the UK Corporate Governance Code at marksandspencer.com/thecompany.

	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS
Andy Halford	1 Jan 2013	5	5
Alison Brittain	11 Mar 2014	5	5
Andrew Fisher ¹	3 Feb 2016	2	2
Pip McCrostie ²	10 Jul 2018	4	4

1. Andrew Fisher stood down from the Committee on 1 October 2018.
2. Pip McCrostie joined the Committee on her appointment to the Board on 10 July 2018.

AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed within the framework of the 2018/19 internal Board Evaluation (discussed on page 39). Feedback on the level of challenge and quality of updates provided by the Committee to the Board was positive.

The Committee was considered to function well in terms of meeting structure and the levels of engagement and challenge provided by its members. It continues to be regarded as thorough and effective, with demands on members' time viewed as extensive but not problematic. Additionally, it was noted that the Committee considered

that the key strategic concerns facing the business, such as IT and systems, would benefit from greater focus in the year ahead. The range of assurance provided to the Board by the Committee was deemed appropriate. However, improvements could be made in respect of the pace with which the business actions certain matters following discussions with the Committee.

The Committee made good progress on the 2018/19 action plan, particularly in relation to the Internal Audit effectiveness review and implementation of its findings.

2019/20 ACTION PLAN

- Monitor the recommendations of the Internal Audit effectiveness review undertaken in 2018/19.
- Increase focus on risk reporting and emphasising accountability for risk at business unit level.
- Monitor the progress and pace of delivery of the Company's wider technology and cyber security transformation.

WHAT WAS ON THE COMMITTEE'S AGENDA IN 2018/19

CORE DUTIES

The Committee undertook the following core activities during the year:

- Monitored the integrity of the annual and interim financial statements and any formal announcements relating to the Company's financial performance, with a focus on reviewing the significant financial reporting policies and judgements within them.
- Reviewed the implementation of the new IFRS 16 accounting standard.
- Reviewed internal controls and risk management processes.
- Maintained the relationship with the external auditor, including monitoring their independence and effectiveness.
- Reviewed the effectiveness and independence of the Internal Audit & Risk function.
- Reviewed the effectiveness of the Company's whistleblowing procedures.
- Reviewed and approved the Company's statement of compliance with the Groceries Supply Code of Practice.
- Reviewed the Board's approach to assessing the Company's long-term viability.
- Assessed whether the Annual Report, taken as a whole, was fair, balanced and understandable.

INTERNAL CONTROL UPDATES

The Committee receives updates on internal control matters at each meeting. This regular monitoring of the internal control framework allows timely identification of issues and formal tracking of remediation plans. Instances where the effectiveness of internal controls were considered insufficient were discussed during the year, either by the Audit Committee or the full Board. These have included controls in relation to IT systems access and management,

the Three-Year Plan and UK store estate strategy. The Committee provided robust challenge in respect of the speed of change as well encouraging clearer accountability for and measurement of progress.

The Committee also monitors those elements of the control framework that, by necessity, are subject to regular review, challenge and update, most notably in relation to cyber security. As part of the annual review of internal control, the Committee revisits these matters to ensure that agreed actions are being implemented to support a programme of maintaining and improving internal control.

The Committee noted the findings highlighted in the external auditor's report and confirms that it is satisfied that there is no material misstatement and that relevant actions are being taken to resolve the control matters raised.

MANAGEMENT UPDATES

The Committee received detailed updates from one or more business areas at each of its meetings. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise. The following is an overview of some of the key activities undertaken during 2018/19.

Data governance

- Reviewed the findings of a CDPR Embedded Controls review undertaken by the Internal Audit function.
- Discussed initiatives to drive data awareness and cultural change across the business.

Cyber security

- Received regular updates on the work undertaken to ensure that adequate cyber security systems were maintained.
- Considered data breaches within the market, and reviewed the results of cyber-attack simulation scenarios initiated in response.

- Discussed and challenged the processes in place to deal with internal security breaches.

Business continuity

- Received updates on the crisis management and business recovery capability across all retail and distribution operations.
- Discussed key initiatives undertaken during the year, including a number of wide-reaching crisis management exercises, improvements to incident reporting capability, and a full review of our approach to critical suppliers.
- Endorsed the business continuity priorities for 2019/20, including reviewing Castle Donington's disaster recovery plan, ongoing assessment and testing of global terrorism and cyber security preparedness, and enhancements to the My Safety app and communications channel with our colleagues.

Ocado JV

- Evaluated the financing options for the deal and ultimately recommended a Rights Issue to the Board.

Brexit

- Discussed the key risks associated with a potential "no deal" Brexit, with a focus on financial implications, including increases in import duties, increases in supplier costs and additional administration and delays at ports.
- Reviewed and challenged the steps being taken and potential actions to mitigate the risks of "no deal".

Clothing & Home risk management

- Received an update on the improving systems of risk management and accountability in Clothing & Home.
- Reviewed the business' assessments of its major risks, and challenged the assumptions used in evaluating them.
- Discussed the ongoing management and mitigation of the business' primary risks, relating to e-commerce site recovery and disaster recovery at Castle Donington.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

Throughout the year, the Finance team has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

This section outlines the main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied. All accounting policies can be found in note 1 to the financial statements. Where further information is provided in the notes to the financial statements, we have included the note reference.

Each of the areas of judgement has been identified as an area of focus and therefore the Committee has also received detailed reporting on these matters from Deloitte.

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of adjusting items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusting items. In the current year, management has included in this category: net costs associated with the implementation of strategic programmes in relation to UK store estate, organisation, operational transformation, IT restructure, UK logistics, charges arising in relation to changes to pay and pensions and International store closures and impairments (the closure of International-owned businesses); impairments and write-off of the carrying value of UK stores and other property charges; the reduction in M&S Bank charges incurred in relation to the insurance mis-selling provision; guaranteed minimum pension and other pension equalisation; and charges relating to establishing the Ocado JV.

This was an area of major focus for the Committee, which was cognisant of the need to ensure external disclosures are fulsome given the significance of the aggregate values (£438.6m charge) and the guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority.

 **See note 5 on p105**

The Committee has also understood the sensitivity analysis used by management in its review of impairments. In addition, the business plans detailing management's expectations of future performance of the business are Board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

 **See notes 1, 5, 14 and 15 on p101-102, p105 and p116-119**

PROPERTY MATTERS (INCLUDING ASSET WRITE-OFFS, ONEROUS LEASE CHARGES AND USEFUL ECONOMIC LIVES)

The Committee has considered the assessments made in relation to the accounting associated with the Group's UK store estate strategy. The Committee received detailed reports from management outlining the accounting treatment of the relevant charges including impairment, accelerated depreciation, dilapidations, redundancy and onerous lease costs (including void periods). The Committee has reviewed the basis for the key assumptions used in the estimation of charges (most notably in relation to the costs associated with property exit/sub-let costs, the sale proceeds expected to be recovered on exit, where relevant, and the cash flows to be generated by each cash-generating unit in the period to closure). The Committee has challenged management and is satisfied that the assumptions made are appropriate. The Committee is also satisfied that appropriate costs and associated provisions have been recognised in the current financial year.

 **See notes 1, 5, 15 and 22 on p101, p105, p118 and p131**

IMPAIRMENT OF GOODWILL, BRANDS, TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands, tangible and intangible fixed assets including land and buildings, store assets and software assets. The Committee received detailed reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (e.g. discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate.

RETIREMENT BENEFITS

The Committee has reviewed the actuarial assumptions, such as discount rate, inflation rate, expected return of scheme assets and mortality, which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements.

 **See note 11 on p110-113**

REVENUE RECOGNITION IN RELATION TO REFUNDS, GIFT CARDS AND LOYALTY SCHEMES

Revenue accruals for sales returns and deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated based on historical returns and redemptions. The Committee has considered the basis of these accruals, along with the analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

 **See note 1 on p97**

SUPPLIER INCOME

The Committee is satisfied that this continues to be monitored closely by management and controls are in place to ensure appropriate recognition in the correct period. Further control improvements are planned in the coming year. The financial statements include specific disclosures in relation to the accounting policy and of the effect of supplier income on certain balance sheet accounts.

 **See note 1 on p97**

SIGNIFICANT ISSUES CONTINUED

IFRS 16

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019 and the financial statements for the 52 weeks ended 28 March 2020 will be the first prepared under the new standard. The Group has decided to adopt using the fully retrospective transition approach, meaning the comparative period will also be restated at this time. As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right

of use asset and corresponding liability for future lease payables. For further details, see the Accounting policies section of the financial statements. The Committee has received regular updates from management outlining the impact of the new accounting standard, including the judgements and key assumptions used in the estimation of the impact. The Committee has reviewed with management and is satisfied that these are appropriate.

 **See note 1 on p96**

VALUATION OF MARKS AND SPENCER GROUP PLC COMPANY ONLY INVESTMENT

Marks and Spencer Group plc holds investments in Group companies which are reviewed annually for impairment. Management has prepared an impairment review based on estimated value in use of the Group. While the headroom is reduced from the prior year, management has concluded that no impairment should be recognised in the year (see note C6 Investments on page 139). The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2019 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the Annual Report continues to focus strongly on the key strategic messages in the Strategic Report. It was therefore important for the Committee to ensure that this emphasis did not dilute the overall transparency in the disclosures made throughout the report, which it knows stakeholders find useful, and that the messages presented by the business are both clear and reflective of the Company as a whole.

The Committee received a full draft of the report. Feedback was provided by the Committee, highlighting the areas that would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final approval.

The Committee was provided with a list of the key messages included in the Annual Report, highlighting those that were positive and those that were reflective of the challenges from the year. A supporting document was also provided, specifically addressing the following listed points, highlighting where these could be evidenced within the report.

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. In particular, the Committee considered:

IS THE REPORT FAIR?

- Is the whole story presented and has any sensitive material been omitted that should have been included?
- Is reporting on the business performance in the narrative reporting consistent with that used for the financial reporting in the financial statements?
- Are the key messages in the narrative reflected in the financial reporting?
- Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report; and does the messaging presented within each part remain consistent when one is read independently of the other?
- Is the Annual Report properly considered a document for shareholders?
- Are the statutory and adjusted measures explained clearly with appropriate prominence?

- Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?

- How do the significant issues identified compare with the risks that Deloitte plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

- Is there a clear and understandable framework to the report?
- Are the important messages highlighted appropriately throughout the document?
- Is the layout clear with good linkage throughout in a manner that reflects the whole story?

CONCLUSION

Following its review, the Committee was of the opinion that the 2019 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR

TENURE

Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Ian Waller, has been in post for five years. Following completion of the 2018/19 audit he will be replaced as lead audit partner by Richard Muschamp. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2024.

The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2019/20 financial year. It believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Corporate Governance Code. There are no contractual obligations that restrict the Committee's choice of external auditor.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves gathering information through a series of questionnaires tailored to the following target groups:

1. Heads of Finance for Food, Clothing & Home and International:

Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.

2. Chief Finance Officer and Director of Group Finance:

Longer questionnaire covering all areas of the audit process and taking into account the questionnaires completed by the Heads of Finance.

The Committee was provided with a summary of the Chief Finance Officer and Director of Group Finance responses and had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

Feedback from each of the target groups was positive overall. It was agreed that the audit partners have a good understanding of our business as well as our values and culture.

It was agreed that the audit process and audit team have challenged management's thinking and contributed to improved standards. Areas of focus for the year ahead will be on driving challenge and insight around finance and internal controls.

NON-AUDIT FEES

To safeguard the independence and objectivity of the external auditor, the Committee has put in place a robust auditor engagement policy which it reviews annually. The policy is disclosed on marksandspencer.com/thecompany.

The Committee is satisfied that the Company was compliant during the year with both the UK Corporate Governance Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure adherence to robust processes to prevent the objectivity and independence of the auditor from being compromised.

All non-audit work performed by Deloitte was put to the Audit Committee for prior consideration and approval, regardless of size. Further details on non-audit services provided by Deloitte can be found in Note 4 to the financial statements.

The non-audit fees to audit fees ratio for the financial year ended 30 March 2019 was 0.21:1, compared with the previous year's ratio of 0.11:1. The majority of the £0.42m in non-audit fees paid in total to Deloitte during 2018/19 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, Ocado joint venture synergy review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, reviews of quarterly trading statements, aborted EMTN issuance relating to the Ocado joint venture and assurance services for overseas entities. It is normal practice for such assurance services to be provided by the Company's statutory auditor.

In addition, the Audit Committee has pre-approved fees of up to £480k in relation to the role of Deloitte as reporting accountant in the rights issue, which will be incurred and included in FY2019/20 non-audit fees.

No additional recurring or one-off non-audit services were provided during the year.

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite as well as ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

See p29-33 of the Strategic Report for more information on our material risks

See p27-28 for further information on our risk management processes

The key features of the Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparing consolidated accounts, capital expenditure, project governance and information security, and the Group's Code of Ethics and Behaviours.

SOURCES OF ASSURANCE

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee. This covers all material controls including financial, operational and compliance controls and risk management systems. The Committee is supported by a number of sources of internal assurance from within the Group in order to complete these reviews, in particular:

1. Internal Audit

The Group's primary source of internal assurance remains delivery of the Internal Audit Plan, which is structured to align with the Group's strategic priorities and key risks and is developed by Internal Audit with input from management. Recommendations from Internal Audit are communicated to the relevant business area for implementation of appropriate corrective measures, with results reported to the Committee.

The work completed by Internal Audit during the year has been directed towards key areas including IT, information and data security, core finance operations and key areas of risk such as food safety and GSCOP compliance.

2. Management updates

Management provides updates to the Committee on how risks are managed in individual business areas. These updates are complemented by the independent reviews conducted by Internal Audit.

3. Functional assurance

Responsible for maintaining control over critical areas of risk. A key improvement during the year has been the mobilisation of a dedicated Change & Control team. The processes and controls of these functions are tested by Internal Audit during periodic audits.

4. Committees

Relevant committees within the organisation provide regular updates to the Audit Committee, such as Fire, Health & Safety and Business Continuity.

GOVERNANCE

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Committee has considered the controls findings raised in the independent auditor's report on pages 81-90. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 30 March 2019 and up to the date of this Annual Report.

Where the Committee has identified areas requiring improvement, processes are in place to ensure that the necessary action is taken and that progress is monitored.

Further details of these processes can be found within our detailed Corporate Governance Statement, which is available to view in the Corporate Governance section of our website.

INTERNAL ASSURANCE FRAMEWORK

Source of information	Frequency/nature of reporting	
Internal Audit	<p>– Internal Audit Plan</p> <p>– Regular reports against Plan</p> <p>– Follow-up of remediation</p> <p>– Updates on fraud, whistleblowing and other irregularity</p>	<p>Formal updates presented to the Committee at each meeting</p> <p>Updates to Audit Committee Chairman</p>
Management updates	<p>Papers submitted on a range of issues including:</p> <ul style="list-style-type: none"> – Information security – Bribery – Code of Ethics and Behaviours – GSCOP – Financial Control 	<p>Formal updates presented to the Committee annually and as appropriate</p>
Functional assurance	<p>Functional audit activities undertaken, including:</p> <ul style="list-style-type: none"> – Food safety and integrity – Ethical audits – Trading safely and legally 	<p>Updates provided to the Committee as requested or appropriate</p>
Committees	<ul style="list-style-type: none"> – Fire, Health & Safety Committee – Plan A Committee* – Business Continuity Committee 	<p>Direct reporting lines to the Committee, with annual updates from the relevant executive</p>

* Note: also reports directly to the Board.

REMUNERATION

REMUNERATION OVERVIEW

ANDREW FISHER CHAIR OF THE REMUNERATION COMMITTEE



"The Committee ensures that executive pay arrangements remain appropriate when considering M&S's overall remuneration framework and external regulatory environment."

ANDREW FISHER CHAIR OF THE
REMUNERATION COMMITTEE

IN THIS SECTION

REMUNERATION

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 **Full policy available at marksandspencer.com/thecompany in the 2017 annual report**

ANNUAL REPORT ON REMUNERATION

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INTRODUCTION

On behalf of the Board, I am pleased to present our 2018 Remuneration Report, my first as the Chairman of the Remuneration Committee. The Committee's report covers the required regulatory information, balanced against commercial sensitivities, and also provides further context and insight into our director pay arrangements.

The report provides a comprehensive picture of the structure and scale of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year.

A summary of the approved Remuneration Policy for the year, the Committee's considerations and the intended arrangements for 2019/20 are set out on pages 63-75 of this report. The full Policy can be viewed on the Company's website at marksandspencer.com/thecompany.

BOARD CHANGES

Following the departure of Helen Weir at the end of the last financial year, in July 2018 we were delighted to welcome Humphrey Singer as CFO. As detailed in the 2018 report, the Committee was pleased that we not only secured the employment of Humphrey Singer under our normal framework, but that we were able to further simplify our pay structures, removing any additional allowances for pension or car from his arrangements.

Early 2018 also saw the departure of Patrick Bousquet-Chavanne. Details of his leaving arrangements, along with full recruitment details for Humphrey, can be found on page 72 of this report. Due to the principle of mitigation built into the executive director Termination Policy, the Company was only required to pay a small proportion of Patrick's potential contractual notice period that would have been required had this principle not been in place.

Reflecting on these arrangements, the Committee believes that our Remuneration Policy continues to provide appropriate flexibility in ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders while being fair to the individual. As we look to the future, the Committee continues to be mindful of the ever-changing political and retail trading landscape and the need to ensure strategic alignment of the remuneration framework together with a motivational package for senior colleagues.

CONTEXT OF BUSINESS PERFORMANCE

As referenced earlier in this report, M&S remains in the first 'Restoring the Basics' phase of the transformation. In Clothing & Home, despite underlying progress this year, transformation is yet to be reflected in like-for-like sales. In Food, whilst encouraging signs of volume growth were seen in the final quarter, again like-for-like sales were down and small improvement gains continue to be offset by challenges with our supply chain. As demonstrated on page 55, and referenced throughout this Remuneration Report, there is a strong alignment between M&S's key performance indicators and the measures and targets of director incentive schemes. As described later, it is to be expected that payments under both the Annual Bonus Scheme and Performance Share Plan will be impacted by this challenging trading environment and the requirement of M&S to strengthen its ability to transform and adapt with pace.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIS

KPI/Strategic Priority	As measured by	Performance Share Plan (PSP)	Annual Bonus Scheme (ABS)	Historic	Looking Forward
KPI	Adjusted Earnings Per Share (EPS)	Financial Results			
✓ See KPIs on p22	Return On Capital Employed (ROCE)				
	Free Cash Flow				
	Group PBT Before Adjusting Items (PBT)				
STRATEGIC PRIORITY	1 Transforming Leadership Team	New management team			
✓ See Strategic Priorities on p7		Talent review			
		Team development			
	2 Building Greater Accountabilities	New management team			
		Team development			
		Clear and consistent reporting			
		Accelerate culture and organisation change			
	3 Digital First Retailer	Sparks			
		Online capabilities			
		Technology enabled store portfolio and operations			
		Accelerate Online Growth			
	4 Reshaping the Ranges and Customer Profile in Clothing & Home	Range management			
	8 Modernising the Supply Chain	Supply chain delivery			
	9 Cost Savings	Operating costs and control of capital expenditure			
		Cost Strategy Programme			

2018/19 PERFORMANCE

ADJUSTED EARNINGS PER SHARE

25.4p

Adjusted EPS in 2018/19 was 25.4p. This was below the 28.9p threshold required for any vesting under this element of the 2016 PSP award.

RETURN ON CAPITAL EMPLOYED

14%

Average three-year ROCE performance was 14%. As a result, 9% out of a maximum of 20% of the 2016 PSP will vest under this element.

CUMULATIVE FREE CASH FLOW

£1,587m

Cumulative free cash flow performance for the three-year period ending in 2018/19 was £1,587m. As a result, 25% out of a maximum of 30% of the 2016 PSP will vest under this element.

GROUP PBT BEFORE ADJUSTING ITEMS

£523.2m

Group PBT was below the threshold for bonus payments to be made under the 2018/19 Annual Bonus Scheme.

STRATEGIC ALIGNMENT OF PAY

M&S is committed to transformation and, in order to support this, the Committee ensures alignment of the measures and targets used in M&S's incentive schemes, specifically those of the Performance Share Plan and Annual Bonus Scheme, with the KPIs and strategic priorities being used across the business. The illustration above demonstrates this strong linkage between the KPIs and strategic priorities, payments to directors, and business performance over the short- and long-term.

The Committee will continue to thoroughly review the pay structures and incentive arrangements for the senior leadership team to ensure strong alignment between the delivery of business performance and the associated remuneration arrangements as the business continues along this five-year transformation journey.

TERMS OF REFERENCE AND WIDER WORKFORCE PAY ARRANGEMENTS

This continues to be a time of significant activity within the world of executive remuneration. 2018 saw the Financial Reporting Council publish its much-anticipated revised 2018 UK Corporate Governance Code and we welcome the greater stakeholder focus and development of UK corporate governance in a way that supports existing good business practice.

I am pleased to be able to say that both wider colleague pay alignment and cultural context is woven throughout the remit and activities of M&S's Remuneration Committee. Throughout the year, the Committee debates and discusses oversight of key people policy areas such as performance management and diversity and inclusion, as well as gender pay reporting and reward framework and

budgets. Furthermore, demonstrating the Committee's commitment to meaningful and transparent engagement on pay practices in the wider workforce, the chair of M&S's employee representative body is invited to attend and contribute to a Committee meeting each year to allow two-way feedback. As evidence of our commitment to transparent reporting, along with embracing the spirit of the new regulations, we have chosen to publish an early indication of the M&S CEO: employee pay ratio which can be found on page 58, alongside M&S's gender pay statistics, which are included in the Remuneration Report for the first time.

Within the principle of best practice, the Remuneration Committee reviews its Terms of Reference on an annual basis. In anticipation of the revised 2018 UK Corporate Governance Code, a thorough appraisal was

REMUNERATION OVERVIEW CONTINUED

undertaken in 2017/18 during which the role and remit of the Remuneration Committee was reviewed and broadened to include a more formal and wider consideration of our reward framework and fairness across the organisation. After 12 months of working under these revised Terms of Reference, the emphasis of the 2018/19 review was a sharpening and focusing of activities of the Committee, while ensuring they capture all elements of the final published Code. More detail around the remit and activities of the Committee can be found on page 74 and the Company's website at marksandspencer.com/thecompany.

SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

The graph below summarises the total payments made to executive directors in 2018/19, illustrating the figures detailed in the single figure chart set out later in this report on page 63.

Overall pay levels for the CEO were higher than last year. Cumulative free cash flow has driven an uplift in vesting under the 2016 Performance Share Plan (PSP) which will vest at 34.0% in December 2019 for the three-year performance period up to 30 March 2019. Page 67 of this report provides further detail on the specifics of the targets set and the respective achievement under each measure, which are also summarised in the illustration opposite. The remit of the Committee is to ensure that targets set are stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. While this vesting is higher than that seen in recent years under the Performance Share Plan, it remains low when reviewed in the context of the wider market. However, the Committee is satisfied that this vesting is reflective of the challenging business performance Steve Rowe and Archie Norman have both highlighted earlier in this Annual Report.

The 2018/19 Annual Bonus Scheme was designed on restoring the business to profitable growth. Annual performance for the year was again focused on Group PBT before adjusting items (PBT) with individual

measures set against the key areas of delivery deemed most critical to the transformation journey. As with previous years, individual performance was measured independently of PBT performance, but, mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the PBT element was similarly achieved. For the 2018/19 financial year, the PBT achievement of £523.2m was below the threshold to trigger a bonus payment and no bonus was paid under the Annual Bonus Scheme to anyone within the organisation, including executive directors. However, in order to ensure continued strong governance and transparent reporting to shareholders, and in line with the normal processes, the Committee discussed each director's achievement against the relevant individual performance targets. Final achievement against these individual objectives is detailed on page 65 of this report.

The Committee is satisfied that incentive payments made to executive directors during the year are appropriate in the context of business performance for 2018/19 and payments made elsewhere in the business.

PAY ARRANGEMENTS FOR 2019/20

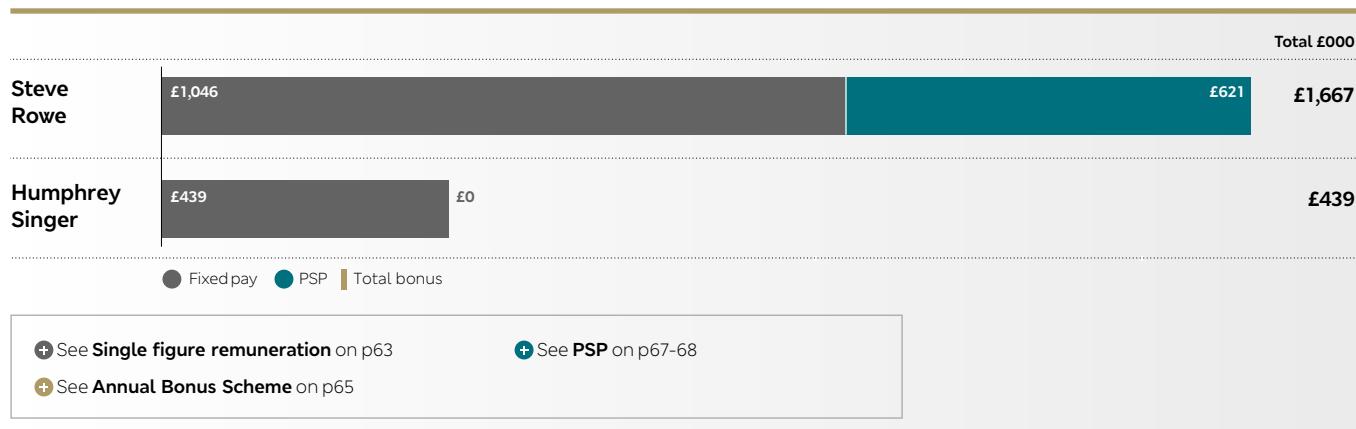
When reviewing salary levels, the Committee takes into account a number of internal and external factors, primarily the salary review principles applied to the rest of the organisation, but also Company performance during the year and external market data. Salary reviews being awarded across the wider organisation ranged from 2% to 4% and, to this extent, the Committee decided that it would be appropriate to award a salary increase of 3% to Steve Rowe and 2% to Humphrey Singer. The Committee felt that the salary increase awarded to Steve Rowe is appropriate given that he has not received a salary increase since his appointment to CEO in 2016, despite his salary being set significantly lower than that of his predecessor. Humphrey Singer's increase is in line with salary increases

granted to the management population. As detailed within this report, the Committee made the recommendation, and Steve agreed, that this pay increase would not apply to Steve's pension supplement. During the coming year, the Committee will be considering the treatment of executive director pension supplements in M&S ahead of the 2020 Remuneration Policy renewal.

The Annual Bonus Scheme remains unchanged from 2018/19 and will continue to be based on corporate financial targets (currently 70%) and individual objectives (currently 30%). The maximum opportunity will remain at 200% of salary. As we continue our transformation the Committee believes that it remains appropriate for PBT to continue to represent the largest element of bonus potential. This focus on transformation is also reflected in the individual objectives for both the CEO and CFO which are further described on page 66.

The Committee continues to ensure that the remuneration framework for executives is aligned to shareholder interests. This means fully aligning performance measures used in the incentive schemes to the business strategy and setting targets which are both stretching and yet motivating for directors. While it is proposed that the 2019 Performance Share Plan (PSP) will maintain measures used by the 2017 and 2018 PSP awards, being equally split between Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), for the 2019 award we have reset EPS targets from those seen in awards from previous years. The intention to make such an adjustment to these targets was fully communicated to our main shareholders and their feedback was taken on board prior to any decisions being made. Overall, the Committee believes that these PSP targets are appropriately stretching in the context of the business and analyst expectations and remain as equally challenging as those set at the start of the performance period for previous awards. Full details can be found on page 68.

SINGLE FIGURE REMUNERATION FOR 2018/19



PERFORMANCE SHARE PLAN (PSP) VESTING 2019

VESTING OUTCOMES

Cumulative Free cash flow

● Maximum	30%
● Actual	25%

Adjusted EPS

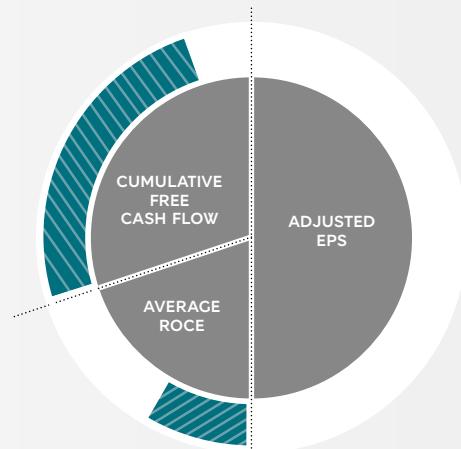
● Maximum	50%
● Actual	0%

Average ROCE

● Maximum	20%
● Actual	9%

Outturn

● Maximum	100%
● Actual	34%



IMPACT OF SHARE PRICE CHANGE ON PSP VESTING VALUES



See Performance Share Plan on p66-68

LOOKING AHEAD

This will be the final year under the current remuneration framework, as at the 2020 AGM we will be seeking your support and approval for a new Remuneration Policy. Any new Policy put to our shareholders will remain steadfast in ensuring that executive director pay arrangements support and drive the business strategy while remaining appropriate when considered within the overall M&S remuneration framework and the external regulatory environment. A robust framework is especially crucial given the challenging environment in which we are operating. We will be supported by our Committee advisors when formulating the new Policy to ensure strong alignment with business objectives, in both the short- and long-term, with a view to delivering strong performance and sustainable shareholder returns. As ever, we will seek to engage with our major shareholders as part of this process to both reflect their views and to maintain open dialogue on director pay arrangements.

As we look to the future, the Committee will also need to take into consideration the impact of the joint venture between M&S and Ocado, a partnership we believe will bring substantial benefits and has transformative potential for our business. The Committee fully intends to review the extent to which the joint venture impacts structures, targets and applications of M&S's incentive arrangements in both the short- and long-term.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's Annual General Meeting on 9 July 2019 to answer any questions in relation to this Remuneration Report.

ANDREW FISHER
CHAIR OF THE REMUNERATION COMMITTEE

REMUNERATION

REMUNERATION IN CONTEXT

COLLEAGUE ENGAGEMENT

→ **Share ownership across our colleagues** Across our UK and Irish colleagues, M&S has a significant number of participants in all employee share schemes. M&S is a proud advocate of employee share ownership, encouraging colleagues to share in M&S's success while aligning interests with our shareholders.

→ **Direct engagement with our colleagues** The chair of the M&S colleague representative body is invited to attend a Remuneration Committee meeting each year to engage and contribute on both executive pay and pay across the wider workforce.

→ **Pay Budgets** Under the remit of the Remuneration Committee, total budgeted salary expenditure across M&S for salary review is noted, ensuring principles for reward allocation are aligned across the full workforce, inclusive of senior leaders.

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2018 is 4.2%, compared to a national average of 17.9%. The M&S mean gap for the same period is 12.5%.

In the last 12 months we've made several steps to further promote and enhance diversity and equality at M&S. This includes, but is by no means limited to, development of a formal female talent pipeline, ensuring gender balanced recruitment campaigns and building a clear diversity & inclusion strategy governed by an Inclusion Group made up of directors and our employee diversity network chairs.

We're proud that 75% of our Customer Assistants are women but we need to do more to encourage diversity in senior roles.

GENDER PAY GAP (MEDIAN)

4.2%

CONSIDERATION OF COLLEAGUE AND STAKEHOLDER VIEWS

The Committee monitors and reviews the effectiveness of the senior remuneration policy and its impact and compatibility with remuneration policies in the wider workforce. Throughout the year, the Committee reviews the frameworks and budgets for key components of colleague pay arrangements, together with broader structure of group bonus provisions which ensures appropriate alignment with senior pay arrangements.

The Committee receives updates on a variety of employee engagement initiatives including our annual 'Your Say' employee survey, which asks employees about engagement, empowerment and enablement. Employee representatives in our Business Involvement Groups are annually provided with an explanation of the executive directors' pay arrangements during the year, and are able to ask questions on the arrangements and their fit with the other reward policies at this time.

CHIEF EXECUTIVE'S PAY RATIO

The table below discloses the ratio of CEO pay for 2018, using the single total figure remuneration as disclosed in Figure 7 (page 63) to the comparable, indicative, full-time equivalent total reward of those colleagues whose pay is ranked at the 25th percentile, medium and 75th percentile in our UK workforce. Colleague pay was calculated based on actual pay and benefits

for the 12 monthly payrolls within the full financial year.

We believe that the final figures detailed below are representative of the vast majority of our colleague base, being primarily customer assistants based in our stores. Formal figures and disclosures required under the updated regulation will be reported next year.

Year	25 th percentile ratio	50 th percentile ratio	75 th percentile ratio
2019 Indicative Figures	92:1	88:1	79:1

PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table below sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with

the change in our UK-based colleagues' pay. This group has been chosen as the majority of our workforce is UK-based.

	% change 2017/18 – 2018/19		
	Base salary	Benefits	Annual bonus
CEO (Steve Rowe)	0%	1.4%	–
UK employees (average per FTE)	2.9%	-0.8%	–

The 2.9% percentage change in base salary for UK employees reflects the base pay increase awarded to store colleagues effective April 2018.

No award under the Annual Bonus Scheme was made to either the CEO or anyone else within the wider workforce in either 2017/18 or 2018/19.

The change in colleague benefits is reflective of a shift in workforce structure rather than a change in benefit offering, which remains unchanged from 2017/18. The slight increase in Steve Rowe's benefits can be attributed to an increase in driver salary.

REMUNERATION

SUMMARY REMUNERATION POLICY

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The full policy was approved by shareholders at the AGM on 11 July 2017 and can be found on our website at marksandspencer.com/thecompany. The policy took effect from this date and is designed to attract, retain and motivate our leaders within a framework designed to promote the long-term success of M&S and aligned with our shareholders' interests.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

FIGURE 1: SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION	OPPORTUNITY
BASE SALARY	Salaries are reviewed annually by the Committee, considering a number of factors, including external market data, historic increases made to the individual and salary review principles applied to the rest of the organisation.	Normally in line with those in the wider workforce, although no maximum is set.
BENEFITS	<p>In line with our policies, executive directors are eligible to receive benefits which may include:</p> <ul style="list-style-type: none"> - A car or cash allowance and a driver. - Life assurance. - Relocation and tax equalisation allowances in line with our mobility policies. <p>As with all employees, directors are also offered other benefits including:</p> <ul style="list-style-type: none"> - Employee discount. - Salary sacrifice schemes. - Participation in our all-employee share schemes. 	There is no set maximum, however any provision will be commensurate with local markets and for all-employee shares schemes, the local statutory limits.
PENSION BENEFITS	<p>M&S may choose to offer:</p> <ul style="list-style-type: none"> - Participation in our defined contribution pension scheme; or - Cash payments in lieu of pension contributions. <p>The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits as a deferred member.</p>	<p>Cash payments are capped at 25% of salary for executive directors appointed prior to 11 July 2017.</p> <p>For directors appointed to the Board after 11 July 2017, the cash alternative will be capped at a maximum of 20% of salary.</p>
ANNUAL BONUS SCHEME	<p>All directors are eligible to participate in the discretionary, noncontractual Annual Bonus Scheme. Performance is measured against quantifiable one-year financial and individual performance targets linked with the sustainable delivery of our business plan. At least half of awards are measured against financial measures which typically includes Group PBT before adjusting items (PBT).</p>	Total maximum annual bonus opportunity is capped at 200% of salary for each executive director.
INCLUDING DEFERRED SHARE BONUS PLAN (DSBP)	<p>Corporate and individual elements may be earned independently, but no part of the individual objectives may be earned unless a 'threshold' level of PBT has been achieved after which up to 40% of maximum may be payable for the achievement of individual objectives.</p> <p>Not less than 50% of any bonus earned is paid in shares which are deferred for three years.</p> <p>The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.</p> <p>The Committee can, in circumstances it believes appropriate, reduce to zero unvested deferred share awards. In certain circumstances, the Committee can also reclaim all or part of the cash bonus for up to three years after the payment date.</p>	
PERFORMANCE SHARE PLAN (PSP)	<p>All directors are eligible to participate in the Performance Share Plan. This is a non-contractual, discretionary scheme and is M&S's main long-term incentive scheme. Performance may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures must comprise at least 50% of awards.</p> <p>The Committee can, in circumstances it believes appropriate, reduce to zero unvested PSP awards. In addition, the Committee can reclaim all or part of vested awards for up to two years after the vesting date in certain specified circumstances.</p> <p>Awards granted after 11 July 2017 will be subject to a further two-year holding period after the vesting date.</p>	The maximum annual value of shares at grant is capped at 300% of salary for each executive director.

SUMMARY REMUNERATION POLICY CONTINUED

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 2: RECRUITMENT POLICY & SERVICE CONTRACTS

The table below summarises the Company's policy on the recruitment of new executive directors. Similar considerations may also apply where a director is promoted within the Board.

ELEMENT	APPROACH
SERVICE CONTRACT	<ul style="list-style-type: none"> All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
BASE SALARY	<ul style="list-style-type: none"> Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces.
BENEFITS	<ul style="list-style-type: none"> The Committee will offer a benefits package in line with our benefits policy for executive directors.
PENSION BENEFITS	<ul style="list-style-type: none"> Maximum contribution in line with our policy.
ANNUAL BONUS SCHEME	<ul style="list-style-type: none"> Maximum bonus potential will be capped at 200% of salary in line with our policy.
PSP	<ul style="list-style-type: none"> Maximum award of up to 300% of salary in line with our policy.
BUY-OUT AWARDS	<ul style="list-style-type: none"> The Committee may offer compensatory payments or buy-out awards where an individual forfeits outstanding variable pay opportunities or contractual rights as a result of their appointment with M&S. The specifics of any buy-out awards would be dependent on the individual circumstances of recruitment. Any value awarded would be no greater than the value forfeited by the individual.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate subject to the limit on variable remuneration set out above. The rationale for any such component would be appropriately disclosed.

APPLICATION OF REMUNERATION POLICY

DIRECTORS		BASIS OF CALCULATIONS AND KEY			
Steve Rowe £000		Fixed Fixed remuneration only. Target No vesting under the ABS and PSP. Maximum Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 50% of maximum, assumes no share price growth. - PSP: 20% of 250%, assumes no share price growth. Maximum + 50% Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 100% of maximum, assumes no share price growth. - PSP: 100% of 250%, assumes no share price growth.			
		Maximum + 50% Share Price Growth Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 100% of maximum, assumes no share price growth. - PSP: 100% of 250% with 50% share price growth. - Grant share price for the purpose of demonstrating the 50% growth taken as closing share price at 2018/19 year end			
Humphrey Singer £000		Fixed remuneration Includes all elements of fixed remuneration: - Base salary (effective 1 July 2019, as shown in the table on page 64). - Pension benefits as detailed on page 64. - Benefits (using the value for 2018/19 included in the single figure table on page 63).			
		Annual Bonus Scheme (ABS) Represents the potential value of the annual bonus for 2019/20. Half of any bonus would be deferred into shares for three years and this is included in the value shown.			
PSP PSP represents the potential value of the PSP to be awarded in 2019, which would vest in 2022 subject to the performance against the targets disclosed on page 68. Awards would then be held for a further two years.					

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 3: TERMINATION POLICY

The Company may choose to terminate the contract of any executive director in line with the terms of their service agreement either by means of a payment in lieu of notice or through a series of phased payments subject to mitigation. Service agreements may be terminated without notice and, in certain circumstances such as gross misconduct, without payments.

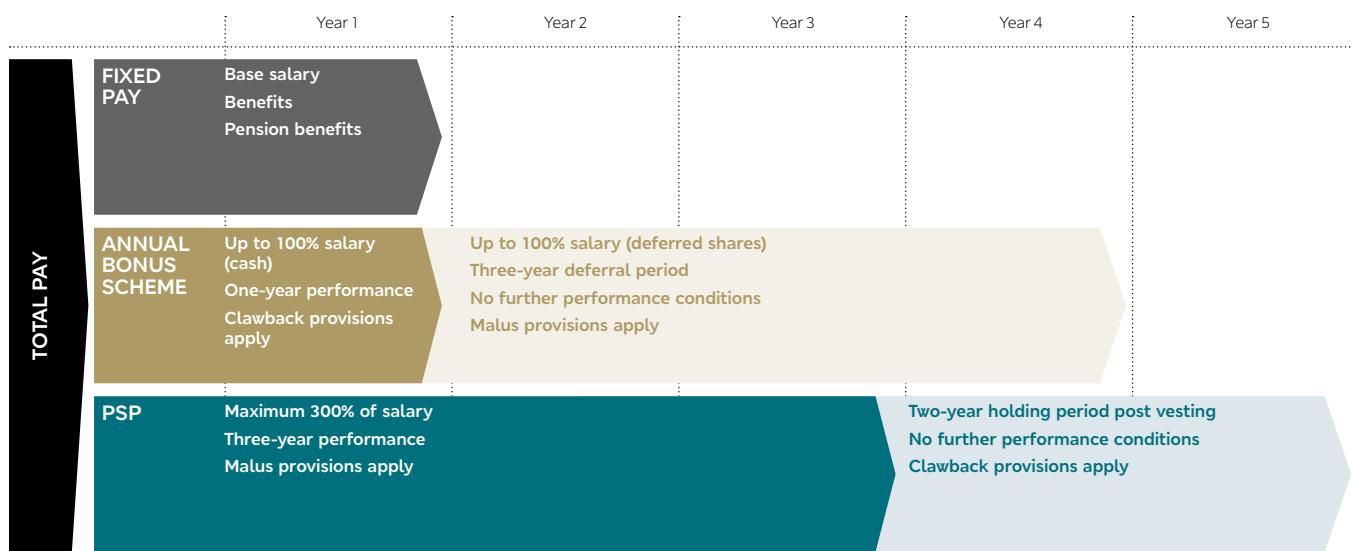
The table below summarises our termination policy for executive directors under their service agreement and the incentive plan rules.

ELEMENT	APPROACH
BASE SALARY, BENEFITS AND PENSION BENEFITS	<ul style="list-style-type: none"> Payment made up to the termination date.
ANNUAL BONUS SCHEME	<ul style="list-style-type: none"> There is no contractual entitlement to a bonus payment. If the director is under notice or not in active service at either the end of the bonus year or on the payment date, awards (and any unvested deferred bonus shares) may lapse. The Committee may, however, use its discretion to make a bonus award.
LONG-TERM INCENTIVE AWARDS	<ul style="list-style-type: none"> The treatment of outstanding share awards is determined in accordance with the respective plan rules.
REPATRIATION	<ul style="list-style-type: none"> M&S may pay for repatriation where a director has been recruited from overseas.
LEGAL EXPENSES & OUTPLACEMENT	<ul style="list-style-type: none"> Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

The full policy sets out further detail on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control or winding-up of the Company.

FIGURE 4: SUMMARY OF REMUNERATION POLICY

The diagram below illustrates the balance of pay and time period of each element of the remuneration policy for executive directors, approved in July 2017. The Committee believes this mixture of short- and long-term incentives and fixed to performance-related pay is currently appropriate for M&S's strategy and risk profile.



SUMMARY REMUNERATION POLICY CONTINUED

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017) CONTINUED

FIGURE 5: SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

The table below summarises our policy for the operation of non-executive director fees and benefits at the Company.

ELEMENT	OPERATION AND OPPORTUNITY
SERVICE AGREEMENTS	All non-executive directors have an agreement for an initial three-year term. The Chairman's agreement requires six months' notice by either party. The non-executive directors' agreements may be terminated by either party giving three months' notice.
CHAIRMAN'S FEES	Fees are reviewed annually by the Committee. The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association.
NON-EXECUTIVE DIRECTOR'S BASIC FEE	Fees are reviewed annually by the executive directors taking into consideration. The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association.
ADDITIONAL FEES	Additional fees are paid for undertaking the extra responsibilities of: <ul style="list-style-type: none">– Board Chairman.– Senior Independent Director.– Committee Chairman.
BENEFITS	In line with our other employees, the Chairman and non-executive directors are entitled to receive employee discount. The Chairman may also be entitled to the use of a car and driver.
RECRUITMENT	The Committee takes into account a number of factors when determining an appropriate fee level for the Chairman. The CEO and executive directors determine appropriate fee levels for the non-executive directors and take into account the time commitment, role responsibility and market practice in our comparator groups when doing so. M&S may offer benefits to the Chairman in line with our policy.

REMUNERATION

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to

ensure that not only is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business and individuals. As illustrated on page 55, a significant proportion of the performance measures used in the incentive schemes are integrated with M&S's key performance indicators (KPIs) and Strategic Priorities detailed in the Strategic Report.

The diagram below (Figure 6) details the achievement of each executive director under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the single figure table below (Figure 7) and later in this report.

FIGURE 6: REMUNERATION STRUCTURE 2018/19

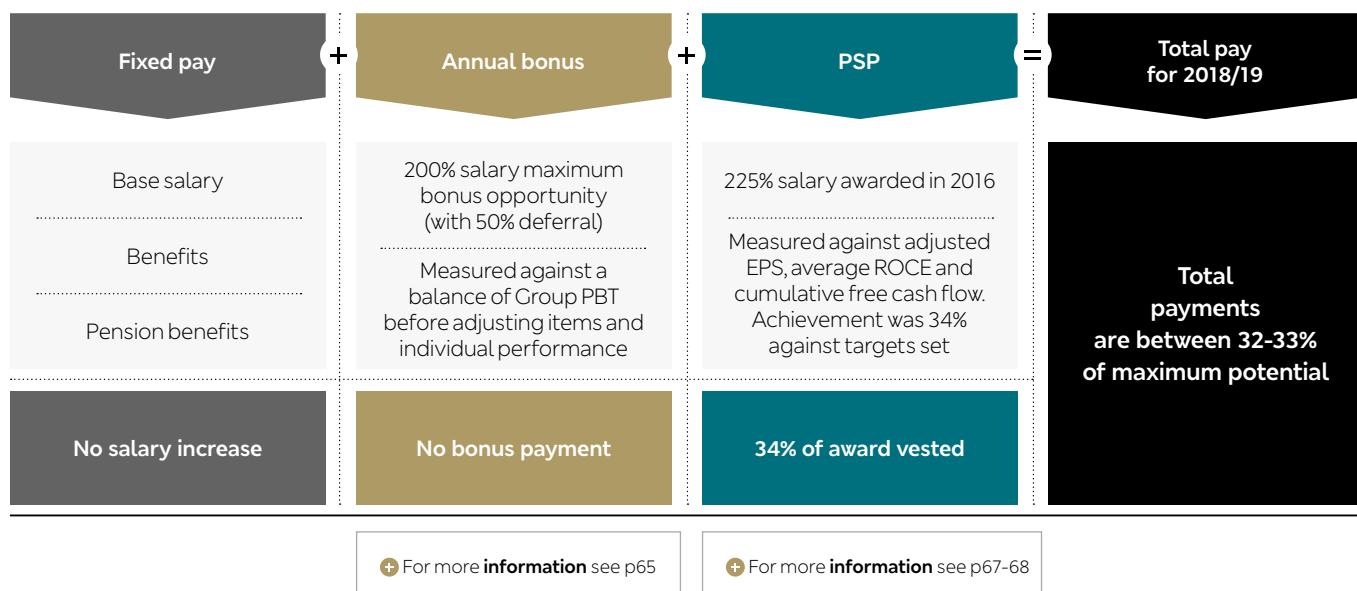


FIGURE 7: TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pension benefits £000	Total £000
Steve Rowe	2018/19	810	33	0	621	203	1,667
	2017/18	810	31	0	79	203	1,123
Humphrey Singer (from 9 July 2018)	2018/19	439	0	0	0	0	439
	2017/18	–	–	–	–	–	–
Patrick Bousquet-Chavanne (to 18 April 2018)	2018/19	47	0	0	198	11	256
	2017/18	546	24	0	73	137	780

Patrick Bousquet-Chavanne retired from the Board on 18 April 2018. Further details of his leaving arrangements can be found on page 72. Note that the value of awards vesting in 2017/18 has been restated to reflect the actual share price at the point of vesting, being £3.09.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

SALARIES

When reviewing salary levels, the Committee takes into account a number of internal and external factors, including Company performance during the year, external market data, historic increases made to the individual and, to ensure a consistent approach, the salary review principles applied to the rest of the organisation.

As detailed in last year's report, for salaries effective July 2018, only Steve Rowe was eligible to be considered for a review as

Humphrey Singer did not join the Company until July 2018. The Committee decided, and the CEO agreed, that no salary increase would be awarded to the CEO for July 2018, despite no increase in Steve Rowe's salary since his appointment to CEO in 2016.

For salaries effective July 2019, the Committee discussed the salary review being awarded to other colleagues in M&S ranging from 2% to 4%. In line with these increases seen across the wider organisation,

the Committee felt it was appropriate to grant a salary increase of 2% for Humphrey Singer and 3% for Steve Rowe. As detailed below, the salary increase for Steve Rowe will not apply to his pension supplement.

The next annual salary review for the CEO and CFO will be effective in July 2020.

The table below details the executive directors' salaries as at 30 March 2019 and salaries which will take effect from 1 July 2019.

FIGURE 8: SALARIES

	Annual salary as of 30 March 2019 £000	Annual salary as of 1 July 2019 £000	Change in salary % increase
Steve Rowe	810.0	834.5	3%
Humphrey Singer	600.0	612.0	2%

BENEFITS (AUDITED)

The Remuneration Policy permits that each executive director may receive a car or cash allowance as well as being offered the benefit of a driver. During the year, in lieu of a car allowance, Steve Rowe received a car and the benefit of a driver, as did Patrick Bousquet-Chavanne until he left the Company. Humphrey Singer receives neither a car nor cash allowance and does not have the benefit of a driver.

In line with all other colleagues, executive directors receive life assurance, employee discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work.

PENSION BENEFITS (AUDITED)

During the year Steve Rowe and Patrick Bousquet-Chavanne received a cash payment in lieu of participation in an M&S pension scheme. The Committee is mindful of the external sentiment of executive pension arrangements and will be undertaking a thorough review of pension practices as part of the overall Remuneration Policy review ahead of next year's policy renewal.

With this in mind, in awarding Steve Rowe's salary increase outlined above, the Committee decided, and Steve agreed, that whilst policy around pension is under review, this salary increase would not apply to his pension supplement.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 30 March 2019 are shown below.

Whilst Humphrey Singer is eligible to join the M&S pension scheme, he does not currently participate. He does not receive any additional payments in lieu of participation.

FIGURE 9: PENSION BENEFITS (AUDITED)

	Normal retirement age	Accrued pension entitlement as at year end £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
Steve Rowe	60	156	0	4	0	4,639

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 30 March 2019. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2018/19 (AUDITED)

Annual performance for the year was again primarily measured against Group PBT before adjusting items (PBT) (70%) and individual performance (30%). PBT is used as a core bonus measure as it is considered to be an important measure of overall performance and is consistent with how business performance is assessed internally by the Board and Operating Committee.

As was disclosed last year, individual performance was measured against a scorecard of individual measures set against key areas of delivery of the transformation plan deemed most critical to the future sustainable success of M&S. As with previous years, individual performance was measured independently of PBT performance but for the first time under the current remuneration framework, and mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the corporate element was similarly achieved.

PBT outturn for the year was £523.2m which was below the threshold set to trigger payments under either the corporate element or the individual element of the Scheme. Therefore, no bonuses under the 2018/19 Annual Bonus Scheme will be paid to anyone in the organisation, including executive directors. This is reflected in the total bonus paid column in Figure 10 and directly corresponds to the value shown in the single figure table on page 63.

Despite there being no bonus payment under the 2018/19 Scheme, the Committee continued to review the achievement of the individual objectives set at the start of the financial year to fulfil its remit and to enable transparent disclosure to shareholders. For completeness, the table below shows the achievement against each director's individual objectives, as noted by the Committee. In noting this performance, the Committee considered not only the achievement against the predetermined targets, but also the wider performance within these specific areas to ensure that any achievement noted was representative of overall performance.

The Committee ensures that targets set are the relevant drivers of required annual performance, recognising that it operates in the context of a highly competitive market and uncertain market conditions. Some of the specific targets set for 2018/19 remain too commercially sensitive to disclose as they are not disclosed elsewhere in this report. To the extent these targets are not able to be fully reported, they have been described. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosure wherever possible, while ensuring that any measures set are those most appropriate to restore the business to profitable growth.

FIGURE 10: ANNUAL BONUS SCHEME OUTTURN 2018/19 (AUDITED)

Director	Corporate (70%)	Individual (30%)	Total bonus
Steve Rowe PBT	<p>New management team Successful recruitment and onboarding of high calibre senior leaders building a strong new management team. Continued development of profit and loss responsibility to further drive accountability and autonomy within new family of businesses structure.</p> <p>Threshold £540m Stretch £620m £523m</p>	<p>Online capabilities Significant improvement of website search speed and experience, along with enhanced checkout performance. Donington successfully delivering through Christmas peak trading as per plan.</p> <p>Overall % of Salary (200% max) 0%</p>	<p>Supply chain Some success through the roll out of new initiatives in Food such as our "Fuse" programme but limited improvements in core metrics as yet, and slow progress in Clothing & Home.</p> <p>£0k / £1.62m</p>
Humphrey Singer PBT	<p>Operating costs Operating costs lower than plan with further savings identified.</p> <p>Threshold £540m Stretch £620m £523m</p>	<p>Control of capital costs and expenditure Capital spending below target with improvements made to Investment Committee process.</p> <p>Talent review Review of capabilities and controls undertaken, including the recruitment and onboarding of new senior leadership team and talent elsewhere in the Finance group.</p>	<p>Review control environment While a thorough review of the control environment was initiated, not all project milestones and deliverables were achieved within the agreed timelines.</p> <p>Overall % of Salary (200% max) 0%</p>

REMUNERATION REPORT CONTINUED

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (AUDITED)

Currently 50% of any bonus payment is compulsorily deferred into shares. These awards vest after three years subject to continued employment as well as malus provisions. As no bonus was awarded in respect of performance year 2017/18, no share awards under the Deferred Share Bonus Plan (DSBP) were made during the year. In relation to the 2018/19 performance year, as no bonus awards under the Annual Bonus Scheme have been made, there will be no awards under the DSBP made in June 2019.

ANNUAL BONUS SCHEME FOR 2019/20

During the year, the Committee reviewed the 2019/20 Scheme, considering the five-year transformation programme, 'Making M&S Special Again' and bonus arrangements elsewhere in the business. It determined that the structure of the existing Scheme remained appropriate and was aligned with bonus arrangements seen elsewhere in the organisation.

As with the existing Scheme, the 2019/20 Bonus Scheme is designed to focus on restoring the business to profitable growth with an emphasis not only on profits but also other key areas which will drive this transformation journey. Performance will be again focused on Group PBT before adjusting items (PBT) (70%) with individual measures set against key areas of delivery of the transformation plan which are deemed most critical to the future sustainable success of M&S. For 2019/20, individual performance will again be measured independently of PBT performance and, mirroring arrangements elsewhere in the business, no individual element may be earned until the threshold needed to secure payment under the corporate element for all participating colleagues is similarly achieved.

The remaining 30% of the bonus will be measured against a scorecard of individual objectives, identified as the measurable key priorities required to drive the continued transformation of M&S. For the CEO, the measures within the individual scorecard will focus on the acceleration of the transformation programme, including improvements in supply chain and range

management, along with digital capabilities both online and instore. In addition, a key focus for the year will be the successful establishment of the Ocado joint venture and the transformation of M&S's organisation and culture.

For the CFO, the scorecard measures will focus on the delivery of the financial plan with an emphasis on Group PBT, cash flow and operating cost budgets, alongside the establishment of a cost strategy programme. From a commercial perspective, there will be a focus on the delivery of faster and more effective governance, controls and reporting within a strong, happy and commercially focused team.

The performance targets for the 2019/20 Scheme are deemed by the Board to be too commercially sensitive to disclose at this time as they are not disclosed elsewhere in this report. Where possible, they will be disclosed in next year's report. The Committee, in its absolute discretion, may use its judgement to adjust outcomes to ensure that any payments made reflect overall business and individual performance during the year.

FIGURE 11: ANNUAL BONUS SCHEME TARGETS 2019/20

Director	CORPORATE TARGETS		INDIVIDUAL OBJECTIVES	
	Group PBT before adjusting items (PBT)	% bonus	Scorecard of Individual Measures	% bonus
Steve Rowe		70%		30%
Humphrey Singer		70%		30%

Steve Rowe

- Accelerate the transformation in culture, organisation and capability across the business.
- Oversee the improvements in supply chain and range management in both Clothing & Home and Food businesses.
- Accelerate growth online and exploitation of digital capabilities.
- Drive the transition towards a more modern technology enabled store operation and store portfolio.
- Successfully establish the Ocado joint venture including leadership, operations and financing.

Humphrey Singer

- Establish a cost strategy programme, including the delivery of UK operating cost budget.
- Deliver faster, more effective governance and controls.
- Drive a focus on clear and consistent internal reporting regimes to support and drive greater accountabilities across the business.
- Continued team development to support M&S's commercial success.

PERFORMANCE SHARE PLAN (PSP)**PSP AWARDS MADE IN 2018/19 (AUDITED)**

As reported last year, having considered the extent to which the long-term incentive framework remained relevant, the Committee determined that the existing structural arrangements remained aligned with the focus on maximising shareholder value by restoring the business to profitable growth. The three performance measures used in the 2017 PSP award, Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), were still considered to be the key drivers to deliver these core priorities. In line with the 2017/18 award, measures used in 2018/19 were equally balanced to ensure an appropriate focus on all three metrics.

TSR is once again measured against the bespoke group of 15 companies taken from the FTSE 350 General and Food & Drug Retailers indices, reviewed prior to grant to ensure the constituents remained appropriately aligned to M&S's business operations to best reflect the value of shareholder's investment in M&S over the respective performance period. These companies are listed in Figure 13.

The remainder of the award is measured equally against EPS and ROCE ensuring a balanced focus on all three performance metrics.

As was reported last year, each executive director was granted an award of conditional shares of 250% of salary. The grant was made on 27 July 2018. In line with Policy, awards will vest three years after the date of grant, to the extent that the performance conditions are met, and must then be held for a further two years. Clawback provisions apply during this holding period.

Consistent with previous years, 20% of awards will vest for threshold performance increasing to 100% on a straight-line basis between threshold and maximum performance. Detailed targets can be seen in Figure 12.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 12: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2018/19 (AUDITED)

	Adjusted EPS in 2020/21 (p)	Average ROCE (2018/19 – 2020/21) (%)	Relative TSR 1/3 of award
2018/19 award	1/3 of award	1/3 of award	1/3 of award
Threshold performance	31.7p	13.0%	Median
Maximum performance	38.7p	17.0%	Upper quartile

FIGURE 13: TSR COMPARATOR GROUP 2018/19 AWARD

J Sainsbury	B&M European	Kingfisher
Wm Morrisons	Debenhams	N Brown Group
Tesco	Dixons Carphone	Next
Ocado Group	Dunelm Group	Sports Direct International
ASOS	JD Sports Fashion	WHSmith

Targets outlined above are stated on a pre-IFRS16 basis and before any adjustments have been made for the impact of the recently announced M&S joint venture with Ocado, be that either the joint venture itself, or associated Rights Issue. The Committee will review the targets and TSR comparator group at an appropriate time and will fully disclose any adjustments required. Pre-vesting deliberations will also take into consideration the impact of the de-listing of Debenhams.

FIGURE 14: PSP AWARDS MADE IN 2018/19 (AUDITED)

	Basis of award % of salary	Face value of award £000	End of performance period	Vesting date
Steve Rowe	250%	2,025	03/04/2021	27/07/2021
Humphrey Singer	250%	1,500	03/04/2021	27/07/2021

PSP grants were made as a conditional share award. When calculating the face value of awards to be granted, the number of shares awarded was multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For the 2018 award, the share price was calculated as £3.093, being the average share price between 20 July 2018 and 26 July 2018.

FIGURE 15: PSP AWARDS VESTING IN 2018/19 (AUDITED)

For directors in receipt of PSP awards granted in 2016, the awards will vest in December 2019 based on three-year performance over the period to 30 March 2019. Performance has been assessed and it has been determined that 34% of the total award will vest. The Committee reviewed this level of vesting against the wider business performance of the period and determined this level of payment was appropriate.

Details of performance against the specific targets set are shown in the table below.

The total vesting values shown in Figure 16 directly correspond to the figure included in the single figure table on page 63.

	Adjusted EPS in 2018/19 (p)	Average ROCE (2016/17 – 2018/19) (%)	Cumulative free cash flow (2016/17 – 2018/19)	Total vesting % of award
2016/17 award	50% of award	20% of award	30% of award	
Threshold performance	28.9p	13%	£1,350	
Maximum performance	35.8p	16%	£1,650	
Actual performance achieved	25.4p	14%	£1,587	
Percentage of maximum achieved	0%	9%	25%	34%

REMUNERATION REPORT CONTINUED

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 16: VESTING VALUE OF AWARDS VESTING IN 2018/19 (AUDITED)

	On grant		At the end of performance period (30 March 2019)			Impact of share price performance	Total vesting of award £000
	Number of shares granted	% of salary granted	Number of shares vesting	Number of shares lapsing			
Steve Rowe	555,640	225%	188,918	366,722		-14.7%	£621
Patrick Bousquet-Chavanne	374,542	225%	60,135	314,407			£198

Total vesting values are based on a share price of £2.79 (the average share price from 2 January 2019 to 29 March 2019) plus a dividend equivalent of £0.49 per share. To provide an accurate indication of the total vesting value for Patrick Bousquet-Chavanne, the column detailing the number of shares lapsing takes into consideration shares lapsing due to the pro-rata applied to his award on leaving M&S. Further details on the treatment of share awards upon leaving can be found on page 72.

The final vesting values also reflect a 14.7% decline in share price between grant and vesting, as illustrated on page 57 of this report.

PSP AWARDS TO BE MADE IN 2019/20

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable. Whilst the 2019 PSP maintains the measures used by the 2017 and 2018 PSP awards, being equally split between Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), following careful consideration and shareholder consultation, EPS targets have been reset from those seen in awards from previous years. In making this decision, the Committee was mindful of the need to ensure that M&S's performance share plan motivates senior leaders to drive the required transformation to secure M&S's long-term success whilst balancing shareholder interests. As detailed in the Remuneration Committee Chairman's letter, the intention to make such an adjustment to these targets was fully communicated to our main shareholders and their feedback was taken on board prior

to any decisions being made. Overall, the Committee believes that these PSP targets are appropriately stretching in the context of the business and analyst expectations and remain as equally challenging as those set at the start of the performance period for previous awards.

TSR will once again be measured against a bespoke group of companies taken from the FTSE 350 General and Food & Drug Retailers indices. The existing group of 15 companies, as detailed in Figure 13, was thoroughly reviewed to ensure the constituents remained appropriate and aligned to M&S's business operations. This review resulted in the removal of Debenhams, as they are no longer listed on the FTSE, and Ocado, who were removed due to the recently announced M&S and Ocado joint venture. The revised TSR comparator group of 13 companies can be found in Figure 18.

All targets for the 2019 PSP have been set on a pre-IFRS 16 basis and before any adjustments have been made for the impact that the recently announced M&S joint venture with Ocado, be that either the joint venture itself, or associated rights issue. The Remuneration Committee will review the targets at an appropriate time and will fully disclose any adjustments required at that point. Any changes to targets will ensure the performance conditions remain representative of corresponding business performance on a pre-adjustment basis.

For the 2019 PSP a grant of 250% of salary was approved. It was agreed that this award level would represent a clear signal to the executive directors that whilst there is hard work ahead as we move along the transformation journey to make M&S special again, truly exceptional performance will be rewarded.

FIGURE 17: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2019/20

	Adjusted EPS in 2021/22 (p)	Average ROCE (2019/20 – 2021/22) (%)	Relative TSR 1/3 of award
2019/20 award	1/3 of award	1/3 of award	1/3 of award
Threshold performance	24.0p	13.0%	Median
Maximum performance	31.0p	17.0%	Upper Quartile

FIGURE 18: TSR COMPARATOR GROUP 2019/20 AWARD

J Sainsbury	Dixons Carphone	Next
Wm Morrisons	Dunelm Group	Sports Direct International
Tesco	JD Sports Fashion	WHSmith
ASOS	Kingfisher	
B&M European	N Brown Group	

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 19: DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below sets out the total number of shares held by each executive director serving on the Board during the period to 30 March 2019, or at their date of retirement from the Board. Shares owned outright include those held by connected persons.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 21 May 2019. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

	Shares owned outright	Unvested		
		With performance conditions	Without performance conditions	Vested but unexercised shares
Steve Rowe	296,173	1,824,538	119,675	0
Humphrey Singer	0	484,966	0	0
Patrick Bousquet-Chavanne (to 18 April 2018)	123,098	176,876	0	0

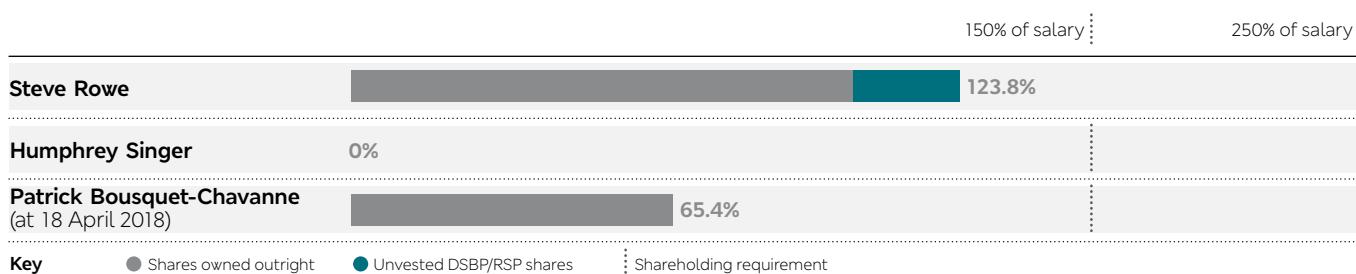
FIGURE 20: SHAREHOLDING REQUIREMENTS (AUDITED)

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 150% of salary. Similar guidelines of 100% of salary currently apply to all directors below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 30 March 2019, or date of retirement from the board. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee continues to keep both shareholding requirement guidelines and actual director shareholdings under review and will take appropriate action should they feel it to be necessary.

The Committee is aware of post-cessation shareholder requirements introduced under the 2018 Corporate Governance Code. Our existing share restrictions of a three-year deferral and two-year further holding period continue to apply post cessation of employment, resulting in a potential significant holding of shares following a director's departure. The approach towards shareholding requirements at M&S will be considered ahead of the in 2020 Remuneration Policy renewal and will take into account new shareholder guidance in this area.



EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (AUDITED)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme, and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible colleagues. Further details of the schemes are set out in note 13 to the financial statements on pages 114 to 116.

DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

Awards granted under the Company's Save As You Earn Scheme and the Executive Share Option Scheme are met by the issue of new shares when the options are exercised.

All other share plans are currently met by market purchase shares. The Company monitors the number of shares issued

under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 30 March 2019 is as follows:

FIGURE 20: ALL SHARE PLANS

Actual 4.42%

Limit 10%

FIGURE 21: EXECUTIVE SHARE PLANS

Actual 0%

Limit 5%

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 21: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 1 April 2018	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 30 March 2019 (or date of retirement)
Steve Rowe					
Performance Share Plan	1,430,660	654,704	21,387	239,439	1,824,538
Deferred Share Bonus Plan	179,231	0	59,556	0	119,675
SAYE	3,461	0	0	0	3,461
Total	1,613,352	654,704	80,943	239,439	1,947,674
Humphrey Singer					
Performance Share Plan	0	484,966	0	0	484,966
Deferred Share Bonus Plan	0	0	0	0	0
SAYE	0	0	0	0	0
Total	0	484,966	0	0	484,966
Patrick Bousquet-Chavanne					
Performance Share Plan	1,044,459	0	19,819	847,773	176,867
Deferred Share Bonus Plan	138,459	0	138,459	0	0
SAYE	3,448	0	0	3,448	0
Total	1,186,366	0	158,278	851,221	176,867

The aggregate gains of directors arising in the year from the exercise of awards granted under the PSP and DSBP totalled £707,782. The market price of the shares at the end of the financial year was 278.9p; the highest and lowest share price during the financial year were 314.5p and 242.4p respectively.

Patrick Bousquet-Chavanne retired from the Board on 18 April 2018 and left the Company on 31 May 2018. Details of his leaving arrangements are set out on page 72. His outstanding Deferred Share Bonus awards vested in full upon leaving, as reflected in the 'Exercised during the year' column. His outstanding Performance Share Plan awards were pro-rated for time held on leaving as shown in the 'Lapsed during the year' column.

Figure 22 shows the time horizons of outstanding discretionary share awards for all directors serving on the Board during the year.

FIGURE 22: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

		Maximum receivable at 30 March 2019 (all discretionary schemes)	2019/20		2020/21		2021/22	
			Maximum Receivable	Lapsed	Maximum Receivable	Lapsed	Maximum Receivable	Lapsed
Steve Rowe	Performance Share Plan	1,824,538	188,918	(366,722)	614,194	–	654,704	–
	Deferred Share Bonus Plan	119,675	32,376	–	87,299	–	–	–
Humphrey Singer	Performance Share Plan	484,966	–	–	–	–	484,966	–
	Deferred Share Bonus Plan	–	–	–	–	–	–	–
Patrick Bousquet-Chavanne	Performance Share Plan	176,867	60,135	(314,407)	0	(414,012)	–	–
	Deferred Share Bonus Plan	–	–	–	–	–	–	–

As reported on page 67, the 2016 PSP awards included within the totals shown in Figure 21 will vest at 34% in December 2019. This has been reflected above in the 2019/20 'Lapsed' column. In addition, and as detailed above, outstanding awards held by Patrick under the 2016 PSP were pro-rated for time held upon leaving. This is also reflected in the 2019/20 'Lapsed' column. In line with the Plan rules, upon leaving Patrick's PSP awards granted in 2017 lapsed in full. This is reflected above in the 2020/21 'Lapsed' column.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past ten years. The FTSE 100 has been chosen as the appropriate comparator as M&S is a constituent of this index. The calculation of TSR is in accordance with the relevant remuneration regulations. The table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last ten financial years.



CEO single figure of remuneration (£'000)	Steve Rowe	-	-	-	-	-	-	-	1,642	1,123	1,667
	Marc Bolland	-	5,998	3,324	2,142	1,568	2,095	2,015	-	-	-
	Stuart Rose	4,294	269	-	-	-	-	-	-	-	-
Annual bonus payment (% of maximum)	Steve Rowe	-	-	-	-	-	-	-	36.98%	0.00%	0.00%
	Marc Bolland	-	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%	-	-	-
	Stuart Rose	97.00%	57.40%	-	-	-	-	-	-	-	-
PSP vesting (% of maximum)	Steve Rowe	-	-	-	-	-	-	-	0.00%	8.20%	34.0%
	Marc Bolland	-	-	31.96%	0.00%	7.60%	4.70%	4.80%	-	-	-
	Stuart Rose	0.00%	0.00%	-	-	-	-	-	-	-	-

Marc Bolland was appointed CEO on 1 May 2010. His single figure for 2010/11 includes recruitment awards made to him at that time to compensate him for incentive awards forfeited on cessation from his previous employer. Stuart Rose undertook the role of CEO from 31 May 2004 to 30 April 2010.

FIGURE 24: PERCENTAGE CHANGE IN CEO'S REMUNERATION

Read more on p58

FIGURE 25: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company's expenditure on pay in comparison to profits before tax and distributions to shareholders by way of dividend payments and share buy back.

Total employee pay is the total pay for all Group employees. Group PBT before adjusting items has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

	2017/18 £m	2018/19 £m	% change
Total employee pay	1,578.9	1,511.0	-4.3%
Total returns to shareholders	303.4	303.5	0.0%
Group PBT before adjusting items	580.9	523.2	-9.9%

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 26: SERVICE AGREEMENTS

In line with our policy, directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

	Date of appointment	Notice period/unexpired term
Steve Rowe	02/04/2016	12 months/6 months
Humphrey Singer	09/07/2018	12 months/6 months

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2018/19

DIRECTORS APPOINTED TO THE BOARD

As reported in the 2017/18 report, **Humphrey Singer** was appointed to the Board on 9 July 2018 as Chief Finance Officer. His remuneration upon appointment was in line with the approved Recruitment Policy detailed on page 60 with a basic annual salary of £600,000. Humphrey receives neither a car allowance nor a pension cash allowance. The rest of Humphrey's incentive arrangements are aligned with that of an executive director. No share awards have been granted to Humphrey in relation to his appointment.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

As reported in the 2017/18 report, **Patrick Bousquet-Chavanne** retired from the Board on 18 April 2018 and left M&S on 31 May 2018. Remuneration terms on leaving were in line with the approved Remuneration Policy. Patrick was entitled to receive salary and benefits, including pension, by way of phased monthly payments from 1 June

2018 for a maximum of 12 months, subject to mitigation. As per the terms of the Policy, these payments ceased upon the commencement of his new employment on 4 August 2018. The Committee determined good leaver treatment in line with the Plan rules and therefore his unvested conditional shares granted under the Deferred Share Bonus Plan vested in full on leaving. Unvested conditional shares awarded under the 2015 and 2016 PSP were time pro-rated to 31 May 2018. As reported last year, 8.2% of PSP awards granted in 2015 vested in July 2018 at a value of £73,418. As detailed earlier in the report, 34% of PSP awards granted in 2016 will vest in December 2019 at an estimated value of circa £197,556 based on the average share price between 2 January 2019 and 29 March 2019 plus a dividend equivalent of £0.49 per share. The PSP award made in 2017 lapsed in full on leaving in accordance with the Plan rules. Patrick has no further outstanding awards.

PAYMENTS TO PAST DIRECTORS (audited)

Helen Weir retired from the Board on 31 March 2018 and had two outstanding awards under the PSP. In accordance with the rules of the Performance Share Plan, 8.2% of her 2015 award vested in July 2018 at a value of £74,666. As detailed earlier in the report, 34% of PSP awards granted in 2016 will vest in December 2019 at an estimated value of circa £188,361 based on the average share price between 2 January 2019 and 29 March 2019 plus a dividend equivalent of £0.49 per share. Helen has no further outstanding awards.

FIGURE 27: EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee. The fees in the table opposite reflect those earned by Humphrey Singer from his appointment to the Board on 9 July 2018 to the end of the 2018/19 financial year.

Any fees Patrick Bousquet-Chavanne received for his external non-executive director role for the period from 1 April 2018 to 18 April 2018 were retained by him and have not been communicated to the Company.

Director	Period earned	Company	Fee 000
Humphrey Singer	09/07/2018 – 30/03/2019	Taylor Wimpey	£57

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 28: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. Fees paid to the non-executive directors and Board Chairman for 2018/19 and 2017/18 are detailed in the table opposite.

During the year, these fees were reviewed. Taking into account relevant market data, and given fees have remained frozen since 2011 while responsibilities have increased, it was agreed that the basic non-executive and senior non-executive director fee will be increased by 2.5% to £71,500 and £102,500 respectively. The additional fee for chairing a committee will increase by 3.3% to £15,500. The total aggregate fee of the Board Chairman will be increased by 2% to £612,000. Increases will be effective from 1 July 2019 and are in line with increases seen across the wider workforce.

Fee levels will be reviewed again during 2019/20 as per the normal annual process.

Changes to the Board during the year are detailed below and are also reflected in the table opposite.

Director	Year	Basic fees £'000	Additional fees £'000	Benefits £'000	Total £'000
Archie Norman (from 1 September 2017)	2018/19	70	530	0	600
	2017/18	41	309	0	350
Andy Halford	2018/19	70	23	0	93
	2017/18	70	15	0	85
Alison Brittain	2018/19	70	0	0	70
	2017/18	70	0	0	70
Andrew Fisher	2018/19	70	8	0	78
	2017/18	70	0	0	70
Katie Bickerstaffe (from 10 July 2018)	2018/19	51	0	0	51
	2017/18	—	—	—	—
Pip McCrostie (from 10 July 2018)	2018/19	51	0	0	51
	2017/18	—	—	—	—
Justin King (from 1 January 2019)	2018/19	18	0	0	18
	2017/18	—	—	—	—
Vindi Banga (to 1 October 2018)	2018/19	35	15	0	50
	2017/18	70	30	0	100
Richard Solomons (to 10 July 2018)	2018/19	19	0	0	19
	2017/18	70	0	0	70

FIGURE 29: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. All non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company within two months of their appointment to the Board.

The table opposite details the shareholding of the non-executive directors who served

on the Board during the year as at 30 March 2019 (or upon their date of retiring from the Board), including those held by connected persons.

There have been no changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 21 May 2019.

Director	Number of shares held
Archie Norman	78,000
Andy Halford	21,000
Alison Brittain	5,096
Andrew Fisher	3,536
Katie Bickerstaffe	2,000
Pip McCrostie	6,000
Justin King	20,000
Vindi Banga	93,700
Richard Solomons	5,000

FIGURE 30: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice (six months' for the Chairman).

The table opposite sets out these terms for all current members of the Board.

Director	Date of appointment	Notice period/unexpired term
Archie Norman	01/09/2017	6 months/6 months
Andy Halford	01/01/2013	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Katie Bickerstaffe	10/07/2018	3 months/3 months
Pip McCrostie	10/07/2018	3 months/3 months
Justin King	01/01/2019	3 months/3 months

NON-EXECUTIVE DIRECTOR CHANGES TO THE BOARD DURING 2018/19

DIRECTORS APPOINTED TO THE BOARD

Katie Bickerstaffe and **Pip McCrostie** joined the Board as non-executive directors on 10 July 2018, as did **Justin King** on 1 January 2019. Katie, Pip and Justin receive the standard annual non-executive director fee of £70,000 and are members of the Nomination Committee. In addition to being appointed to the Nomination Committee, Katie is a member of the Remuneration Committee and Pip is a member of the Audit Committee.

ROLE CHANGES WITHIN THE BOARD

Upon Vindi Banga's retirement from the Board, **Andrew Fisher** became Chairman of the Remuneration Committee and **Andy Halford** was appointed to the role of Senior Independent Director. These appointments were effective on 1 October 2018 and from this date Andrew and Andy received additional fees in accordance with the increased responsibility of their roles as described in the Remuneration Policy on page 62.

DIRECTORS RETIRING FROM THE BOARD

Richard Solomons retired from the Board on 10 July 2018 and **Vindi Banga** retired from the Board on 1 October 2018. There were no payments for loss of office payable to Richard or Vindi.

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee agreed that while the broader Terms of Reference implemented following the detailed review in 2017/18 were working well, the publication of the final revisions to the 2018 Corporate Governance Code, along with the appointment of Andrew Fisher to Chairman of the Remuneration Committee, provided an excellent opportunity to undertake a further light touch review. The 2018/19 review primarily involved a sharpening and focusing of Committee activities along with a refinement and clarity of language.

The full Terms of Reference for the Committee can be found on the Company's website at marksandspencer.com/thecompany.

KEY RESPONSIBILITIES

The role of the Committee continues to have a strong focus on ensuring an appropriate alignment between executive directors and Operating Committee directors' remuneration with that of colleagues across M&S, ensuring the senior remuneration strategy and framework is strategically aligned with the business but that it also attracts and recognises the talent required to drive transformation and cultural change within M&S. Broadly, the responsibilities are as follows:

- Setting remuneration policy and practices that are designed to support strategy and promote the long-term success of M&S whilst following the below principles:
- **Clarity** – remuneration arrangements are transparent and promote effective engagement with shareholders and M&S colleagues;
- **Simplicity** – remuneration structures are uncomplicated with easy to understand rationale and operation;
- **Risk** – reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
- **Predictability** – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy;
- **Proportionality** – the link between individual awards, the delivery of strategy and the long-term performance of the Company is clear and that outcomes do not reward poor performance; and
- **Alignment to culture** – incentive schemes drive behaviours consistent with M&S's purpose, values and strategy.
- Determining the terms of employment and remuneration for the executive directors and Operating Committee directors, including recruitment and termination arrangements.
- Considering the appropriateness of the senior remuneration framework and exercising independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and the context of the wider workforce.

- Noting the total pay budgets including salary, bonus and share scheme allocations across all of M&S together with the principles of allocation to ensure appropriate consistency with the senior pay frameworks.
- Approving the design, targets and total payments for all performance-related pay schemes operated by M&S, seeking shareholder approval where necessary.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share-based incentive plan for the executive and Operating Committee directors.
- Receiving direct feedback from the Group's employee representative body, employee engagement surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and diversity & inclusion are considered.

REMUNERATION COMMITTEE AGENDA FOR 2018/19

REGULAR ITEMS

Pay arrangements

- Within the terms of the M&S Remuneration Policy, approval of the total individual remuneration packages for the executive directors and Operating Committee directors, and any termination payments where applicable.
- Consideration of the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Noting of the total budgeted salary expenditure across M&S for salary review, ensuring principles for reward allocation are aligned across M&S.

Annual Bonus Scheme

- Review of achievements against 2018/19 performance objectives for executive directors and Operating Committee directors.
- Approval of target for the 2019/20 Annual Bonus Scheme ensuring the performance conditions are transparent, stretching and rigorously applied.
- Approval of the 2019/20 performance objectives for executive directors and Operating Committee directors.
- Noting of the total budgeted expenditure for the Annual Bonus Scheme across M&S.

Performance Share Plan (PSP)

- Approval of the measures and targets for the 2019 PSP awards for the executive directors and Operating Committee directors following engagement with shareholders and other applicable stakeholders.
- Approval of vesting level of the 2016 PSP awards across M&S.

- Regular review of all in-flight performance share plans against targets.

Governance and external market

- Approval of the Directors' Remuneration Report for 2018/19 and review of the ACM voting outcome for the 2017/18 Report.
- Review of the Committee's performance in 2018/19, including assurance that the principles of the revised Terms of Reference and broader remit of the Committee are embedded.
- Assessment of the external market when considering remuneration arrangements for executive directors and Operating Committee directors.
- Noting of direct feedback from the Business Involvement Group 'BIG' M&S's employee representative body to ensure all employee views are received and considered by the Board when making Remuneration and Reward decisions.

REMUNERATION COMMITTEE ACTION PLAN 2019/20

- Full review of the M&S Remuneration Policy in anticipation of the binding shareholder vote at the 2019 AGM, ensuring the Policy continues to support the long-term success of M&S and is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice.

- Ensure the continued strategic alignment of the directors' incentive arrangements to support and drive M&S's transformation.
- Review the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.

- Review the effectiveness and transparency of remuneration reporting.

REMUNERATION COMMITTEE CONTINUED

FIGURE 31: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2018/19.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Andrew Fisher (Chairman)	1 October 2018	2	2	100%
Archie Norman	3 November 2017	5	5	100%
Katie Bickerstaffe	10 July 2018	3	3	100%
Vindi Banga (Chairman) (to 1 October 2018)	1 September 2011	3	3	100%
Richard Solomons (to 10 July 2018)	21 July 2015	2	2	100%

COMMITTEE ADVISERS

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by PwC during the year. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at remunerationconsultantsgroup.com.

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied that any conflicts are appropriately managed. PwC was appointed

by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £56,500 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

The Committee also seeks internal support from the CEO, Group General Counsel and Company Secretary, HR Director and Head of Performance & Reward as necessary. All may attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also reviews external survey and bespoke benchmarking data including that published by New Bridge Street (the trading name of Aon Hewitt Limited), KPMG, PwC, FIT Remuneration Consultants, Korn Ferry Hay Group and Willis Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER AND SHAREHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Performance & Reward, the Committee gives employees, through employee representatives, the opportunity to raise

questions or concerns regarding the remuneration of the executive directors. During the year, employee representatives were given the opportunity to discuss in detail the directors' pay arrangements. Details of the directors' pay arrangements were discussed in the context of the reward framework for the rest of the organisation and external factors; no concerns were

raised either during these discussions or subsequently.

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration, as demonstrated by recent engagement regarding 2019 Performance Share Plan targets.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2017/18 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 10 July 2018, 98.70% of shareholders voted in favour of approving the Directors' Remuneration Report for 2017/18. The Committee believes

this illustrates the strong level of shareholder support for the senior remuneration framework. As this was a non-policy renewal year, there was no

vote regarding the Remuneration Policy. The table below shows full details of the voting outcomes for the 2017/18 Directors' Remuneration Report.

FIGURE 32: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2017/18 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy (at the 2017 AGM)	1,020,561,621	99.08%	9,498,526	0.92%	2,368,960
2017/18 Remuneration Report (at the 2018 AGM)	1,009,866,132	98.70%	13,263,809	1.30%	19,095,928

APPROVED BY THE BOARD

ANDREW FISHER CHAIRMAN OF THE REMUNERATION COMMITTEE

London, 21 May 2019

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). Where required, data has been audited by Deloitte and this is indicated appropriately.

GOVERNANCE

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group").

The Directors' Report for the year ended 30 March 2019 comprises pages 34 to 80 and pages 158 to 159 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 33, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on pages 27 to 28.
- Details of branches operated by the Company on pages 8 to 14.
- Total global M&S greenhouse gas emissions 2018/19 on page 21.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

Information relating to financial instruments can be found on pages 121-130 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please refer to our Plan A Report, available online at marksandspencer.com/plana.

Other information to be disclosed in the Directors' Report is given in this section.

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R. Further information is available online at marksandspencer.com/thecompany.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	55-57 59-61 and 66-68

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 36 and 37. Changes to the directors during the year and up to the date of this report are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 69 and 73. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 70. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 114 to 116.

Name	Role	Effective date of departure/appointment
Departures		
Patrick Bousquet-Chavanne	Executive Director	18 April 2018
Richard Solomons	Non-Executive Director	10 July 2018
Vindi Banga	Non-Executive Director	1 October 2018
Appointments		
Humphrey Singer	Executive Director	9 July 2018
Katie Bickerstaffe	Non-Executive Director	10 July 2018
Pip McCrostie	Non-Executive Director	10 July 2018
Justin King	Non-Executive Director	1 January 2019

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board justifies its payment.

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next AGM where they will stand for annual election.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with Marks & Spencer, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 30 March 2019 and remain in force in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company. Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 30 March 2019 for the benefit of the Trustees of the Marks & Spencer UK Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £37.3m (last year £29.1m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.8p per share	
(last year 6.8p per share)	£110.3m
Proposed final dividend of 7.1p per share	
(last year 11.9p per share)	£115.4m
Total dividend of 13.9p per share for 2018/19	
(last year 18.7p per share)	£225.7m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 12 July 2019 to shareholders whose names were on the Register of Members at the close of business on 31 May 2019.

SHARE CAPITAL

The Company's issued ordinary share capital as at 30 March 2019 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 242,884 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 260p and 261p.

Details of movements in the Company's issued share capital can be found in note 24 to the financial statements on page 132.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

VARIATION OF RIGHTS

Subject to applicable statutes, rights attached to any class of share may be varied with the written consent of the holders of at least three-quarters in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2018 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 30 March 2019 and up to the date of this report.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2019 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2018 AGM to allot relevant securities up to a nominal amount of £135,397,323. This authority will apply until the conclusion of the 2019 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities

(i) up to a nominal amount of £162,504,984 and (ii) comprising equity securities up to a nominal amount of £325,009,968 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2020 or, if earlier, on 1 October 2020.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £24,375,748. In addition, this year a separate special resolution will be proposed, in line with institutional shareholder guidelines, to authorise the directors to make non pre-emptive issues for cash in connection with acquisitions/specify capital investments, up to a nominal amount of £24,375,748.

A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 195 million ordinary shares and sets the minimum and maximum prices which will be paid.

The Company is currently conducting a rights issue to raise up to £601.3m, the terms of which were announced on 22 May 2019, using authorities granted at the 2018 AGM. Further details are in the Company's announcement made on that date.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 30 March 2019, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Ordinary shares	% of capital disclosed	Nature of holding as per disclosure
Schroders plc	90,130,249	5.549	Indirect interest (5.547%), CFD (0.001%)
Majedie Asset Management Limited	81,070,667	4.99	Direct interest
Blackrock, Inc.	77,449,103	7.78	Indirect interest (4.76%), securities lending (2.53%), CFD (0.48%)
Ameriprise Financial, Inc. and its group	82,524,463	5.079	Indirect interest (5.054%), direct interest (0.025%)
The Bank of Nova Scotia	2,578,006	3.15	Direct interest (0.15%), swap (2.99%)

In the period from 30 March 2019 to the date of this report, we received no further notifications.

OTHER DISCLOSURES CONTINUED

DEADLINES FOR EXERCISING VOTING RIGHTS

Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. However, when calculating the 48-hour period, the directors can, and have, decided not to take account of any part of a day that is not a working day.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The £400m Medium Term Notes (MTN) issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 to various institutions and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The \$300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.

→ The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control, the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as practicable (while not being required to do anything that would breach such a third-party arrangement).

- Where a third-party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate the Relationship Agreement.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

COLLEAGUE INVOLVEMENT

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement, and information on our approach to our workforce, are highlighted throughout this Annual Report and specifically on pages 15 to 17 and on page 44.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. Approximately 18,969 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 114-116.

There are websites for both pension schemes – the defined contribution scheme (Your M&S UK Pension Saving Plan) and the defined benefit scheme (the Marks & Spencer UK Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, health condition, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

The directors support a business-wide inclusion strategy, with each member of the Operating Committee sponsoring an element of diversity, helping our employee-led diversity networks grow in numbers and strength and to embed a culture of inclusion across the organisation.

Further information on our diversity and inclusion initiatives can be found on page 47.

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with health conditions should have full and fair consideration for all vacancies.

M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work, and this year marked 15 years since we launched the Marks & Start programme.

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A Report, available online.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and The Groceries Supply Code of Practice (the "Code") impose obligations on M&S regarding its relationships with its suppliers of groceries. Under the Order and Code, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator (GCA).

M&S submitted its report, covering the period from 1 April 2018 to 30 March 2019, to the Audit Committee on 16 May 2019.

In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been seven instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and they have all now been resolved or closed. One additional Code reference made by a supplier before 1 April 2018 was also resolved during the reporting period.

A detailed summary of the compliance report is available on our website.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 30 March 2019. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 2 to 22 as well as the Group's principal risks and uncertainties as set out on pages 29 to 33.

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

⊕ See note 20 to the financial statements for more information on our facilities

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to March 2022. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

⊕ See our approach to assessing long-term viability on p28

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2019 ACM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, Wembley, London on 9 July 2019 at 11am. The Notice of Meeting is given, together with explanatory notes, on pages 146-157.

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy.

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 51.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable IFRS (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

OTHER DISCLOSURES CONTINUED

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, at any time and with reasonable accuracy, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

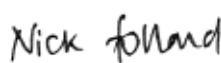
Each of the current directors, whose names and functions are listed on pages 36 and 37, confirms that, to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 21 May 2019 and signed on its behalf by



NICK FOLLAND GROUP GENERAL COUNSEL
AND COMPANY SECRETARY

London, 21 May 2019

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

IN OUR OPINION:

the financial statements of Marks and Spencer Group plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 March 2019 and of the Group's profit for the 52 weeks then ended;

the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows;
- the Reconciliations of movement in net debt and net debt to the Consolidated statement of financial position; and
- the related notes 1 to 30 and C1 to C6.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current year were:

- Disclosure of adjusting items;
- Accounting for the UK store rationalisation programme;
- Impairment of UK store assets;
- Inventory provisioning for UK Clothing & Home;
- Valuation of UK defined benefit obligation; and
- IFRS 16 Leases disclosures.

Within this report

Any new key audit matters are identified with 

Any key audit matters which are the same as the prior year identified with 

MATERIALITY

The materiality that we used for the Group financial statements was £20.0m (2018: £24.5m) using a benchmark of adjusted profit before tax but excluding the impact of certain adjusting items, as set out on page 88 of this report.

SCOPING

We performed a full scope audit on three components of the business (UK, India and Ireland) representing 99% of the Group's revenue, 95% of the Group's adjusted profit before tax, 92% of the Group's profit before tax, 80% of the Group's total assets, and 99% of the Group's total liabilities.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

→ Manual adjustments to reported revenue has been removed as a key audit matter on account of the quantum of adjustments applied and the limited scope of judgement involved; and

→ IFRS 16 Leases disclosures has been included as a key audit matter due to the inherent level of judgement involved in determining the quantum of the impact and the level of audit effort required in evaluating the appropriateness of the supporting disclosures.

INDEPENDENT AUDITOR'S REPORT CONTINUED

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

→ The disclosures on pages 29-33 that describe the principal risks and explain how they are being managed or mitigated;

→ The directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or

→ The directors' explanation on page 28 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether

or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audits, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER

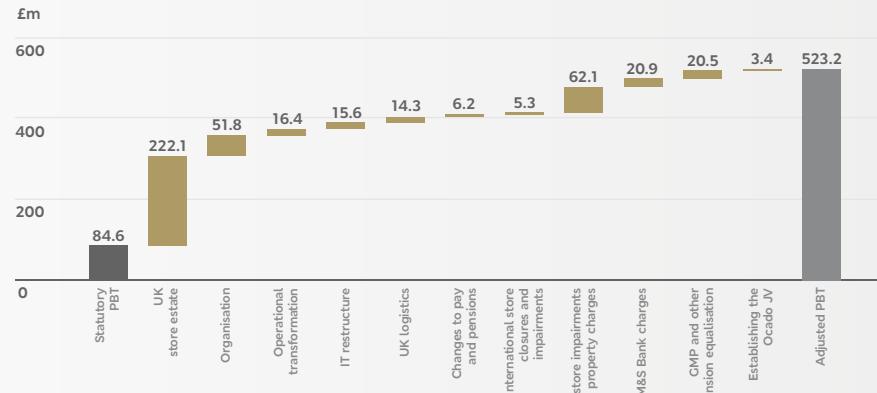
1 DISCLOSURE OF ADJUSTING ITEMS



KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profit before tax of £523.2m, which is derived from statutory profit before tax of £84.6m adjusted for a number of items which the Group considers meet their definition of an "adjusting item". Judgement is exercised by management in determining the classification of such items. This represents a significant matter considered by the Audit Committee on page 50.

Explanations of each adjusting item are set out in note 5 to the financial statements and are summarised in the graphic opposite:



In determining adjusted profit before tax, we identified the following risks:

- The identification and classification of items as "adjusting" may be inappropriate, distorting the reported results;
- The omission of items which are considered material, one-off or significant in nature, distorting the reported results; and
- The clarity and detail of disclosures in respect of adjusting items may be insufficient, precluding investors from obtaining a clear understanding of the Group's results and performance.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter, we completed the following audit procedures:

- Assessed the design and implementation of key controls pertaining to the identification and disclosure of adjusting items;
- Performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature;
- Assessed the identification and consistency of items reported as adjusting year on year in light of the latest guidance published by the European Securities and Markets Authority ('ESMA') and the FRC;
- Performed tests over a representative sample of adjusting items through agreement to supporting evidence;
- Used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which

displayed characteristics of being material, significant or one-off in nature; and

- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied that the items included in arriving at adjusted profit and the related disclosures within the financial statements are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME



KEY AUDIT MATTER DESCRIPTION

In February 2018 the Board approved a list of stores marked for closure as part of the UK store rationalisation programme, with a total charge of £321.1m recorded in the prior year in respect of impairment, accelerated depreciation and property exit costs. In the current year, a further charge of £222.1m has been recognised as a result of:

- Management revisiting its assessment of stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market;
- Further accelerated depreciation of stores identified for closure in the prior

year (as they approach their planned closure dates); and

- Accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme.

Further information is set out in notes 1 and 5 to the financial statements.

This represents a significant matter considered by the Audit Committee on page 50.

Our key audit matter was focused on the following areas of risk:

- Provisions encompassing onerous contracts, store strip-out costs, restructuring and dilapidations are incomplete or inaccurate;

→ Specific assumptions applied in management's discounted cash flow analysis, including the discount rate, sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs are inappropriate; and

- Significant property transactions such as disposals and lease surrenders are accounted for incorrectly.

We consider this to represent a key audit matter reflecting the level of judgement applied by management. Our audit work focused on assessing the Group's UK store exit model and evaluating the continued appropriateness of the key assumptions used in determining the extent of provisioning required.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter, we completed the following audit procedures:

- Assessed the design and implementation of key controls pertaining to the review and approval of the Group's UK store exit model;
- Performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings;
- Understood and challenged the basis of the Group's decisions where stores previously marked for closure are no longer expected to close;
- Evaluated the appropriateness of the Group's judgements for a representative sample of properties in consultation

with our internal real estate specialists and with reference to external benchmarking data;

- Assessed the mechanical accuracy of discounted cash flow models and other key provision calculations;

- Assessed the integrity of key inputs including lease data, agent valuations, surveyor plans and rental payments through agreement to supporting documentation;

- Recalculated the closing provision for a representative sample of stores and agreed any movement to the income statement;

- Evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and

- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied with the Group's estimate of the impairments and store exit charges recorded. Further, the disclosure of amounts recorded in the financial statements is appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

3 IMPAIRMENT OF UK STORE ASSETS



KEY AUDIT MATTER DESCRIPTION

As at 30 March 2019 the Group held £2,859.9m of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 *Impairment of Assets*, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £52.8m has been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

This represents a significant matter considered by the Audit Committee on page 50.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a

discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period, all of which involve a high degree of estimation uncertainty (as disclosed in note 1), particularly in light of current retail market conditions and the impact of wider economic uncertainty.

The key assumptions applied by management in the impairment reviews performed are:

- Future revenue growth and changes in gross margin;
- Long-term growth rates; and
- Discount rates.

The Group considers that each retail store constitutes its own cash-generating unit ("CGU"), with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to represent one CGU in aggregate.

The Group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during the first two years of trading to enable stores to establish themselves within the market.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter, we completed the following audit procedures:

- Assessed the design and implementation of key controls pertaining to the impairment review process;
- Evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter periods;
- Assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirement of IAS 36;
- Assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data;
- Assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- Evaluated the appropriateness and completeness of information included in the impairment models based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee

meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and

- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied that the judgements applied, the impairments recorded, and the related disclosures within the financial statements are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

4 INVENTORY PROVISIONING FOR UK CLOTHING & HOME



KEY AUDIT MATTER DESCRIPTION

As at 30 March 2019, the Group held UK Clothing & Home inventories of £496.1m (2018: £591.5m). As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value. As a result, judgement is applied in

determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale.

We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the quantum of gross inventory.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter, we completed the following audit procedures:

- Assessed the design and implementation of key controls pertaining to inventory management and the review and approval of the UK's inventory provision;
- Assessed the validity, accuracy and completeness of the information used by management in computing the provision;

- Assessed the mechanical accuracy and logic of the models underpinning the respective provisions;
- Understood any changes in the provisioning methodology and challenged the appropriateness thereof;
- Challenged and validated the key assumptions applied by management in estimating the provision by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, and by using audit analytics; and

- Tested the validity and completeness of the inventory flags and season codes applied to a representative sample of individual product lines.

Key observations

We concur that the judgements taken by management are appropriate and that the resultant level of inventory provisioning recorded in respect of UK Clothing & Home is acceptable.

KEY AUDIT MATTER

5 VALUATION OF UK DEFINED BENEFIT OBLIGATION



KEY AUDIT MATTER DESCRIPTION

As described in the Accounting Policies in note 1 and in note 11 to the financial statements, the Group has a defined benefit pension plan for its UK employees. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred membership on 1 April 2017.

As at 30 March 2019, the Group recorded a total (including the UK) net funded retirement benefit asset of £923.4m (2018: £959.7m), being the net of scheme assets of

£10,224.7m (2018: £9,989.3m) and scheme liabilities of £9,301.3m (2018: £9,029.6m). £9,175.1m of this liability relates to the UK scheme (2018: £8,907.6m).

Our key audit matter related to the valuation of UK scheme liabilities on account of the sensitivity to changes in key assumptions such as the discount rate, inflation and mortality estimates.

This represents a significant matter considered by the Audit Committee on page 50.

The setting of the assumptions identified above is complex and an area of significant judgement whereby changes in any of these assumptions could lead to a material movement in the net surplus. The increase/(decrease) in scheme surplus caused by a change in each of the key assumptions is set out in note 11 to the financial statements.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- Assessed the design and implementation of relevant controls pertaining to the estimation and valuation of the pension liability;
- Evaluated the appropriateness of the assumptions applied in the valuation of scheme liabilities, and the information contained within the supporting

actuarial valuation reports for each scheme in conjunction with our internal pension specialist team;

- Assessed the integrity of key inputs through agreement of a representative sample of membership scheme records;
- Performed sensitivity analysis on the key variables within the valuation model in accordance with external benchmarking data; and

- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied that the assumptions applied in determining the valuation of the defined benefit obligation are appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

6 IFRS 16 LEASES DISCLOSURES



KEY AUDIT MATTER DESCRIPTION

In advance of adopting IFRS 16 Leases from 31 March 2019, the Group has finalised its assessment of the impact that the new accounting standard will have on its statement of financial position. The expected impact of IFRS 16 as at 30 March 2019 is disclosed in note 1 to the financial statements. A number of judgements have been applied and estimates made in determining the impact of the standard.

This represents a significant matter considered by the Audit Committee on pages 50–51.

In order to compute the transition impact of IFRS 16, a significant data extraction

exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management's model. The incremental borrowing rate ("IBR") method has been adopted where the implicit rate of interest in a lease is not readily determinable.

Our key audit matter was focused on the following areas of risk:

→ Leasing arrangements within the scope of IFRS 16 are not identified or appropriately included in the calculation of the transitional impact;

- Specific assumptions applied to determine the discount rates for each lease are inappropriate;
- The underlying lease data used to calculate the transitional impact is incomplete and/or inaccurate;
- The mechanical accuracy of lease calculations is flawed; and
- The disclosures in the financial statements are insufficient, precluding investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter, we completed the following audit procedures:

- Assessed the design and implementation of key controls pertaining to the determination of the IFRS 16 transition impact disclosures;
- Assessed the appropriateness of the discount rates applied in determining lease liabilities with input from our valuation specialists;
- Verified the accuracy of the underlying lease data by agreeing a representative

sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;

→ Considered completeness by testing the reconciliation to the Group's operating lease commitments (disclosed per note 25 to the financial statements), and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and

- Assessed whether the disclosures within the financial statements are appropriate in light of the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Key observations

We are satisfied that the disclosure of the expected impact of IFRS 16 is in accordance with the Group's stated accounting policy and the related disclosure of these items per note 1 to the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OUR APPLICATION OF MATERIALITY

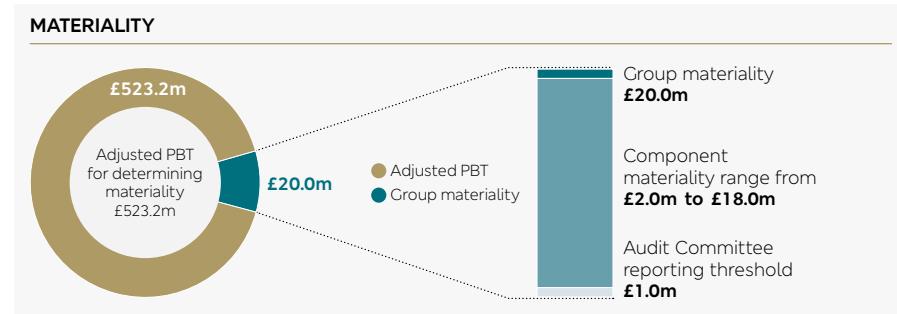
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

The materiality applied by component auditors for full scope audits ranged from £2.0m to £18.0m (2018: £2.2m to £22.1m) depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2018: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

	Group financial statements	Parent company financial statements
Materiality	£20.0m (2018: £24.5m)	£18.0m (2018: £22.1m)
Basis for determining materiality	The principal measure considered in both the current and prior year was a benchmark of 5% of adjusted profit before tax but excluding the impact of certain adjusting items, which would give a materiality of £21.5m. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: → M&S Bank charges (PPI) – £20.9m → UK logistics – £14.3m → UK store impairments and associated charges within £62.1m adjusting item in note 5 – £52.8m	We used 3% of net assets as the basis of materiality and then further capped this at 90% of Group materiality.
Rationale for the benchmark applied	In light of recent trading performance, the continued challenging market conditions in which the Group operates, and the broader level of uncertainty associated with the UK's exit from the European Union we applied professional judgement to reduce materiality to £20.0m.	The Parent Company acts principally as a holding company and therefore net assets is deemed a key measure.



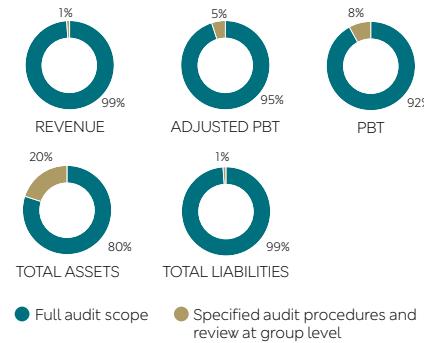
AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on our assessment, and consistent with the prior year, we focused our group audit scope on the retail businesses in the UK, India and Ireland, which were subject to a full audit. We also performed audit procedures on specific balances for the remaining store exit provisions in France. This work was performed by the group audit team.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. While we audit the revenues received by the Group from franchise operations, which account for 4% (2018: 3%) of the Group's revenue, we do not audit the underlying franchise operations as part of our group audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



The most significant component of the Group is its retail business in the UK, which accounts for 91% (2018: 90%) of the Group's reported revenue of £10,377.3m (2018: £10,698.2m, and generates operating profit of £52.8m (2018: £23.2m). The group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the group audit team conducted 10 distribution centre and 25 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

We operate a programme of planned visits to overseas locations such that a senior member of the group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT CONTINUED

The programme of visits in the current and prior year is set out below.

Component	2018 (Last year)	2019 (This year)
India	✓	✓
Republic of Ireland		✓

In addition to our programme of planned visits, we issue detailed referral instructions to our component audit teams, engage regularly with them in our audit team briefings, consider and discuss the appropriateness of their local risk assessment, attend closing meetings

with them and component management teams, and review their component reporting. A dedicated member of the group audit team is assigned to facilitate an effective and consistent approach to component oversight.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are

required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

→ *Fair, balanced and understandable* – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially

inconsistent with our knowledge obtained in the audit; or

→ *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

→ *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as

applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

→ Enquiring of management, Internal Audit, internal legal counsel, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:

→ Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

INDEPENDENT AUDITOR'S REPORT CONTINUED

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD CONTINUED

<ul style="list-style-type: none">→ Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;→ The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to Groceries Supply Code of Practice ("GSCOP") requirements;→ Discussing among the engagement team, including significant component audit teams and involving relevant internal specialists, including tax, valuations, real estate, pensions and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the disclosure of adjusting items; and→ Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the Listing	<p>Rules, UK Corporate Governance Code, pensions legislation and UK and overseas tax legislation. The key laws and regulations which had a fundamental effect on the operations of the Group included GSCOP, employment law and health and safety legislation.</p>	<ul style="list-style-type: none">→ Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;→ Reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with HMRC; and→ In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
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AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the disclosure of adjusting items as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect;
- Enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

OTHER MATTERS

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial

periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the periods ending 28 March 2015 to 30 March 2019.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

IAN WALLER (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
STATUTORY AUDITOR, LONDON, UNITED KINGDOM

21 May 2019

CONSOLIDATED INCOME STATEMENT

Notes	52 weeks ended 30 March 2019			52 weeks ended 31 March 2018		
	Profit before adjusting items £m	Adjusting items £m	Total £m	Profit before adjusting items £m	Adjusting items £m	Total £m
Revenue	2,3	10,377.3	–	10,377.3	10,698.2	–
Operating profit	2,3,5	601.0	(438.6)	162.4	670.6	(514.1)
Finance income	6	33.8	–	33.8	24.1	–
Finance costs	6	(111.6)	–	(111.6)	(113.8)	–
Profit before tax	4,5	523.2	(438.6)	84.6	580.9	(514.1)
Income tax expense	7	(106.0)	58.7	(47.3)	(125.4)	87.7
Profit for the year		417.2	(379.9)	37.3	455.5	(426.4)
Attributable to:						
Owners of the parent		413.4	(379.9)	33.5	452.1	(426.4)
Non-controlling interests		3.8	–	3.8	3.4	–
		417.2	(379.9)	37.3	455.5	(426.4)
Basic earnings per share	8	25.4p		2.1p	27.8p	1.6p
Diluted earnings per share	8	25.4p		2.1p	27.8p	1.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Notes	52 weeks ended 30 March 2019		52 weeks ended 31 March 2018	
	£m	£m	£m	£m
Profit for the year			37.3	29.1
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement benefit schemes		11	(79.9)	200.9
Tax credit/(charge) on items that will not be reclassified			14.0	(39.0)
			(65.9)	161.9
Items that will be reclassified subsequently to profit or loss				
Foreign currency translation differences				
– movements recognised in other comprehensive income			(15.4)	(23.4)
– reclassified and reported in profit and loss			–	(36.2)
Revaluation of available for sale asset			–	6.9
Cash flow hedges and net investment hedges				
– fair value movements in other comprehensive income			132.0	(208.7)
– reclassified and reported in profit or loss			(16.0)	85.0
– amount recognised in inventories			–	57.5
Tax (charge)/credit on cash flow hedges and net investment hedges			(19.0)	19.7
			81.6	(99.2)
Other comprehensive income for the year, net of tax			15.7	62.7
Total comprehensive income for the year			53.0	91.8
Attributable to:				
Owners of the parent			49.2	88.4
Non-controlling interests			3.8	3.4
			53.0	91.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 March 2019 £m	As at 31 March 2018 £m
Assets			
Non-current assets			
Intangible assets	14	499.9	599.2
Property, plant and equipment	15	4,028.5	4,393.9
Investment property		15.5	15.5
Investment in joint ventures		4.0	7.0
Other financial assets	16	9.9	9.9
Retirement benefit asset	11	931.5	970.7
Trade and other receivables	17	200.7	209.0
Derivative financial instruments	21	19.8	27.1
		5,709.8	6,232.3
Current assets			
Inventories		700.4	781.0
Other financial assets	16	141.8	13.7
Trade and other receivables	17	322.5	308.4
Derivative financial instruments	21	40.3	7.1
Cash and cash equivalents	18	285.4	207.7
		1,490.4	1,317.9
Total assets		7,200.2	7,550.2
Liabilities			
Current liabilities			
Trade and other payables	19	1,461.3	1,405.9
Partnership liability to the Marks & Spencer UK Pension Scheme	12	71.9	71.9
Borrowings and other financial liabilities	20	513.1	125.6
Derivative financial instruments	21	7.3	73.8
Provisions	22	148.6	98.8
Current tax liabilities		26.2	50.0
		2,228.4	1,826.0
Non-current liabilities			
Retirement benefit deficit	11	17.2	22.5
Trade and other payables	19	322.4	333.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	200.5	263.6
Borrowings and other financial liabilities	20	1,279.5	1,670.6
Derivative financial instruments	21	2.8	30.7
Provisions	22	250.1	193.1
Deferred tax liabilities	23	218.4	255.7
		2,290.9	2,770.0
Total liabilities		4,519.3	4,596.0
Net assets		2,680.9	2,954.2
Equity			
Issued share capital	24	406.3	406.2
Share premium account		416.9	416.4
Capital redemption reserve		2,210.5	2,210.5
Hedging reserves		(2.9)	(65.3)
Other reserve		(6,542.2)	(6,542.2)
Foreign exchange reserve		(44.7)	(29.3)
Retained earnings		6,237.1	6,560.4
Total shareholders' equity		2,681.0	2,956.7
Non-controlling interests in equity		(0.1)	(2.5)
Total equity		2,680.9	2,954.2

The financial statements were approved by the Board and authorised for issue on 21 May 2019. The financial statements also comprises notes 1 to 30.

Steve Rowe Chief Executive Officer

Humphrey Singer Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve ² £m	Cost of hedging £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ³ £m	Total £m	Non- controlling interest £m	Total £m
As at 2 April 2017	406.2	416.4	2,210.5	17.3	–	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4
Profit for the year	–	–	–	–	–	–	–	25.7	25.7	3.4	29.1
Other comprehensive (expense)/income:											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	0.2	–	–	(23.6)	–	(23.4)	–	(23.4)
– reclassified and reported in profit or loss	–	–	–	–	–	–	(36.2)	–	(36.2)	–	(36.2)
Revaluation of available for sale asset	–	–	–	–	–	–	–	6.9	6.9	–	6.9
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	200.9	200.9	–	200.9
Tax charge on items that will not be reclassified	–	–	–	–	–	–	–	(39.0)	(39.0)	–	(39.0)
Cash flow hedges and net investment hedges											
– fair value movements in other comprehensive income	–	–	–	(211.0)	–	–	–	2.3	(208.7)	–	(208.7)
– reclassified and reported in profit or loss	–	–	–	51.0	–	–	–	34.0	85.0	–	85.0
– amount recognised in inventories	–	–	–	57.5	–	–	–	–	57.5	–	57.5
Tax on cash flow hedges and net investment hedges	–	–	–	19.7	–	–	–	–	19.7	–	19.7
Other comprehensive income/(expense)	–	–	–	(82.6)	–	–	(59.8)	205.1	62.7	–	62.7
Total comprehensive income/(expense)	–	–	–	(82.6)	–	–	(59.8)	230.8	88.4	3.4	91.8
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(303.4)	(303.4)	–	(303.4)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–
Shares issued on exercise of employee share options	–	–	–	–	–	–	–	–	–	–	–
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(3.1)	(3.1)	–	(3.1)
Credit for share-based payments	–	–	–	–	–	–	–	18.5	18.5	–	18.5
Deferred tax on share schemes	–	–	–	–	–	–	–	–	–	–	–
As at 31 March 2018	406.2	416.4	2,210.5	(65.3)	–	(6,542.2)	(29.3)	6,560.4	2,956.7	(2.5)	2,954.2
As at 1 April 2018	406.2	416.4	2,210.5	(65.3)	–	(6,542.2)	(29.3)	6,560.4	2,956.7	(2.5)	2,954.2
Adjustment on initial application of IFRS 9 (note 29)	–	–	–	(10.7)	10.7	–	–	(0.5)	(0.5)	–	(0.5)
Adjusted opening shareholders equity	406.2	416.4	2,210.5	(76.0)	10.7	(6,542.2)	(29.3)	6,559.9	2,956.2	(2.5)	2,953.7
Profit for the year	–	–	–	–	–	–	–	33.5	33.5	3.8	37.3
Other comprehensive (expense)/income:											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	(15.4)	–	(15.4)	–	(15.4)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	(79.9)	(79.9)	–	(79.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	–	–	14.0	14.0	–	14.0
Cash flow hedges and net investment hedges											
– fair value movement in other comprehensive income	–	–	–	130.5	1.5	–	–	–	132.0	–	132.0
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	–	–	(16.0)	–	(16.0)
Tax on cash flow hedges and net investment hedges	–	–	–	(18.5)	(0.5)	–	–	–	(19.0)	–	(19.0)
Other comprehensive income/(expense)	–	–	–	96.0	1.0	–	(15.4)	(65.9)	15.7	–	15.7
Total comprehensive income/(expense)	–	–	–	96.0	1.0	–	(15.4)	(32.4)	49.2	3.8	53.0
Cash flow hedges recognised in inventories	–	–	–	(42.7)	–	–	–	–	(42.7)	–	(42.7)
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	–	–	8.1	–	8.1
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(303.5)	(303.5)	–	(303.5)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	(1.4)	(1.4)
Shares issued on exercise of employee share options	0.1	0.5	–	–	–	–	–	–	0.6	–	0.6
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(5.5)	(5.5)	–	(5.5)
Credit for share-based payments	–	–	–	–	–	–	–	19.2	19.2	–	19.2
Deferred tax on share schemes	–	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
As at 30 March 2019	406.3	416.9	2,210.5	(14.6)	11.7	(6,542.2)	(44.7)	6,237.1	2,681.0	(0.1)	2,680.9

- The "Other reserve" was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.
- Amounts "reclassified and reported in profit or loss" in 2017/18 includes the revaluation of the cross currency swaps, offsetting the revaluation of the USD hedged bonds within finance costs.
- Included within Retained Earnings is the fair value through other comprehensive income reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flows from operating activities			
Cash generated from operations	26	1,041.0	944.1
Income tax paid		(105.7)	(94.3)
Net cash inflow from operating activities		935.3	849.8
Cash flows from investing activities			
Proceeds on property disposals		48.1	3.2
Purchase of property, plant and equipment		(217.8)	(274.9)
Proceeds on disposal of Hong Kong business		–	22.9
Purchase of intangible assets		(95.1)	(74.3)
(Purchase)/sale of current financial assets		(128.1)	0.8
Interest received		7.4	6.0
Purchase of investment in joint venture		(2.5)	–
Net cash used in investing activities		(388.0)	(316.3)
Cash flows from financing activities			
Interest paid ¹		(86.4)	(112.2)
Cash outflow from borrowings		(46.7)	–
Cash inflow from borrowings		–	43.8
Payment of obligations under finance leases		(3.3)	(2.6)
Payment of liability to the Marks & Spencer UK Pension Scheme		(61.6)	(59.6)
Equity dividends paid		(303.5)	(303.4)
Shares issued on exercise of employee share options		0.6	0.1
Purchase of own shares by employee trust		(5.5)	(3.1)
Issuance/(redemption) of Medium Term Notes		1.4	(328.2)
Net cash used in financing activities		(505.0)	(765.2)
Net cash inflow/(outflow) from activities		42.3	(231.7)
Effects of exchange rate changes		(0.2)	(3.5)
Opening net cash		171.0	406.2
Closing net cash	27	213.1	171.0

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		(1,827.5)	(1,934.7)
Net cash inflow/(outflow) from activities		42.3	(231.7)
Increase/(decrease) in current financial assets		128.1	(0.8)
Decrease in debt financing		110.2	346.6
Exchange and other non-cash movements		1.8	(6.9)
Movement in net debt		282.4	107.2
Closing net debt	27	(1,545.1)	(1,827.5)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the Company) is a public Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Group and the nature of the Group's operations is as a Clothing and Home and Food retailer.

These financial statements are presented in Sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest million. Foreign operations are included in accordance with the policies set out within this note.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 30 March 2019.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 from the requirement to prepare and deliver financial statements in accordance with the Companies Act.

New accounting standards adopted by the Group

There have been significant changes to accounting under IFRS which have affected the Group's financial statements. New standards and interpretations effective for periods commencing on or after 1 January 2018 and therefore applicable to the Group's financial statements for the 52 weeks ended 30 March 2019 are listed below:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 4 Insurance Contracts regarding the implementation of IFRS 9 Financial Instruments.
- Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Amendments to IAS 40 Transfer of Investment Property.
- Amendments to IFRS 2 Share-Based Payments, on clarifying how to account for certain types of share-based payment transactions.
- Annual improvements to IFRS Standards 2014-2016 Cycle (certain items effective from 1 January 2017).

With the exception of the adoption of IFRS 9 and IFRS 15, the adoption of the above standards and interpretations has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard is effective for periods commencing on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard introduces changes to three key areas:

→ New requirements for the classification and measurement of financial instruments.

→ A new impairment model based on expected credit losses for recognising provisions.

→ Simplified hedge accounting through closer alignment with an entity's risk management methodology.

The adoption of IFRS 9 has not had a material impact on either the Consolidated Income Statement or the Consolidated Statement of Financial Position. The Group has adopted IFRS 9 using the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives. The impact of the adoption of the new standard is shown in note 29 which includes additional disclosures relating to hedge accounting (including a new cost of hedging reserve), credit risk management and impairment of financial assets.

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group's share of profits for the prior period includes the post-implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9 which had an immaterial impact in the prior period.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the previous accounting standard. Due to the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 has not had a material impact on the timing or nature of the Group's revenue recognition.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset representing the right to recover products from the customer is also recognised. There is no change to the Group's revenue recognition under IFRS 15. However, the refund provision was previously recorded on a net basis within Current Liabilities and therefore on adoption of IFRS 15 the Group was required to adjust inventories and the refund provision to a gross basis.

The Group has adopted IFRS 15 using the modified transition approach and has therefore not restated the prior period comparatives for the separate recognition of the refund asset and the increase in the refund provision.

In addition to the changes to the accounting policies, the Group is required to disclose how the adoption of the new accounting standard has affected the financial statements. There is no impact on the Consolidated Income Statement, however the impact on the Consolidated Statement of Financial Position for the change in accounting for the refund provision is as follows:

At 30 March 2019, the refund provision on the balance sheet was accounted for on the gross basis under IFRS 15. There is a liability of £22.2m and a related refund asset of £8.9m. If accounted for on a net basis, the refund provision on the balance sheet would be £13.3m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

New accounting standards in issue but not yet effective

New standards and interpretations effective for periods commencing on or after 1 January 2019 and therefore applicable to the Group for the 52 weeks ending 28 March 2020 are listed below:

- Annual improvements to IFRS Standards 2015-2017 Cycle.
- Amendments to IFRS 9 Financial Instruments, on prepayment features with negative compensation.
- Amendments to IAS 28 Investments in Associates, on long term interests in associates and joint ventures.
- Amendments to IAS 19 Employee Benefits on plan amendment, curtailment or settlement.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- IFRS 16 Leases.

With the exception of the adoption of IFRS 16, the adoption of the above standards and interpretations will not lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019. The financial statements for the 52 weeks ending 28 March 2020 will be the first prepared under IFRS 16. The Group has decided to adopt using the fully retrospective transition approach meaning the comparative period will also be restated at this time.

Impact of application of IFRS 16 Leases

As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right of use asset and corresponding liability for future lease payables. The right of use asset will be subsequently depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability. This will result in earlier recognition of expense for leases currently classified as operating leases, although over the life of a lease the total expense recognised will not change.

Right of use assets recognised by the Group comprise of property, motor vehicles and equipment, including those in scope under certain logistics contracts. The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets, and lease payments associated with those assets will be recognised as an expense on a straight-line basis. In addition, amounts for leases with variable consideration, such as turnover leases, will continue to be recognised on a straight-line basis.

As a lessor, subleases previously classified as operating must be reassessed in consideration of the remaining contractual term and conditions with reference to the right of use asset arising from the head lease. The Group will reclassify certain sublease agreements as finance leases and recognise a net investment in lease, resulting in a change in timing of recognition of sublease income.

There will be a significant impact on the balance sheet as at 31 March 2019. It is expected on a pre-tax basis that a right of use asset of approximately £1.7bn and lease liability of approximately £2.6bn will be recognised, along with the derecognition of onerous lease provisions of approximately £0.2bn and other working capital balances (including lease incentives) of approximately £0.4bn, which results in an overall adjustment to retained earnings of approximately £0.3bn.

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the relative maturity of the lease portfolio. Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

→ Profit before tax when applying IFRS 16 is c.£10m higher than that reported in these financial statements under current accounting standards, including IAS 17 Leases.

→ Profit before tax excluding adjusting items is c.£10m lower.

→ Operating profit before tax and adjusting items is c.£130m higher.

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral.

The Group has had in place a working group and steering committee to assess the impact and oversee the implementation of the new standard. The adoption of the new standard is nearing completion, including the implementation of appropriate internal controls and a governance framework to ensure the requirements of the new standard continue to be met including an assessment of new contracts requiring judgement as to whether they are in scope of the standard.

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures (APMs), which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like revenue growth; like-for-like revenue growth adjusted for Easter; management gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt; free cash flow; and return on capital employed. Each of these APMs, and others used by the Group, are set out in the Glossary including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 30 March 2019:

→ Net charges associated with the strategic programme in relation to the review of the UK store estate.

→ Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.

→ Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices.

→ Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Alternative Performance Measures continued

- Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (CMP) and other pension equalisation.
- Significant costs arising from establishing the new joint venture with Ocado.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Other adjusting items, in the prior year, including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

Refer to note 5 for a summary of the adjusting items.

A summary of the Company's and the Group's accounting policies is given below.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except for the revaluation of financial instruments (including derivative instruments) and defined benefit pension schemes which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the period end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Company has control. Control is achieved when the Company has the power over the subsidiary; is exposed, or has rights to, variable returns from its involvement with the subsidiary; and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

2018 (IAS 18): Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered to our franchise partners or the customer and the significant risks and rewards of ownership have been transferred to the buyer.

2019 (IFRS 15): Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

The Group enters into agreements which entitle other parties to operate under the Marks & Spencer brand name for certain activities and operations, such as M&S Bank and M&S Energy. These contracts give rise to performance-based variable consideration. Income dependent on the performance of the third party operations is recognised when it is highly probable that a significant reversal in the amount of income recognised will not occur, and presented as other operating income.

Supplier income

In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

The types of supplier income recognised by the Group and the associated recognition policies are:

A. Promotional contribution Includes supplier contributions to promotional giveaways and pre-agreed contributions to annual "spend and save" activity.

Income is recognised as a deduction to cost of sales over the relevant promotional period. Income is calculated and invoiced at the end of the promotional period based on actual sales or according to fixed contribution arrangements. Contributions earned but not invoiced are accrued at the end of the relevant period.

B. Volume-based rebates Includes annual growth incentives, seasonal contributions and contributions to share economies of scale resulting from moving product supply.

Annual growth incentives are calculated and invoiced at the end of the financial year, once earned, based on fixed percentage growth targets agreed for each supplier at the beginning of the year. They are recognised as a reduction in cost of sales in the year to which they relate. Other volume-based rebates are agreed with the supplier and spread over the relevant season/contract period to which they relate. Contributions earned but not invoiced are accrued at the end of the relevant period.

Uncollected supplier income at the balance sheet date is classified within the financial statements as follows:

A. Trade and other payables The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the legal right and intention to offset these balances.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Supplier income continued

B. Trade and other receivables Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

M&S Bank

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions

Funded pension plans are in place for the Group's UK employees and some employees overseas.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method. An asset can be recognised as in the event of a plan wind up, the pension scheme rules provide the Group with an unconditional right to a refund of surplus assets assuming a full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind-up or change the benefits due to the members of the scheme. As a result, any net surplus in the UK Defined Benefit (DB) scheme is recognised in full.

The service cost of providing retirement benefits to employees during the year, together with the cost of any curtailment, is charged to operating profit in the year. The Group no longer incurs any service cost or curtailment costs related to the UK DB pension scheme as the scheme is closed to future accrual.

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements, being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in other comprehensive income.

During the prior year the UK defined benefit pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS 19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in other comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense on an accruals basis.

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

B. Brands Acquired brand values are held on the statement of financial position initially at cost. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Brands are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 10 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values on a straight line basis as follows:

- Freehold land – not depreciated.
- Freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives.
- Leasehold buildings with a remaining lease term of less than 50 years – depreciated over the shorter of their useful economic lives or the remaining period of the lease.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is recognised within the income statement.

Leasing

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent-free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments

Payments made to acquire leasehold land and buildings are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that the cost is initially established by reference to the hedged exchange rate and not the spot rate at the day of purchase.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed at each reporting period and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is recognised in other comprehensive income or directly in equity.

Provision is made for uncertain tax positions when it is considered probable that there will be a future outflow of funds to a tax authority. The provision is calculated using the single best estimate where that outcome is more likely than not and a weighted average probability in other circumstances. The position is reviewed on an ongoing basis, to ensure appropriate provision is made for each known tax risk.

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade and other receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts was recognised under an "incurred loss" model until 1 April 2018 and therefore it was dependent upon the existence of an impairment event. From 1 April 2018, the allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments with a maturity date of over 90 days and are classified as either "fair value through other comprehensive income" ("available for sale" for periods before 1 April 2018) or "fair value through profit and loss". Financial assets held at fair value through other comprehensive income or available for sale for the periods before 1 April 2018 are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as "fair value through profit and loss", gains and losses arising from changes in fair value are included in the income statement for the period.

For equity investments at "fair value through comprehensive income", gains or losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income is included directly in retained earnings and is not recycled to the income statement. For the periods before 1 April 2018, the gains or losses accumulated at the time of sale or impairment are recycled to the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Financial instruments continued

For debt instruments at "fair value through comprehensive income" or "available for sale" in the periods before 1 April 2018, gains and losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period. Until 1 April 2018, debt securities were deemed impaired based on whether an impairment trigger happened and it resulted in an incurred loss. From 1 April 2018, impairments in debt securities are recognised based on management's expectation of losses in each investment ("expected credit loss" model).

Until 1 April 2018, equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost. From 1 April 2018, all equity investments must be measured at fair value under IFRS 9.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps, cross-currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge).
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).
- A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions and prospective effectiveness testing is performed.

During the life of the hedging relationship, prospective effectiveness testing is performed (before 1 April 2018, both prospective and retrospective tests were required) to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income. From 1 April 2018, the element of the change in fair value which relates to the currency spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve (in the period before 1 April 2018, the entire change in fair value was recognised in the hedging reserve) and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in other comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges Changes in the fair value of a derivative instrument designated in a fair value hedge, or for non-derivatives the foreign currency component of carrying value, are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur. From 1 April 2018 the Group cannot voluntarily de-designate a hedging relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value of the hedging instruments are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to the income statement for the period.

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation uncertainty

When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment.

The Group does not use derivatives to hedge income statement translation exposures.

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the Glossary. These definitions have been applied consistently year on year.

Note 5 provides further details on current year adjusting items and their adherence to Group policy.

UK Defined Benefit pension surplus

Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK Defined Benefit scheme is in surplus at 30 March 2019. The directors have made the judgement that these amounts meet the requirements of recoverability and a surplus of £931.5m has been recognised.

Key sources of estimation uncertainty

UK store estate The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £222.1m (last year £321.1m) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs.
- Estimation of the sale proceeds for freehold stores which is dependent upon location specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.
- Estimation of future contractual lease costs to be incurred including uncertainty with regards to the cost of termination, potential sub-let (including estimation of nature, timing and value including any potential void periods and based on assessment of location specific retail property market factors).

See notes 5 and 15 for further detail.

Property provision The Group has a number of property provisions totalling £345.8m at 30 March 2019 (last year: £233.3m), which include amounts in respect of onerous leases and sublet shortfalls. The net present value of the future onerous leases and sublet shortfalls has been provided for based on the contracted future cash flows, assumptions related to sublet income (including periods where properties are not sublet) and lease incentives, and discounted to reflect the time value of money, with adjustments for credit risk where it is not included in the underlying cash flows.

Included within these provisions is a sublet shortfall of £89.2m for surplus office space in the Merchant Square building in London, which is sublet for the remaining duration of the lease. The valuation of the provision is sensitive to movements in the discount rate, or to an event of default by the subtenant. If an event of default had occurred at 30 March 2019 and no alternative sublet income was assumed, the provision would have increased by £65.2m. In this event, the Group would seek alternative subtenants for the property.

Across all property provisions, an increase in the discount rate of 25bps would decrease the provision by £5.6m.

Useful lives and residual values of property, plant and equipment and intangibles Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate section above for specific sources of estimation uncertainty in relation to the useful lives and residual values of property, plant and equipment for stores identified as part of the UK store estate programme.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Key sources of estimation uncertainty continued

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite lived brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. In calculating the discount rate the Group has taken into account volatility in the inputs to the calculation that are reflective of the market uncertainty for Brexit.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate

programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles particularly where the store carrying value exceeds fair value less cost to sell. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

Post-retirement benefits The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, pensionable salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

The UK segment consists of the UK retail business, UK franchise operations, M&S Bank and M&S Energy. The International segment consists of Marks & Spencer owned businesses in Europe and Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit referred to as management group operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

The following is an analysis of the Group's revenue and results by reportable segment:

	52 weeks ended 30 March 2019			52 weeks ended 31 March 2018 (restated ³)				
	Management ¹ £m	Logistics Adjustment ² £m	Adjusting items £m	Statutory £m	Management ¹ £m	Logistics Adjustment ² £m	Adjusting items £m	Statutory £m
Food revenue	5,903.4	—	—	5,903.4	5,940.0	—	—	5,940.0
Clothing & Home revenue	3,537.3	—	—	3,537.3	3,671.0	—	—	3,671.0
UK revenue	9,440.7	—	—	9,440.7	9,611.0	—	—	9,611.0
Franchised	409.1	—	—	409.1	360.6	—	—	360.6
Owned	527.5	—	—	527.5	726.6	—	—	726.6
International revenue	936.6	—	—	936.6	1,087.2	—	—	1,087.2
Group revenue	10,377.3	—	—	10,377.3	10,698.2	—	—	10,698.2
Food gross profit ³	1,834.7				1,854.8			
Clothing & Home gross profit ³	2,021.2				2,090.6			
UK gross profit ³	3,855.9	(384.9)	—	3,471.0	3,945.4	(370.0)	—	3,575.4
UK operating costs	(3,409.6)	384.9	(400.3)	(3,425.0)	(3,450.3)	370.0	(477.5)	(3,557.8)
M&S Bank	27.6	—	(20.9)	6.7	40.3	—	(34.7)	5.6
M&S Energy	0.1	—	—	0.1	—	—	—	—
UK operating profit	474.0	—	(421.2)	52.8	535.4	—	(512.2)	23.2
International operating profit	127.0	—	(17.4)	109.6	135.2	—	(1.9)	133.3
Group operating profit	601.0	—	(438.6)	162.4	670.6	—	(514.1)	156.5
Finance income	33.8	—	—	33.8	24.1	—	—	24.1
Finance costs	(111.6)	—	—	(111.6)	(113.8)	—	—	(113.8)
Profit before tax	523.2	—	(438.6)	84.6	580.9	—	(514.1)	66.8

1. Management profit excludes the adjustments (income and charges) made to reported profit before tax that are significant in value and/or nature (see note 5 – adjusting items). Refer to the accounting policy in note 1 and the glossary for more details on these adjustments.
2. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £384.9m (last year: £370.0m).
3. During the year, as a result of a change to internal management reporting, the reporting of cards and gift-wrap has been transferred from Clothing & Home to Food for both revenue and gross profit. The prior period comparatives have been restated to reflect this, £70.1m of revenue has been transferred from Clothing & Home to Food with a corresponding transfer of gross profit of £26.1m.

Other segmental information

	2019			2018		
	UK ¹ £m	International £m	Total £m	UK ¹ £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	283.1	13.9	297.0	322.4	13.2	335.6
Depreciation and amortisation	613.0	13.1	626.1	615.7	24.6	640.3
Impairment and asset write-offs	126.3	1.6	127.9	228.3	5.3	233.6
Total assets	6,900.1	300.1	7,200.2	7,242.4	307.8	7,550.2
Non-current assets	4,558.9	199.7	4,758.6	5,024.5	210.0	5,234.5

1. UK assets include centrally held assets largely relating to IT systems that support the International business of £20.9m (last year: £24.9m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2019 Total £m	2018 Total £m
Revenue	10,377.3	10,698.2
Cost of sales	(6,547.2)	(6,650.9)
Gross profit	3,830.1	4,047.3
Selling and administrative expenses	(3,271.1)	(3,426.2)
Other operating income	42.0	49.5
Operating profit before adjusting items	601.0	670.6
Adjusting items (see note 5)	(438.6)	(514.1)
Operating profit	162.4	156.5

The selling and administrative expenses are further analysed below:

	2019 Total £m	2018 Total £m
Employee costs ¹	1,450.0	1,521.0
Occupancy costs	652.7	705.6
Repairs, renewals and maintenance of property	87.6	94.7
Depreciation, amortisation and asset impairments and write-offs before adjusting items	544.9	580.6
Other costs	535.9	524.3
Selling and administrative expenses before adjusting items	3,271.1	3,426.2

1. There are an additional £61.0m (last year: £57.9m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. The £438.6m adjusting items charges for the year are further analysed against the categories of selling and administrative expense £418.8m (last year: £485.2m) and other operating income £19.8m (last year: £28.9m) accordingly; employee costs £64.9m (last year: £47.9m); occupancy costs £113.6m (last year: £124.7m); depreciation, amortisation and asset impairments and write-offs £209.1m (last year: £293.3m); other expenses £31.2m (last year: £18.5m); and other operating income £19.8m (last year: £28.9m).

4 PROFIT BEFORE TAXATION

The following items have been included in arriving at profit before taxation:

	2019 £m	2018 £m
Net foreign exchange (gains)/losses	(3.4)	0.8
Cost of inventories recognised as an expense	5,765.4	5,904.1
Write down of inventories recognised as an expense	214.1	220.5
Depreciation of property, plant and equipment		
– owned assets	440.0	459.1
– under finance leases	1.7	0.5
Amortisation of intangible assets	184.4	180.7
Impairments and write-offs of intangible assets and property, plant and equipment	127.9	233.6
Operating lease rentals payable		
– property	302.5	329.9
– fixtures, fittings and equipment	11.8	7.4

Included in administrative expenses is the auditor's remuneration, including expenses for audit and non-audit services, payable to the Company's auditor Deloitte LLP and its associates as follows:

	2019 £m	2018 £m
Annual audit of the Company and the consolidated financial statements	1.3	1.3
Audit of subsidiary companies	0.6	0.6
Total audit fees	1.9	1.9
Audit-related assurance services	0.2	0.2
Transaction related services	0.2	–
Total non-audit services fees	0.4	0.2
Total audit and non-audit services fees	2.3	2.1

Transaction related services provided by the auditor relate to establishing the Ocado joint venture (see note 5).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS

The total adjusting items reported for the 52 week period ended 30 March 2019 is a net charge of £438.6m (last year: £514.1m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2019 £m	2018 £m
Strategic programmes – UK store estate	15, 22	222.1	321.1
Strategic programmes – Organisation	15, 22	51.8	30.7
Strategic programmes – Operational transformation		16.4	–
Strategic programmes – IT restructure	22	15.6	15.5
Strategic programmes – UK logistics	15, 22	14.3	13.1
Strategic programmes – Changes to pay and pensions	22	6.2	12.9
Strategic programmes – International store closures and impairments	22	5.3	5.0
UK store impairments and other property charges	15, 22	62.1	63.4
M&S Bank charges incurred in relation to the insurance mis-selling provision		20.9	34.7
CMP and other pension equalisation	11, 22	20.5	–
Establishing the Ocado joint venture		3.4	–
Other		–	17.7
Adjustments to profit before tax		438.6	514.1

Strategic programmes – UK store estate (£222.1m)

In November 2016, the Group announced a strategic programme to transform the UK store estate. During 2017/18 the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £222.1m in the year which relates in part to the accelerated and expanded store closure programme which now includes a number of Simply Foods stores. The charge primarily relates to accelerated depreciation (due to shortening the useful economic life) and impairment of buildings and fixtures and fittings. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges (before restatement to reflect the impact of the adoption of IFRS 16) are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m.

Strategic programmes – Organisation (£51.8m)

During 2016/17 the Group announced a wide ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building.

The Group has now conducted a review of the retail field and management team organisational structure. The proposals will result in a net reduction of c.700 retail roles achieved through a combination of natural attrition and redundancies. A charge of £18.6m has been recognised in the period for redundancy costs associated with these changes.

In addition, a further £33.2m of costs have been recognised in the period associated with centralising the Group's London Head Office functions and rationalisation of Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisational costs are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in value, and are consistent with the disclosure of other similar charges in prior years.

Strategic programmes – Operational transformation (£16.4m)

The Group is undertaking a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group's Clothing & Home and Food end-to-end processes. A charge of £16.4m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across Clothing & Home and Food.

These costs are considered to be adjusting items as they relate to a strategic programme and the total costs are significant in quantum and as a result not considered to be normal operating costs of the business. Further operational transformation initiatives are planned for 2019/20 which will result in additional related charges within adjusting items.

Strategic programmes – IT restructure (£15.6m)

In 2017/18 as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a faster, more agile and more commercial technology function. A charge of £15.6m has been recognised in the year relating primarily to transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group is retiring early as a result of the transformation strategy. Further charges of c.£2m are expected in 2019/20 and 2019/20 is expected to be the final year of the IT restructure programme.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the programme.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – UK logistics (£14.3m)

In 2017/18 as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £14.3m has been recognised in the year for redundancy, accelerated depreciation and project costs.

The Group considers these costs to be adjusting items as they are significant in value and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network. Further charges are expected in 2019/20 of c.£12m.

Strategic programmes – Changes to pay and pensions (£6.2m)

In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to affected employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. The charge in the year in relation to these transition payments to employees is £6.2m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the year within adjusting items is consistent with disclosure of the same costs in 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

Strategic programmes – International store closures and impairments (£5.3m)

In 2016/17 the Group announced its intention to close its owned stores in 10 international markets. A net charge of £5.3m has been recognised in the year reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the three years of charges has been significant in both value and nature to the results of the Group. No further significant charges are expected.

UK store impairments and property charges (£62.1m)

The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

In addition, the Group has entered into property arrangements impacting 10 stores. The Group has recognised a net charge of £9.3m associated with the sale and leaseback or lease surrender costs for these stores.

The charges have been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£20.9m)

The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the year is £20.9m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each year to the results of the Group. The estimated liability for redress will continue to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

GMP and other pension equalisation (£20.5m)

The Group has recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of GMP following a high court ruling in October 2018 and other pension equalisation charges. Additional detail on the Group's GMP assessment is detailed in note 11.

The amounts recognised in relation to GMP and other pension equalisation charges are considered to be adjusting items as they are significant in nature and value to the results of the Group in the current period.

Establishing the Ocado joint venture (£3.4m)

In February 2019 the Group announced the creation of a new 50/50 joint venture (JV) with Ocado Group Plc (Ocado), the UK's leading pure play digital grocer, that will transform online grocery shopping for UK consumers. Transaction costs of £3.4m were incurred during the period.

The Group considers the costs directly associated with the Ocado transaction to be an adjusting item on the basis that they relate to a major transaction and as a result are not considered to be normal operating costs of the Group. Further costs of c.£30.0m will be incurred in 2019/20, the majority of which will be capitalised within the cost of investment upon completion or included within the cost of equity as part of the rights-issue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Other (£nil)

Other in the prior year included the profit on the disposal of our retail business in Hong Kong and charges for probable liabilities for certain employee related matters in the prior period. These amounts were considered to be adjusting items as they were significant in nature and value to the results of the Group in the prior period.

The prior year profit on disposal is analysed as follows:

	2019 £m	2018 £m
Proceeds	—	33.9
Disposal costs	—	(0.9)
Net disposal proceeds	—	33.0
Fair value of net assets disposed	—	(28.6)
Provision for IT transition services	—	(0.8)
Net foreign exchange amounts recycled from reserves	—	2.2
Profit on disposal	—	5.8

6 FINANCE INCOME/COSTS

	2019 £m	2018 £m
Bank and other interest receivable	7.6	6.0
Other finance income	0.4	0.4
Pension net finance income (see note 11F)	25.8	17.7
Finance income	33.8	24.1
Interest on bank borrowings	(0.6)	(1.2)
Interest payable on syndicated bank facility	(2.3)	(2.3)
Interest payable on Medium Term Notes	(77.4)	(90.0)
Interest payable on finance leases	(1.7)	(1.9)
Ineffectiveness on financial instruments	(3.5)	(2.3)
Unwind of discount on provisions	(17.3)	(5.2)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(8.8)	(10.9)
Finance costs	(111.6)	(113.8)
Net finance costs	(77.8)	(89.7)

7 INCOME TAX EXPENSE

A. Taxation charge

	2019 £m	2018 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)	78.4	65.4
– current year	78.4	65.4
– adjustments in respect of prior years	(4.6)	7.5
UK current tax	73.8	72.9
Overseas current taxation		
– current year	8.9	10.3
– adjustments in respect of prior years	(0.8)	(0.2)
Total current taxation	81.9	83.0
Deferred tax		
– origination and reversal of temporary differences	(36.1)	(37.3)
– recognition of previously unrecognised tax losses	—	(1.4)
– adjustments in respect of prior years	2.3	(3.1)
– changes in tax rate	(0.8)	(3.5)
Total deferred tax (see note 23)	(34.6)	(45.3)
Total income tax expense	47.3	37.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 55.9% (last year: 56.4%) and is explained below.

	2019 £m	2018 £m
Profit before tax	84.6	66.8
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	16.1	12.7
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	1.2	3.0
Other income and expenses that are not taxable or allowable for tax purposes	15.0	14.8
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(1.1)	(3.5)
Overseas profits taxed at rates different to those of the UK	0.8	(3.4)
Recognition of overseas deferred tax assets	(6.2)	–
Adjustments to the current and deferred tax charges in respect of prior periods	(3.1)	4.2
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	–	8.0
– UK store and strategic programme impairments where no tax relief is available	14.9	6.6
– International store closures and impairments	0.8	(8.3)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	8.9	3.4
– other	–	0.2
Total income tax expense	47.3	37.7

After excluding adjustments to profit before tax the adjusted effective tax rate was 20.3% (last year: 21.6%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.6m (last year: £12.7m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £0.8m in the income statement and the recognition of a deferred tax charge of £2.3m in other comprehensive income.

C. Current tax reconciliation

The current tax reconciliation shows the tax effect of the main adjustments made to the Group's accounting profits in order to arrive at its taxable profits. The reconciling items differ from those in note 7B as the effects of deferred tax timing differences are ignored below.

	2019 £m	2018 £m
Profit before tax	84.6	66.8
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	16.1	12.7
Disallowable accounting depreciation and other similar items	68.0	78.7
Deductible capital allowances	(59.4)	(70.6)
Adjustments in relation to employee share schemes	2.7	2.8
Adjustments in relation to employee pension schemes	10.7	9.2
Overseas profits taxed at rates different to those of the UK	0.8	(3.4)
Utilisation of unrecognised losses	(1.4)	
Other income and expenses that are not taxable or allowable	4.4	0.5
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	–	9.5
– UK store and strategic programme impairments where no tax relief is available	32.0	44.0
– International store closures and impairments	0.8	(16.2)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	12.6	5.1
– other	–	3.4
Current year current tax charge	87.3	75.7
Represented by:		
UK current year current tax	78.4	65.4
Overseas current year current tax	8.9	10.3
	87.3	75.7
UK adjustments in respect of prior years	(4.6)	7.5
Overseas adjustments in respect of prior years	(0.8)	(0.2)
Total current taxation (note 7A)	81.9	83.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has four types of dilutive potential ordinary shares being: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

Details of the adjusted earnings per share are set out below:

	2019 £m	2018 £m
Profit attributable to equity shareholders of the Company	33.5	25.7
Add/(less) (net of tax):		
Strategic programmes – UK store estate	194.6	264.7
Strategic programmes – Organisation	46.3	28.0
Strategic programmes – Operational transformation	13.2	–
Strategic programmes – IT restructure	12.7	12.5
Strategic programmes – UK logistics	11.8	10.7
Strategic programmes – Changes to pay and pensions	5.1	10.4
Strategic programmes – International store closures and impairments	5.1	(41)
UK store impairments and property charges	54.2	61.6
M&S Bank charges incurred in relation to the insurance mis-selling provision	16.9	28.1
GMP and other equalisation	16.6	–
Establishing the Ocado joint venture	3.4	–
Other	–	14.5
Profit before adjusting items attributable to equity shareholders of the Company	413.4	452.1
	Million	Million
Weighted average number of ordinary shares in issue	1,624.1	1,624.0
Potentially dilutive share options under Group's share option schemes	3.8	5.4
Weighted average number of diluted ordinary shares	1,627.9	1,629.4
	Pence	Pence
Basic earnings per share	2.1	1.6
Diluted earnings per share	2.1	1.6
Adjusted basic earnings per share	25.4	27.8
Adjusted diluted earnings per share	25.4	27.8

9 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	11.9p	11.9p	193.1	193.1
Paid interim dividend	6.8p	6.8p	110.4	110.3
	18.7p	18.7p	303.5	303.4

The directors have approved a final dividend of 7.1p per share (last year: 11.9p per share), which, in line with the requirements of IAS 10 Events after the Reporting Period, has not been recognised within these results. This final dividend of c.£115.4m (last year: £193.1m) will be paid on 12 July 2019 to shareholders whose names are on the Register of Members at the close of business on 31 May 2019. The ordinary shares will be quoted ex dividend on 30 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 21 June 2019.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including Operating Committee) were:

	2019 Total £m	2018 Total £m
Wages and salaries	1,293.2	1,359.7
Social security costs	85.0	91.7
Pension costs	77.4	76.7
Share-based payments (see note 13)	19.2	18.9
Employee welfare and other personnel costs	53.8	56.6
Capitalised staffing costs	(17.6)	(24.7)
Total aggregate remuneration¹	1,511.0	1,578.9

1. Excludes amounts recognised within adjusting items of £64.9m (last year: £47.9m) (see notes 3 and 5) such as the transition payments the Group has committed to in respect of removal of premia, redundancy costs associated with the UK and international strategic programmes and CMP and other pension equalisation costs.

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2019	2018
UK stores		
– management and supervisory categories	5,480	6,004
– other	63,957	66,540
UK head office		
– management and supervisory categories	2,968	3,088
– other	832	856
UK operations		
– management and supervisory categories	81	89
– other	1,066	1,153
Overseas		
	5,713	6,891
Total average number of employees	80,097	84,621

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 55,440 (last year: 58,928).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a DB arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. On closure of the UK DB scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m in 2016/17. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end the UK DB pension scheme had no active members (last year: nil), 58,079 deferred members (last year: 60,402) and 52,217 pensioners (last year: 51,802).

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 12).

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 53,536 active members (last year: 54,001) and some 26,709 deferred members (last year: 19,984).

The Group also operates a small funded DB pension scheme in the Republic of Ireland. This scheme closed to future accrual on 31 October 2013. Other retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

The total Group retirement benefit cost was £69.5m (last year: £58.9m). Of this, income of £4.5m (last year: income of £14.7m) relates to the UK DB pension scheme, costs of £68.7m (last year: costs of £68.8m) to the UK DC plan and costs of £5.3m (last year: costs of £4.8m) to other retirement benefit schemes.

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one-third of the pensioner portfolio. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's DB pension schemes. This judgement concluded the schemes should be amended in order to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have resulted in an increase in the liabilities of the Marks & Spencer UK DB Pension Scheme of £18.0m. This increase has been reflected in the results as a past service cost.

A. Pensions and other post-retirement liabilities

	2019 £m	2018 £m
Total market value of assets	10,224.7	9,989.3
Present value of scheme liabilities	(9,301.3)	(9,029.6)
Net funded pension plan asset	923.4	959.7
Unfunded retirement benefits	(3.5)	(3.6)
Post-retirement healthcare	(5.6)	(7.9)
Net retirement benefit surplus	914.3	948.2

Analysed in the statement of financial position as:

Retirement benefit asset	931.5	970.7
Retirement benefit deficit	(17.2)	(22.5)
Net retirement benefit surplus	914.3	948.2

In the event of a plan wind-up, the pension scheme rules provide M&S with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up or change the benefits due to members of the scheme. As a result, any net surplus in the UK DB pension scheme is recognised in full.

B. Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 Employee Benefits in order to assess the liabilities of the schemes and are as follows:

	2019 %	2018 %
Rate of increase in pensions in payment for service	2.1-3.3	2.0-3.2
Discount rate	2.45	2.65
Inflation rate	3.25	3.15
Long-term healthcare cost increases	7.25	7.15

C. Demographic assumptions

The UK demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2018. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2018. The specific mortality rates used are based on the VITA lite tables. The life expectancies underlying the valuation are as follows:

	2019	2018
Current pensioners (at age 65)	22.0	22.3
– male	24.9	25.2
– female	23.8	24.1
Future pensioners – currently in deferred status (at age 65)	26.7	27.0
– male	22.0	22.3
– female	24.9	25.2

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the UK DB pension scheme surplus:

	2019 £m	2018 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	(70.0)	(70.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	(25.0)	(25.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	315.0	305.0

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 96% of interest rate movements and 94% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

By funding its DB pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.
- Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Group is exposed to additional risks through its obligation to the UK DB pension scheme via its interest in the Scottish Limited Partnership (see note 12). In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Group.

The fair value of the total plan assets at the end of the reporting period for each category is as follows:

	2019			2018		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements ¹	4,373.9	367.2	4,741.1	4,472.9	369.4	4,842.3
– Corporate Bonds	6.1	731.8	737.9	5.9	685.4	691.3
– Asset backed securities and structured debt	–	296.6	296.6	–	339.2	339.2
Scottish Limited Partnership Interest (see note 12)	–	278.5	278.5	–	345.4	345.4
Equity investments						
– Developed markets	398.0	57.9	455.9	460.8	102.8	563.6
– Emerging markets	103.7	–	103.7	151.7	–	151.7
Growth Asset Funds						
– Global Property	–	328.4	328.4	–	274.0	274.0
– Hedge and Reinsurance	24.3	412.4	436.7	18.2	406.2	424.4
– Private Equity and Infrastructure	–	223.3	223.3	–	222.5	222.5
Derivatives						
– Interest and inflation rate swaps	15.9	148.4	164.3	7.7	6.4	14.1
– Foreign exchange contracts and other derivatives	0.1	127.5	127.6	0.1	154.8	154.9
Cash and cash equivalents	51.1	122.2	173.3	41.8	92.5	134.3
Other						
– Buy-in insurance	–	1,273.7	1,273.7	–	1,277.9	1,277.9
– Secure Income Asset Funds	–	842.2	842.2	–	466.7	466.7
– Other	41.5	–	41.5	87.0	–	87.0
	5,014.6	5,210.1	10,224.7	5,246.1	4,743.2	9,989.3

1. Repurchase agreements were £1,025.1m (last year: £920.2m).

The fair values of the above equity and debt investments are based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The fair value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the scheme to hedge a proportion of interest rate and inflation risk. The scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 41,841 (last year: 41,046) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of defined benefit retirement plans are as follows:

	2019 £m	2018 £m
Current service cost	0.2	0.3
Administration costs	3.9	3.5
Past service costs	18.0	-
Net interest income	(25.8)	(17.7)
Total	(3.7)	(13.9)

Remeasurement on the net defined benefit surplus:

Actual return on scheme assets excluding amounts included in net interest income	(283.8)	88.2
Actuarial gain – demographic assumptions	(90.2)	(85.1)
Actuarial loss – experience	19.2	26.3
Actuarial loss/(gain) – financial assumptions	434.7	(230.3)
Components of defined benefit expense/(income) recognised in other comprehensive income	79.9	(200.9)

G. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2019 £m	2018 £m
Fair value of scheme assets at start of year	9,989.3	10,135.1
Interest income based on discount rate	259.5	253.4
Actual return on scheme assets excluding amounts included in net interest income ¹	283.8	(88.2)
Employer contributions	42.0	40.7
Benefits paid	(346.2)	(353.9)
Administration costs	(3.7)	(3.3)
Exchange movement	–	5.5
Fair value of scheme assets at end of year	10,224.7	9,989.3

1. The actual return on scheme assets was a gain of £543.3m (last year: gain of £164.6m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2019 £m	2018 £m
Present value of obligation at start of year	9,041.1	9,442.3
Current service cost	0.2	0.3
Administration costs	0.2	0.2
Past service cost	18.0	–
Interest cost	233.7	235.7
Benefits paid	(346.2)	(353.9)
Actuarial loss – experience	19.2	26.3
Actuarial (gain) – demographic assumptions	(90.2)	(85.1)
Actuarial loss/(gain) – financial assumptions	434.7	(230.3)
Exchange movement	(0.3)	5.6
Present value of obligation at end of year	9,310.4	9,041.1
Analysed as:		
Present value of pension scheme liabilities	9,301.3	9,029.6
Unfunded pension plans	3.5	3.6
Post-retirement healthcare	5.6	7.9
Present value of obligation at end of year	9,310.4	9,041.1

The average duration of the defined benefit obligation at 30 March 2019 is 19 years (last year: 19 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the "Partnership"). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.4bn (last year: £1.5bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £272.4m (last year: £335.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferable financial instrument. During the year to 30 March 2019 an interest charge of £8.8m (last year: £10.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £278.5m (last year: £345.4m).

The second partnership interest is not a transferable financial instrument as the Scheme Trustee does not have the right to transfer it to any party other than a successor Trustee. It is therefore not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly, the associated liability is not included on the Group's statement of financial position, rather the annual distribution is recognised as a contribution to the scheme each year.

13 SHARE-BASED PAYMENTS

This year a charge of £19.2m was recognised for share-based payments (last year: charge of £18.9m). Of the total share-based payments charge, £9.2m (last year: £11.0m) relates to the Save As You Earn share option scheme and a charge of £4.1m (last year: £2.3m) relates to the Performance Share Plan. The remaining charge of £5.9m (last year: £5.6m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn Scheme

The Save As You Earn (SAYE) scheme was approved by shareholders for a further 10 years at the 2017 Annual General Meeting (AGM). Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC approved schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2019		2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	43,731,657	285.4p	43,294,094	310.6p
Granted	10,337,468	247.0p	13,351,790	261.0p
Exercised	(241,813)	260.1p	(29,500)	269.7p
Forfeited	(10,455,905)	274.0p	(7,758,295)	307.1p
Expired	(5,347,906)	358.7p	(5,126,432)	402.5p
Outstanding at end of year	38,023,501	267.9p	43,731,657	285.4p
Exercisable at end of year	2,542,320	421.0p	4,976,777	362.3p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 290.8p (last year: 314.8p).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

A. Save As You Earn Scheme continued

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2019	2018	3-year plan 2016 modified ^l
	3-year plan	3-year plan	3-year plan 2016 modified ^l
Grant date	Nov 18	Nov 17	Nov 17
Share price at grant date	309p	298p	298p
Exercise price	247p	261p	432p
Option life in years	3 years	3 years	3 years
Risk-free rate	0.8%	0.5%	0.5%
Expected volatility	27.9%	27.8%	27.8%
Expected dividend yield	6.1%	6.3%	6.3%
Fair value of option	54p	42p	32p
Incremental fair value of option	n/a	n/a	10p

1. In the prior year, there was a modification to the 2016 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2018 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2018 options, being 42p, and the fair value of the reprieved previous awards being 32p, calculated using 2018 award assumptions, keeping the initial exercise price consistent. The incremental fair value of the modified options, being 10p for the 2016 modified options, is already recognised in operating profit.

Volatility has been estimated by taking the historic volatility in the Company's share price over a three-year period.

The resulting fair value is expensed over the service period of three years on the assumption that 10% (last year: 10%) of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees SAYE Scheme are as follows:

Options granted ^l	Number of options		Weighted average remaining contractual life (years)		
	2019	2018	2019	2018	Option price
January 2015	–	4,703,165	–	0.2	369p
January 2016	2,436,408	3,397,156	0.3	1.2	432p
January 2017	17,140,666	22,925,562	1.3	2.3	260p
January 2018	8,711,023	12,705,774	2.3	3.3	261p
January 2019	9,735,404	–	3.3	–	247p
	38,023,501	43,731,657	1.9	2.2	268p

1. For the purpose of the above table the option granted date is the contract start date.

B. Performance Share Plan*

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2018/19 included Earnings Per Share (EPS), Return on Capital Employed (ROCE), and Total Shareholder Return (TSR). The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report. Awards under this plan have been made in each year since 2005. More information is available in relation to this scheme within the Remuneration Report.

During the year, 8,006,094 shares (last year: 7,880,779) were awarded under the plan. The weighted average fair value of the shares awarded was 264.2p (last year: 268.4p). As at 30 March 2019 17,296,405 shares (last year: 17,624,385) were outstanding under the plan.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme. It is now operated for approximately 40 (last year: 500) of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period will also be paid on vesting. More information is available in relation to this scheme within the Remuneration Report.

During the year, no shares (last year: 1,892,215) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded last year was 343.3p. As at 30 March 2019, 2,595,337 shares (last year: 4,248,291) were outstanding under the plan.

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for senior managers below executive director level. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period will also be paid on vesting. More information is available in relation to this scheme within the Remuneration Report.

During the year, 1,710,368 shares (last year: 1,105,428) have been awarded under the plan. The weighted average fair value of the shares awarded was 295.2p (last year: 314.0p). As at 30 March 2019, 2,364,783 shares (last year: 1,555,748) were outstanding under the plan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn scheme was introduced in 2009 to all employees in the Republic of Ireland for a 10 year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract. The Company will be seeking shareholder reapproval of this scheme on similar terms to those outlined above at this year's AGM.

During the year, 169,422 options (last year: 210,486) were granted, at a fair value of 53.6p (last year: 41.5p). As at 30 March 2019, 672,203 options (last year: 644,325) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 1,712,922 (last year: 2,247,837) shares with a book value of £5.1m (last year: £9.8m) and a market value of £4.8m (last year: £6.1m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

ShareBuy, the Company's share incentive plan, enables the participants to buy shares directly from their gross salary. This scheme does not attract an IFRS 2 charge.

* All awards this year were conditional shares, last year all DSBP and 297,114 RSP awards were awarded as nil-cost options with the remainder being awarded as conditional shares. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software under development £m	Computer software under development £m	Total £m
At 1 April 2017					
Cost	137.4	112.3	1,368.3	82.5	1,700.5
Accumulated amortisation and impairments	(59.0)	(98.9)	(809.9)	(23.7)	(991.5)
Net book value	78.4	13.4	558.4	58.8	709.0
Year ended 31 March 2018					
Opening net book value	78.4	13.4	558.4	58.8	709.0
Additions	—	—	0.2	74.1	74.3
Transfers and reclassifications	—	—	94.2	(89.2)	5.0
Asset write-offs	—	—	(5.8)	(1.7)	(7.5)
Amortisation charge	—	(5.3)	(175.4)	—	(180.7)
Exchange difference	(1.0)	—	0.3	(0.2)	(0.9)
Closing net book value	77.4	8.1	471.9	41.8	599.2
At 31 March 2018					
Cost	136.4	112.3	1,400.0	65.6	1,714.3
Accumulated amortisation, impairments and write-offs	(59.0)	(104.2)	(928.1)	(23.8)	(1,115.1)
Net book value	77.4	8.1	471.9	41.8	599.2
Year ended 30 March 2019					
Opening net book value	77.4	8.1	471.9	41.8	599.2
Additions	—	—	10.3	84.8	95.1
Transfers and reclassifications	—	—	81.0	(75.7)	5.3
Asset write-offs	—	—	(5.9)	(8.4)	(14.3)
Amortisation charge	—	(5.3)	(179.1)	—	(184.4)
Exchange difference	0.1	—	(1.1)	—	(1.0)
Closing net book value	77.5	2.8	377.1	42.5	499.9
At 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation and impairments and write-offs	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Goodwill related to the following assets and groups of Cash Generating Units (CGU's):

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 31 March 2018	69.5	7.2	0.7	77.4
Exchange difference	–	0.1	–	0.1
Net book value at 30 March 2019	69.5	7.3	0.7	77.5

Impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations.

Goodwill for India and the UK is monitored by management at a country level, including the combined retail and wholesale businesses for each location, and have been tested for impairment on that basis.

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m, and is held at a net book value of £2.8m (last year: £8.1m). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. The latest budget and three-year plan reflect a more conservative view of the short-term future performance of the UK and per una businesses.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for the UK and per una is 2.3%, which combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The Group's current view of achievable long-term growth for India is 6.6%.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital adjusted for the specific risks relating to each asset or CGU, and were 9.1% for the UK and per una (last year: 8.6%) and 17.3% for India (last year: 14.8%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonable possible changes in these key assumptions, both individually and in combination. Management has considered reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for each asset.

For India and the UK, there is no reasonably possible change in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

Per una

The assumptions applied to the impairment test for per una give rise to a key source of estimation uncertainty, and the management's sensitivity analysis has identified a reasonably possible change in key assumptions that would lead to a material impairment charge.

The future cashflows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years. The success of these plans will determine the strategic role of the brand within the Group.

In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. The model assumes growth into perpetuity, as set out above which, given uncertain market conditions is considered sensitive. If a shorter trading period was assumed then this could result in an impairment.

The outcome of the value in use calculation supports the carrying value of the asset, with a headroom of £39.0m.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions, given the level of headroom, could lead to an impairment.

The following key assumptions would have to change in order to eliminate the headroom within the impairment test:

- The cash flow forecasts in each of the years covered by the three-year forecast would have to be 35% below forecast;
- The long-term growth rate of cash flows would have to decline to -2.2% per annum; or
- The pre-tax discount rate would have to increase to 12.9%.

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonable possible changes in these key assumptions, such as assuming that forecast growth is not achieved.

- In the scenario where per una sales declined by 2.5% in each of the 3 years forecast, combined with no growth into perpetuity, headroom would reduce to nil.
- In the scenario where per una sales declined by 15% in each of the 3 years forecast, combined with no growth into perpetuity an impairment of £22.7m would result.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 1 April 2017				
Cost	3,008.4	7,750.3	96.0	10,854.7
Accumulated depreciation, impairments and write-offs	(420.6)	(5,578.4)	(17.9)	(6,016.9)
Net book value	2,587.8	2,171.9	78.1	4,837.8
Year ended 31 March 2018				
Opening net book value	2,587.8	2,171.9	78.1	4,837.8
Additions	0.2	56.5	204.6	261.3
Transfers and reclassifications	10.2	186.6	(200.8)	(4.0)
Disposals	(2.1)	(15.4)	–	(17.5)
Asset impairments	(104.8)	(103.3)	–	(208.1)
Asset write-offs	(16.5)	1.5	(3.0)	(18.0)
Depreciation charge	(59.8)	(399.8)	–	(459.6)
Exchange difference	2.9	(0.8)	(0.1)	2.0
Closing net book value	2,417.9	1,897.2	78.8	4,393.9
At 31 March 2018				
Cost	2,963.4	7,059.0	96.8	10,119.2
Accumulated depreciation, impairments and write-offs	(545.5)	(5,161.8)	(18.0)	(5,725.3)
Net book value	2,417.9	1,897.2	78.8	4,393.9
Year ended 30 March 2019				
Opening net book value	2,417.9	1,897.2	78.8	4,393.9
Additions	0.9	30.9	170.1	201.9
Transfers and reclassifications	(3.2)	166.7	(168.8)	(5.3)
Disposals	(2.5)	(0.4)	–	(2.9)
Asset impairments	(11.5)	(58.2)	–	(69.7)
Asset write-offs	(35.3)	(8.6)	–	(43.9)
Depreciation charge	(89.7)	(352.0)	–	(441.7)
Exchange difference	(2.7)	(1.1)	–	(3.8)
Closing net book value	2,273.9	1,674.5	80.1	4,028.5
At 30 March 2019				
Cost	2,923.9	5,729.1	98.1	8,751.1
Accumulated depreciation, impairments and write-offs	(650.0)	(4,054.6)	(18.0)	(4,722.6)
Net book value	2,273.9	1,674.5	80.1	4,028.5

Asset write-offs in the year include assets with gross book value of £1,467.9m (last year: £784.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

The net book value above includes land and buildings of £31.1m (last year: £41.6m) and equipment of £nil (last year: £nil) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year: £nil) were financed by finance leases.

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of outlet stores, which are considered together as one CGU. Shop Your Way (SYW) sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5).

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment of property, plant and equipment continued

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 9% to 21% (last year: 8% to 15%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

Impairments – UK stores (excluding the UK store estate programme)

During the year the Group has recognised an impairment charge of £52.8m and no impairment reversals as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £11.9m). These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.3%, adjusted to 0% where management believe the current trading performance and future expectations of the store do not support the growth rate of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The rate used to discount the forecast cash flows for UK stores is 9.1%.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 2% from the three-year plan would result in an increase in the impairment charge of £7.1m and a 20 basis point reduction in gross profit margin would increase the impairment charge by £2.2m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. Reasonably possible changes of the other key assumptions, including reducing the long term growth rate to 0% across all stores, would not result in an increase to the impairment charge.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £16.9m relating to the on-going UK store estate programme (last year: £196.2m). The impairment charge relates to the accelerated and expanded store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 9.1%.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £31.4m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £4.9m. Neither a 25 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

16 OTHER FINANCIAL ASSETS

	2019 £m	2018 £m
Non-current		
Unlisted investments	9.9	9.9
Current		
Short-term investments ¹	141.8	13.7

1. Includes £5.0m (last year: £5.8m) of money market deposits held by the Marks and Spencer plc in an escrow account.

Non-current unlisted investments are carried as fair value through other comprehensive income (available for sale assets before 1 April 2018). Other financial assets are measured at fair value with changes in their value taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Non-current		
Other receivables	2.0	2.3
Prepayments	198.7	206.7
	200.7	209.0
Current		
Trade receivables	121.8	114.3
Less: provision for impairment of receivables	(3.2)	(0.4)
Trade receivables – net	118.6	113.9
Other receivables	31.5	30.9
Prepayments	144.1	134.2
Accrued income	28.3	29.4
	322.5	308.4

Trade and other receivables that were past due but not impaired amounted to £7.2m (last year: £21.3m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit losses (see note 21). Included in accrued income is £21.9m (last year: £28.2m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £285.4m (last year: £207.7m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.74% (last year: 0.40%). These deposits have an average maturity of 9 days (last year: 23 days).

19 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Current		
Trade and other payables	911.2	872.9
Social security and other taxes	43.7	57.1
Accruals	452.0	425.9
Deferred income	54.4	50.0
	1,461.3	1,405.9
Non-current		
Other payables	3.0	4.6
Accruals	43.9	48.1
Deferred income	275.5	281.1
	322.4	333.8

Under IFRS 15, disclosure of contract liabilities held on the balance sheet at the start and end of the period and revenue recognised during the period which relates to the contract liabilities held at the start of the period is required. Gift card liabilities/voucher schemes are contract liabilities as payment has been received for a performance obligation which will be performed at a later point in time. Included within trade and other payables are gift card/voucher scheme liabilities:

	£m
Year ended 30 March 2019	
Opening balance	199.4
Issues	413.6
Released to the income statement	(426.1)
Closing balance	186.9

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. The Group settles these amounts in accordance with each suppliers agreed payment terms.

The Group's trade creditors balance includes £200.0m (last year: £212.0m) relating to payments due to M&S suppliers under these arrangements. During the year ended 30 March 2019 the arrangements were used by 183 suppliers, with a maximum facility available of £381.0m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2019 £m	2018 £m
Current		
Bank loans and overdrafts ¹	72.3	88.4
Finance lease liabilities	0.3	0.3
6.125% £400m Medium Term Notes 2019 ^{2,5}	399.8	—
Interest accrued on Medium Term Notes	37.0	36.9
Revaluation of Medium Term Notes	3.7	—
	513.1	125.6
Non-current		
6.125% £400m Medium Term Notes 2019 ^{2,5}	—	400.1
6.125% £300m Medium Term Notes 2021 ²	298.7	298.2
3.00% £300m Medium Term Notes 2023 ²	297.4	296.9
4.75% £400m Medium Term Notes 2025 ^{2,5}	399.3	397.5
7.125% US\$300m Medium Term Notes 2037 ^{3,4}	192.1	192.0
Revaluation of Medium Term Notes	45.8	38.2
Finance lease liabilities	46.2	47.7
	1,279.5	1,670.6
Total	1,792.6	1,796.2

1. Bank loans and overdrafts in the prior year include a £5.0m loan from the Hedge End Park Limited joint venture that was repaid during the year (see note 28).

2. These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.

3. Interest on these bonds is payable semi-annually.

4. US\$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).

5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, £375m (last year: £425m) was swapped from fixed to floating rate.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page within note 21. The weighted average lease term for equipment is nil years (last year: two years) and 91 years (last year: 93 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 FINANCIAL INSTRUMENTS

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board-approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate swaps, cross-currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management

The principal financial risks faced by the Group are liquidity and funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity and funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due:

- The Group's funding strategy ensures a mix of funding sources offering sufficient headroom, maturity and flexibility and cost-effectiveness to match the requirements of the Group.
- Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, Medium Term Notes and committed syndicated bank facilities.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. The facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £100m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £45m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year: £1.4bn) was in issuance as at the balance sheet date.

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 19) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium Term Notes £m	Finance lease liabilities ¹ £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Derivative assets ² £m	Derivative liabilities ² £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(88.4)	–	(86.1)	(2.3)	(71.9)	(248.7)	30.0	(88.2)	(58.2)
Between one and two years	–	–	(486.1)	(2.3)	(71.9)	(560.3)	21.9	(18.1)	3.8
Between two and five years	–	–	(466.3)	(6.9)	(215.5)	(688.7)	270.0	(248.5)	21.5
More than five years	–	–	(1,207.2)	(168.9)	–	(1,376.1)	223.1	(198.5)	24.6
	(88.4)	–	(2,245.7)	(180.4)	(359.3)	(2,873.8)	545.0	(553.3)	(8.3)
Effect of discounting	–	–	585.9	132.4	23.8	742.1			
At 1 April 2018	(88.4)	–	(1,659.8)	(48.0)	(335.5)	(2,131.7)			
Timing of cash flows									
Within one year	(72.3)	–	(487.2)	(2.3)	(71.9)	(633.7)	58.0	(20.6)	37.4
Between one and two years	–	–	(62.7)	(2.3)	(71.9)	(136.9)	24.2	(16.2)	8.0
Between two and five years	–	–	(751.3)	(6.8)	(143.6)	(901.7)	282.4	(241.4)	41.0
More than five years	–	–	(895.5)	(160.3)	–	(1,055.8)	230.8	(191.5)	39.3
Total undiscounted cash flows	(72.3)	–	(2,196.7)	(171.7)	(287.4)	(2,728.1)	595.4	(469.7)	125.7
Effect of discounting	–	–	572.4	125.2	15.0	712.6			
At 30 March 2019	(72.3)	–	(1,624.3)	(46.5)	(272.4)	(2,015.5)			

1. The cash flows relating to finance lease liabilities reflect the remaining minimum lease payments which were fixed at inception and therefore are reflected within the present value of finance lease liabilities. At 30 March 2019 the total value of additional committed contingent rents are £382.6m which will be expensed as incurred. In the year ending 30 March 2019 contingent rents of £35.0m were recognised within the operating lease rentals payable in note 4.

2. Derivative cash flows are disclosed based on actual settlement. All derivatives are settled net, except for currency swaps.

The present value of finance lease liabilities is as follows:

	2019 £m	2018 £m
Within one year	(0.3)	(0.3)
Later than one year and not later than five years	(1.1)	(1.1)
Later than five years	(45.1)	(46.6)
Total	(46.5)	(48.0)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through the default or non-performance of the financial institutions with whom it transacts.

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (S&P)/Moody's A-/A3 (BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different from the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower agency rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty								Total £m
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	—	—	2.6	9.8	33.6	7.9	2.7	1.5	58.1
Derivative assets ²	—	—	—	—	—	8.0	—	2.9	10.9
At 31 March 2018	—	—	2.6	9.8	33.6	15.9	2.7	4.4	69.0
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
	—	—	—	16.4	168.3	83.9	—	0.7	269.3
Short-term investments ¹	—	—	—	16.4	168.3	83.9	—	0.7	269.3
Derivative assets ²	—	—	—	16.9	21.0	11.8	—	0.3	50.0
At 30 March 2019	—	—	—	33.3	189.3	95.7	—	1.0	319.3

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit £157.9m (last year: £149.6m).

2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

The Group has a very low retail credit risk due to transactions principally being of high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £121.8m (last year: £114.3m), other receivables £33.5m (last year: £33.2m), cash and cash equivalents £285.4m (last year: £207.7m) and derivatives £60.1m (last year: £34.2m).

Impairment of financial assets

From 1 April 2018, the Group's financial assets subject to the expected credit loss (ECL) model are primarily trade and other receivables.

The credit risk management practices of the Group include internal review and reporting of the ageing of trade and other receivables by days past due by a centralised accounts receivable function, and grouped by respective contractual revenue stream, along with liaison with the debtors by the credit control function.

From 1 April 2018, the Group applies the IFRS 9 simplified approach in measuring expected credit losses which use a lifetime expected credit loss allowance for all trade receivables and contract assets.

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry as well as by geographical location and days past due.

The expected loss rates are determined based on the average write-offs as a proportion of average debt over a period of 36 months prior to the reporting date. The historical loss rates are adjusted for current and forward-looking information where significant. The Group considers GDP growth, unemployment, sales growth and bankruptcy rates of the countries in which goods are sold to be the most relevant factors, and where the impact of these is significant adjusts the historical loss rates based on expected changes in these factors.

The Group considers credit risk to have significantly increased for debts aged 180 days or over. The Group has incorporated this into the expected loss model through a uniform loss rate for ageing buckets below 180 days dependent on the revenue stream and country, and providing for 100% of debt aged over 180 days past due. Where the Group specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include the failure of the debtor to engage in a payment plan, and failure to make contractual payments within 180 days past due.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Impairment of financial assets continued

Impairment losses on trade receivables are presented as net impairment losses within operating profit and subsequent recoveries are credited to the same line item.

	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount – trade receivables	111.9	3.9	0.8	1.6	1.7	1.9	121.8
Expected loss rate	0.51%	2.69%	6.49%	11.34%	20.41%	100.0%	2.62%
Lifetime expected credit loss	0.5	0.1	0.1	0.2	0.4	1.9	3.2
Net carrying amount	111.4	3.8	0.7	1.4	1.3	–	118.6

The closing loss allowances for trade receivables as at 30 March 2019 reconciles to the opening loss allowances as follows:

Trade receivables expected loss provision	£m
31 March 2018 – calculated under IAS 39	0.4
Amounts restated through opening retained earnings	0.6
Opening loss allowance as at 1 April 2018 calculated under IFRS 9	1.0
Increase in loss allowance recognised in profit and loss during the year	2.4
Receivables written off during the year as uncollectable	(0.2)
At 30 March 2019	3.2

In relation to other financial assets not forming part of trade receivables, a simplified approach is utilised where lifetime expected credit losses are calculated rather than 12 month expected credit losses. For ex-employee debt the average write-offs are divided by the average debtor balance to determine a write off rate, fees from collection agencies used to collect the balances are factored into the loss allowance based on the size of the individual debt and future unemployment rates are factored into the calculation of allowance as well as the impact of discounting of the aged debt.

The loss allowance for other receivables is recognised within provisions within current liabilities in the consolidated statement of financial position. The closing loss allowance as at 30 March 2019 reconciles to the opening loss allowance as follows:

Other receivables expected loss provision	£m
31 March 2018 – calculated under IAS 39	0.4
Amounts restated through opening retained earnings	(0.1)
Opening loss allowance as at 1 April 2018 calculated under IFRS 9	0.3
Increase in loan loss allowance recognised in profit and loss during the year	0.6
Receivables written off during the year as uncollectable	(0.6)
At 30 March 2019	0.3

In the prior year, the impairment of trade and other receivables was assessed on an incurred loss model basis. Individual receivables that were considered to be uncollectable were written off by reducing the carrying value directly. Individual receivables were assessed to determine if there was evidence of impairment, and losses were recognised in a separate provision for impairment. The Group considered the following to be indicators of evidence of impairment:

- Significant financial difficulties of the debtor.
- Probability that the debtor would enter bankruptcy.
- Default of late payments, the extent to which they were overdue being determined on a case-by-case basis with reference to the knowledge and communication with the debtor and their relationship with the business.

The impairment loss provision in the prior year opened at £1.7m and closed at £0.4m. Where an impairment provision was recognised, receivables were written off against the provision when there was no expectation of recovering any further debt.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(c) Foreign currency risk

Transactional foreign currency exposure arises primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar, incurred in the sourcing of Clothing & Home products from Asia.

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 15 months ahead of the start of the season, with between 80% and 100% of the risk hedged nine months before the start of the season.

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,755.6m (last year: £1,962.8m) with a weighted average maturity date of seven months (last year: six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 30 March 2019 will be released to the income statement at various dates over the following 17 months (last year: 17 months) from the balance sheet date.

The FX forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income (OCI) – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is retained in OCI and recycled to inventory as part of the “basis adjustment”. This will be realised in the income statement once the hedged item is sold. There have been no discontinued or restarted hedges, and no ineffectiveness in the FX forwards has been reported this financial year or last.

The FX forwards are recognised at their fair value (IFRS 13 level 2 measurement). The Group has considered and elected not to apply credit/debit valuation adjustments, owing to their relatively short dated nature. The risks at the reporting date are representative of the financial year.

The Group previously used a combination of foreign currency debt and foreign exchange contracts to hedge its net balance sheet translation exposure by currency arising from investment in overseas operations. The treasury policy was changed during the previous financial year and the Group no longer hedges these and all contracts outstanding were terminated in the prior year.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

The change in the fair value of the hedging instrument, to the degree effective, is retained in OCI, segregated by cost and effect of hedging. Under IFRS 9 the currency basis on the cross-currency swaps are excluded from the hedge designation and recognised in OCI – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result.

The cross-currency swaps are recognised at their fair value (IFRS 13 level 2 measurement), the Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance resulted in a £3.9m gain (last year: £3.3m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £129.0m (last year: £217.2m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities, excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme, is set out below:

	2019			2018		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,339.6	447.0	1,786.6	1,276.2	511.6	1,787.8
Euro	6.0	–	6.0	6.5	–	6.5
Other	–	–	–	0.1	1.8	1.9
	1,345.6	447.0	1,792.6	1,282.8	513.4	1,796.2

The floating rate sterling borrowings are linked to interest rates related to LIBOR, mainly for periods of six months.

As at the balance sheet date and excluding finance leases, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 4.8% (last year: 4.7%) and the weighted average time for which the rate is fixed is five years (last year: six years).

Other than the termination of net investment hedges and the separation of the cost of hedging in the statement of changes in equity and statement of comprehensive income, there were no other significant changes in hedge accounting when compared with the prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,345.6m (last year: £1,282.8m) representing the public bond issues and finance leases, amounting to 75% (last year: 71%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2019 %	2018 %
Committed and uncommitted borrowings	—	1.0
Medium Term Notes	4.8	4.7
Finance leases	4.3	4.3

The interest rate swaps are recognised at their fair value (IFRS 13 level 2 measurement). The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six monthly compared with twelve monthly on the receive fixed legs and related debt.

Derivative financial instruments

The below table illustrates the effects of hedge accounting on the consolidated statement of financial position and consolidated income statement through detailing separately by risk category and each type of hedge the details of the associated hedging instrument and hedged item.

	30 March 2019					
	Current			Non Current		
Hedging risk strategy	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Notional/currency legs	1,423.6	129.0	200.0	193.5	203.0	175.0
Carrying amount assets/(liabilities)	27.4	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100% ¹	100%	100%	100%	100% ¹	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument ²	95.9	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness ²	(95.9)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3%	GBP/EUR 1.12, GBP/USD 1.32	3.2%
Amounts recognised within finance costs in profit and loss ³	—	3.9	—	(3.5)	—	0.1
Balance on cashflow hedge reserve at 30 March 2019	(12.8)	N/A	N/A	(8.4)	1.7	N/A
Balance on cost of hedging reserve at 30 March 2019	—	N/A	N/A	(14.6)	—	N/A

1. Percentage of the amount permitted under treasury policy in relation to layered hedges on a rolling basis.

2. The £1.5m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge certain intercompany loans/deposits which are represented in the £5.4m as the net foreign exchange gains and losses under this strategy.

3. Amount in relation to cross currency swaps represents ineffectiveness.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

										31 March 2018	
										Notional Value	Fair Value
										Assets £m	Liabilities £m
Current											
Forward foreign exchange contracts	– cash flow hedges				343.6		1,213.4		5.1	(73.6)	
	– held for trading				149.8		674		2.0	(0.2)	
Interest rate swaps	– fair value hedges				–		–		–	–	
					493.4		1,280.8		7.1	(73.8)	
Non-current											
Cross-currency swaps	– cash flow hedges				–		193.5		–	(26.7)	
Forward foreign exchange contracts	– cash flow hedges				48.0		140.6		0.4	(4.0)	
Interest rate swaps	– fair value hedges				425.0		–		26.7	–	
					473.0		334.1		27.1	(30.7)	
30 March 2019											
										Notional Value	Fair Value
										Assets £m	Liabilities £m
Current											
Forward foreign exchange contracts	– cash flow hedges				1,073.8		349.8		34.3	(6.9)	
	– held for trading				53.9		75.1		0.7	(0.4)	
Interest rate swaps	– fair value hedges				200.0		–		5.3	–	
					1,327.7		424.9		40.3	(7.3)	
Non-current											
Cross-currency swaps	– cash flow hedges				–		193.5		4.7	(0.7)	
Forward foreign exchange contracts	– cash flow hedges				84.8		118.2		0.5	(2.1)	
Interest rate swaps	– fair value hedges				175.0		–		14.6	–	
					259.8		311.7		19.8	(2.8)	

The Group's hedging reserves disclosed in the consolidated statement of changes in equity, relate to the following hedging instruments:

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCI RS £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCI RS £m	Hedge reserve gilt locks £m	Hedge reserve 2037 debt £m	Deferred tax £m	Total hedge reserve £m
IAS 39 closing balance										
Adjustment on adoption of IFRS 9	0.8	(13.9)	2.4	(10.7)	(8.8)	–	0.4	30.8	(15.4)	65.3
Opening Balance 1 April 2018 under IFRS 9	0.8	(13.9)	2.4	(10.7)	57.5	(8.8)	0.4	44.7	(17.8)	76.0
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	(111.3)	–	–	(19.2)	–	(130.5)
Add: Costs of hedging deferred and recognised in OCI	(0.8)	(0.7)	–	(1.5)	–	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	42.7	–	–	–	–	42.7
Less: Reclassified from OCI to profit or loss	–	–	–	–	–	–	–	15.8	–	15.8
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	–	–	0.4	(0.2)	–	–	0.2
Less: Deferred tax	–	–	0.5	0.5	–	–	–	–	10.4	10.4
Closing Balance 30 March 2019	–	(14.6)	2.9	(11.7)	(11.1)	(8.4)	0.2	41.3	(7.4)	14.6

1. Cross-currency interest rate swaps.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

There were no reclassifications from the cashflow hedge reserve to profit and loss during the period in relation to forward currency contracts.

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a £0.1m gain (last year: £0.4m gain) as the gain on the hedged items was £4.6m (last year: £15.0m gain) and the movement on the hedging instruments was £4.5m loss (last year: £14.6m loss).

Movement in hedged items and hedging instruments

	2019 £m	2018 £m
Net gain/(loss) in fair value of interest rate swap	(4.5)	(14.6)
Net gain/(loss) on hedged items	4.6	15.0
Ineffectiveness	0.1	0.4

The Group holds a number of cross-currency interest rate swaps to re-designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in the profit and loss that arises from the cash flow hedges amounts to a £3.5m loss (last year: £2.3m loss) as the gain on the hedged items was £4.4m (last year: £24.9m gain) and the movement on the hedging instruments was £7.9m loss (last year: £27.2m loss).

Movement in hedged items and hedging instruments

	2019 £m	2018 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	4.4	24.9
Net gain/(loss) on hedged items	(7.9)	(27.2)
Ineffectiveness	(3.5)	(2.3)

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The directors consider that a 2%+/- (last year: 2%) movement in interest and a 20%+/- (last year: 20%) movement in sterling against the relevant currency represents a reasonably possible change. However this analysis is for illustrative purposes only.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such a risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

Interest rates The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

Foreign exchange The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivatives. This value is expected to be materially offset by the re-translation of the related transactional exposures.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2018				
Impact on income statement: gain/(loss)	8.9	(9.1)	-	-
Impact on other comprehensive income: (loss)/gain	(15.6)	10.6	215.7	(222.4)
At 30 March 2019				
Impact on income statement: gain/(loss)	5.4	(4.0)	-	-
Impact on other comprehensive income: (loss)/gain	(4.3)	2.5	226.8	(226.8)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out. To reconcile the amounts shown in the tables below to the Statement of Financial Position, items which are not subject to offsetting should be included.

To reconcile the amount shown in the tables below to the Statement of Financial Position, items which are not subject to offsetting should be included.

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/(liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 31 March 2018					
Trade and other receivables	31.3	(29.9)	1.4	–	1.4
Derivative financial assets	34.2		34.2	(34.2)	–
Cash and cash equivalents	46.3	(46.0)	0.3	–	0.3
	111.8	(75.9)	35.9	(34.2)	1.7
 Trade and other payables					
Derivative financial liabilities	(276.4)	29.9	(246.5)	–	(246.5)
Bank loans and overdrafts	(104.5)	–	(104.5)	34.2	(70.3)
	(82.5)	46.0	(36.5)	–	(36.5)
	(463.4)	75.9	(387.5)	34.2	(353.3)
	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/(liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	–	3.2
Derivative financial assets	60.1	–	60.1	(10.1)	50.0
Cash and cash equivalents	34.8	(34.8)	–	–	–
	119.8	(56.5)	63.3	(10.1)	53.2
 Trade and other payables					
Derivative financial liabilities	(264.6)	21.7	(242.9)	–	(242.9)
Bank loans and overdrafts	(10.1)	–	(10.1)	10.1	–
	(107.1)	34.8	(72.3)	–	(72.3)
	(381.8)	56.5	(325.3)	10.1	(315.2)

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2019				2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	–	0.7	–	0.7	–	2.0	–	2.0
Derivatives used for hedging	–	59.4	–	59.4	–	32.2	–	32.2
Short-term investments	–	141.8	–	141.8	–	13.7	–	13.7
Unlisted investments ¹	–	–	9.9	9.9	–	–	9.9	9.9

Liabilities measured at fair value

Financial liabilities at fair value through profit or loss

– trading derivatives	–	(0.4)	–	(0.4)	–	(0.2)	–	(0.2)
Derivatives used for hedging	–	(9.7)	–	(9.7)	–	(104.3)	–	(104.3)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.9m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m measured as available for sale) (see note 16) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

The Marks & Spencer UKDB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,224.7m (last year: £9,989.3m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,008.6m (last year: £7,152.4m). Additionally, the scheme assets include £3,216.1m (last year: £2,836.9m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

The following table represents the changes in Level 3 instruments held by the Pension Schemes:

	2019 £m	2018 £m
Opening balance	2,836.9	1,444.9
Fair value gain/(loss) recognised in other comprehensive income	136.3	(74.9)
Additional investment	242.9	1,466.9
Closing balance	3,216.1	2,836.9

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 12), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's Medium Term Notes was £1,673.8m (last year £1,659.9m), the fair value of this debt was £1,724.0m (last year £1,761.0m).

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was five years (last year: six years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (negative outlook (revised from stable during the year)) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2019 £m	2018 £m
At 31 March 2018	233.3	28.4	30.2	291.9	260.7
Provided in the year	181.5	29.2	3.6	214.3	187.0
Released in the year	(22.8)	(2.4)	(1.4)	(26.6)	(28.8)
Utilised during the year	(63.3)	(32.3)	(1.0)	(96.6)	(133.0)
Exchange differences	(0.1)	(0.3)	–	(0.4)	2.2
Discount rate unwind	17.3	–	–	17.3	5.2
Reclassification to trade and other payables	(0.1)	(1.1)	–	(1.2)	(1.4)
At 30 March 2019	345.8	21.5	31.4	398.7	291.9
Analysed as:					
Current				148.6	98.8
Non-current				250.1	193.1

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one building. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions relate to the estimated costs associated with the International exit strategy and the strategic programme to transition to a single-tier UK distribution network. These provisions are expected to be utilised within the next year.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia. These provisions are expected to be utilised within the next year.

See note 5 for further information on these provisions.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 17% as applicable (last year: 19% and 17%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 Income Taxes) during the year are shown below.

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 2 April 2017	(43.3)	(62.4)	(169.4)	2.7	(272.4)	(9.4)	(281.8)
Credited/(charged) to income statement	8.0	33.1	1.2	1.3	43.6	1.7	45.3
Credited/(charged) to equity/other comprehensive income	–	–	(39.8)	19.9	(19.9)	0.5	(19.4)
Other balance sheet movement	1.4	–	–	–	1.4	(1.2)	0.2
At 31 March 2018	(33.9)	(29.3)	(208.0)	23.9	(247.3)	(8.4)	(255.7)
At 1 April 2018	(33.9)	(29.3)	(208.0)	23.9	(247.3)	(8.4)	(255.7)
Credited/(charged) to income statement	3.8	23.2	(1.6)	3.9	29.3	5.3	34.6
Credited/(charged) to equity/other comprehensive income	–	–	14.4	(11.5)	2.9	(0.2)	2.7
At 30 March 2019	(30.1)	(6.1)	(195.2)	16.3	(215.1)	(3.3)	(218.4)

Other short-term term temporary differences relate mainly to employee share options and financial instruments.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £321.7m (last year: £283.2m) and a tax value of £61.1m (last year: £53.8m). Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £70.5m (last year: £80.1m) and a tax value of £14.5m (last year: £16.9m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £44.5m (last year: £48.4m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.7m (last year: £11.5m), however, this has not been recognised on the basis that the distribution can be controlled by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ORDINARY SHARE CAPITAL

	2019		2018	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	1,624,757,346	406.2	1,624,727,846	406.2
Shares issued on exercise of share options	242,884	0.1	29,500	—
At end of year	1,625,000,230	406.3	1,624,757,346	406.2

Issue of new shares

242,884 (last year: 29,500) ordinary shares having a nominal value of £0.1m (last year: £0.0m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £0.6m (last year: £0.1m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2019 £m	2018 £m
Commitments in respect of properties in the course of construction	90.1	121.8
Software capital commitments	6.8	17.2
Total	96.9	139.0

B. Other material contracts

In the event of termination of our trading arrangements with certain warehouse operators, the Group has a number of options and commitments to purchase some property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf. These options and commitments would have an immaterial impact on the Group's Statement of Financial Position.

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2019 £m	2018 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	296.1	288.5
– Later than one year and not later than five years	1,053.7	1,026.1
– Later than five years and not later than 10 years	871.2	896.8
– Later than 10 years and not later than 15 years	499.5	503.8
– Later than 15 years and not later than 20 years	280.1	304.6
– Later than 20 years and not later than 25 years	124.8	149.4
– Later than 25 years	964.5	1,026.8
Total	4,089.9	4,196.0

The total future sublease payments to be received are £214.6m (last year: £274.4m).

Of the total rental payable commitments under operating leases disclosed above, £308.5m (last year: £172.5m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2019 £m	2018 £m
Profit on ordinary activities after taxation	37.3	29.1
Income tax expense	47.3	37.7
Finance costs	111.6	113.8
Finance income	(33.8)	(24.1)
Operating profit	162.4	156.5
Decrease/(increase) in inventories	73.8	(38.2)
(Increase)/decrease in receivables	(1.0)	28.8
Decrease in payables	(13.7)	(87.4)
Adjusting items net cash outflows	(124.4)	(153.1)
Non-cash share-based payment charges	19.2	18.9
Depreciation, amortisation and write-offs	544.9	5806
Defined benefit pension funding	(37.9)	(41.4)
Adjusting items M&S Bank	(20.9)	(34.7)
Adjusting operating profit items	438.6	514.1
Cash generated from operations	1,041.0	944.1

Adjusting items net cash outflows relate to the utilisation of the provisions for International store closures and impairments, strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, UK store impairments and property charges, GMP and other pension equalisation and establishing the Ocado joint venture. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 2 April 2017 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2018 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(70.3)	(18.1)	–	(88.4)
Less: amounts treated as financing (see below)	7.9	43.8	–	51.7
	(62.4)	25.7	–	(36.7)
Cash and cash equivalents (see note 18)	468.6	(257.4)	(3.5)	207.7
Net cash per statement of cash flows	406.2	(231.7)	(3.5)	171.0
Current financial assets (see note 16)	14.5	(0.8)	–	13.7
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(79)	(43.8)	–	(51.7)
Medium Term Notes (see note 20)	(1,911.4)	328.2	(1.5)	(1,584.7)
Finance lease liabilities (see note 20)	(48.7)	2.6	(1.9)	(48.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(387.4)	59.6	–	(327.8)
Debt financing	(2,355.4)	346.6	(3.4)	(2,012.2)
Net debt	(1,934.7)	114.1	(6.9)	(1,827.5)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ANALYSIS OF NET DEBT CONTINUED

A. Reconciliation of movement in net debt continued

	At 1 April 2018 £m	Cash flow £m	Exchange and other non-cash movements £m	At 30 March 2019 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(88.4)	11.1	5.0	(72.3)
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	—
	(36.7)	(35.6)	—	(72.3)
Cash and cash equivalents (see note 18)	207.7	779	(0.2)	285.4
Net cash per statement of cash flows	171.0	42.3	(0.2)	213.1
Current financial assets (see note 16)	13.7	128.1	—	141.8
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	—
Medium Term Notes (see note 20)	(1,584.7)	(1.4)	(1.2)	(1,587.3)
Finance lease liabilities (see note 20)	(48.0)	3.3	(1.8)	(46.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(327.8)	61.6	—	(266.2)
Debt financing	(2,012.2)	110.2	2.0	(1,900.0)
Net debt	(1,827.5)	280.6	1.8	(1,545.1)

B. Reconciliation of net debt to statement of financial position

	2019 £m	2018 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	285.4	207.7
Current financial assets (see note 16)	141.8	13.7
Bank loans and overdrafts (see note 20)	(72.3)	(88.4)
Medium Term Notes – net of hedging derivatives	(1,624.3)	(1,621.7)
Finance lease liabilities (see note 20)	(46.5)	(48.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	(272.4)	(335.5)
	(1,588.3)	(1,872.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	43.2	44.7
Total net debt	(1,545.1)	(1,827.5)

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It was repayable on five business days notice and was renewed on 31 December 2017. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter. The loan was extinguished on 8 March 2019 through a capital reduction of the investment in the joint venture by £5.0m.

C. Marks & Spencer UK Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

D. Key management compensation

The Group has determined that the key management personnel constitute the Board and the members of the Operating Committee.

	2019 £m	2018 £m
Salaries and short-term benefits	8.0	7.9
Share-based payments	1.1	0.4
Total	9.1	8.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

IFRS 9 and IFRS 15 were new accounting standards adopted in the year and effective for the Group from 1 April 2018. IFRS 15 has not had a material impact on the financial statements of the Group and the impact of adoption is disclosed within note 1. As IFRS 9 has a more extensive impact on the opening balances of the financial statements of the Group on adoption the impact has been disclosed in detail below.

IFRS 9

IFRS 9 was adopted using the modified transition approach without restating comparative information. The reclassification and adjustments in relation to the new impairment rules are recognised in the opening balance sheet on 1 April 2018 and not reflected in the comparative balance sheet.

The table below shows the amount of adjustment for each financial statement line impacted by the adoption of IFRS 9.

	As at 31 March 2018 £m	IFRS 9 Adjustment £m	1 April 2018 restated £m
Consolidated Statement of Financial Position			
Non-current assets			
Other financial assets	9.9	-	9.9
Current assets			
Trade and other receivables	308.4	(0.6)	307.8
Current liabilities			
Provisions	98.8	(0.1)	98.7
Equity			
Retained earnings	6,531.1	(0.5)	6,530.6
Hedging reserve	(65.3)	(10.7)	(76.0)
Cost of hedging reserve	-	10.7	10.7

The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The total impact on the Group's retained earnings is as follows:

	£m
Closing retained earnings as at 31 March 2018	6,531.1
Increase in provision for trade receivables	(0.6)
Decrease in provision for other receivables	0.1
Adjustment to retained earnings from adoption of IFRS 9 on 1 April 2018	(0.5)
Opening retained earnings on 1 April 2018	6,530.6

Classification and measurement

On 1 April 2019, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories being fair value through profit and loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. Available for sale (AFS) category allowable under IAS 39 is not an allowable IFRS 9 categorisation. The main effects resulting from this classification are as follows:

	FVPL £m	FVOCI £m	Available for sale £m	Amortised cost £m
Financial assets at 31 March 2018	47.9	-	9.9	176.5
Reclassify available for sale financial assets to FVOCI	-	9.9	(9.9)	-
Opening balance at 1 April 2018	47.9	9.9	-	176.5

The impact of the changes on the Group's equity is as follows:

	AFS reserve £m	FVOCI reserve £m
Opening balance at 31 March 2018 under IAS 39	6.9	-
Reclassify available for sale financial assets to FVOCI	(6.9)	6.9
Opening balance at 1 April 2018 under IFRS 9	-	6.9

All equity financial instruments classified as available for sale under IAS 39 were irrevocably designated as fair value through other comprehensive income under IFRS 9 whereby gains or losses will never recycle to the profit and loss, instead being recognised as movements within retained earnings in other comprehensive income only. The classification was considered appropriate as the investments are expected to be held for the long term and not expected to be sold in the short to medium term. The cumulative associated available for sale reserve within equity of £6.9m was recognised as an adjustment within the other comprehensive income reserve on adoption of the standard.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

Classification and measurement continued

On the date of initial application, 1 April 2018, the Group's financial instruments were as follows with any reclassifications noted:

	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount £m	New carrying amount £m	Difference in carrying amount £m
Non-current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	2.3	2.3	—
Other financial assets	Available for sale	FVOCI	9.9	9.9	—
Derivative financial instruments	FVPL	FVPL	27.1	27.1	—
Current financial assets					
Other financial assets	FVPL	FVPL	13.7	13.7	—
Trade and other receivables	Amortised cost	Amortised cost	174.2	173.6	(0.6)
Derivative financial instruments	FVPL	FVPL	7.1	7.1	—
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	1,355.9	1,355.9	—
Borrowings and other financial liabilities	Amortised cost	Amortised cost	125.6	125.6	—
Derivative financial instruments	FVPL	FVPL	73.8	73.8	—
Non-current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	52.7	52.7	—
Borrowings and other financial liabilities	Amortised cost	Amortised cost	1,670.6	1,670.6	—

Derivatives and hedging activities

IFRS 9 more closely aligns the hedge accounting with financial risk management methodology. All hedge relationships were regarded as continuing hedge relationships, as all which were designated hedges under IAS 39 as at 31 March 2018 met the criteria for hedge accounting under IFRS 9 as the Group's risk management strategies and hedge documentation were aligned to the new standard.

Under IAS 39 the Group included the cost of hedging within the hedge relationship. On transition, IFRS 9 allows the choice to separate aspects of the costs of hedging from the designation within a hedge relationship as part of the hedging instrument. Similarly under IFRS 9 in relation to cross-currency interest rate swaps, the currency basis is separated into the cost of hedging reserve and separated from the hedge relationship.

On transition to IFRS 9, a classification change between the hedging reserve and cost of hedging reserve within equity of £10.7m debit to hedging reserve and credit to cost of hedging reserve was recognised.

Impairment of financial assets

The Group holds the following types of financial assets subject to IFRS 9's new expected credit loss model:

- Trade receivables.
- Other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is illustrated above, while a detailed description of the methodology is included with the credit risk disclosures in note 21.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. This resulted in an increase in the loss allowance on 1 April 2018 by £0.6m for trade receivables and a decrease of £0.1m for other receivables.

30 SUBSEQUENT EVENTS

Subsequent to the year end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group's exposure to changes in longevity, interest rates, inflation and other factors.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 March 2019 £m	As at 31 March 2018 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	9,269.5	9,260.3
Total assets		9,269.5	9,260.3
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		2,548.5	2,550.6
Total liabilities		2,548.5	2,550.6
Net assets		6,721.0	6,709.7
Equity			
Ordinary share capital		406.3	406.2
Share premium account		416.9	416.4
Capital redemption reserve		2,210.5	2,210.5
Merger reserve		1,397.3	1,397.3
Retained earnings		2,290.0	2,279.3
Total equity		6,721.0	6,709.7

The Company's profit for the year was £305.0m (last year: £305.0m).

The financial statements were approved by the Board and authorised for issue on 21 May 2019. The financial statements also comprise the notes C1 to C6.

Steve Rowe Chief Executive Officer

Humphrey Singer Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 2 April 2017	406.2	416.4	2,210.5	1,397.3	2,266.7	6,697.1
Profit for the year	—	—	—	—	305.0	305.0
Dividends	—	—	—	—	(303.4)	(303.4)
Capital contribution for share-based payments	—	—	—	—	11.0	11.0
At 31 March 2018	406.2	416.4	2,210.5	1,397.3	2,279.3	6,709.7
At 1 April 2018	406.2	416.4	2,210.5	1,397.3	2,279.3	6,709.7
Profit for the year	—	—	—	—	305.0	305.0
Dividends	—	—	—	—	(303.5)	(303.5)
Capital contribution for share-based payments	—	—	—	—	9.2	9.2
Shares issued on exercise of employee share options	0.1	0.5	—	—	—	0.6
At 30 March 2019	406.3	416.9	2,210.5	1,397.3	2,290.0	6,721.0

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flow from investing activities		
Dividends received	305.0	305.0
Net cash generated from investing activities	305.0	305.0
Cash flows from financing activities		
Shares issued on exercise of employee share options	0.6	—
Repayment of intercompany loan	(2.1)	(1.6)
Equity dividends paid	(303.5)	(303.4)
Net cash used in financing activities	(305.0)	(305.0)
Net cash inflow	—	—
Cash and cash equivalents at beginning and end of year	—	—

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the Company) is a public Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Company and the nature of the Company's operations is as a holding entity.

These financial statements are presented in Sterling, which is the currency of the primary economic environment in which the Company operates and are rounded to the nearest million.

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use which requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flows over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,028,666 (last year: £999,922). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	11.9p	11.9p	193.1	193.1
Paid interim dividend	6.8p	6.8p	110.4	110.3
	18.7p	18.7p	303.5	303.4

The directors have approved a final dividend of 7.1p per share (last year: 11.9p per share) which in line with the requirements of IAS 10 Events after the Reporting Period, has not been recognised within these results. This final dividend of c.£115.4m (last year: £193.1m) will be paid on 12 July 2019 to shareholders whose names are on the Register of Members at the close of business on 31 May 2019. The ordinary shares will be quoted ex dividend on 30 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 21 June 2019.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £305.0m (last year: £305.0m) and decreased its loan from Marks and Spencer plc by £2.1m (last year: £1.6m). The outstanding balance was £2,548.5m (last year: £2,550.6m) and is non-interest bearing. There were no other related party transactions.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2019 £m	2018 £m
Beginning of the year	9,260.3	9,249.3
Additional investment in subsidiary undertakings relating to share-based payments	9.2	11.0
End of year	9,269.5	9,260.3

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc.

The Company tests investments in subsidiary undertakings annually for impairment.

The recoverable amount of the investment is determined from value in use calculations. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates, and expected trading performance. These assumptions have been revised in the year in light of the current economic outlook which has softened in the period since the last impairment review was undertaken.

The cash flows used in the value in use calculation are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network but exclude any growth capital initiatives not committed. The latest budget and three-year plan reflect a more conservative view of the short-term future performance of the Group.

Cash flows beyond this three-year period are extrapolated for a further two years using the expected growth rates expected in year three and then extrapolated beyond this period using the Group's current view of achievable long-term growth of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the outcome of the strategic programme to transform the business in achieving a higher terminal growth rate.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The rate used to discount the forecast cash flows is 9.1%.

The value in use calculation also includes the intercompany payable due from the company to the subsidiary of £2,548.5m.

The outcome of the value in use calculation supports the carrying value of the investment in subsidiary undertakings, with a headroom of £336.7m. This is significantly lower than the £1.8bn headroom calculated in the prior year (having corrected a mechanical error in the prior year calculation) reflecting the impact of the current outlook and the updated forecasts discussed above.

The following key assumptions would have to change as follows in order to eliminate the headroom within the impairment test:

- The cash flow forecasts in each of the years covered by the three-year forecast would have to be 3.9% below forecast (last year restated: 17.3%);
- The long-term growth rate of cash flows would have to decline to 2.0% per annum (last year: -2.1%); or
- The pre-tax discount rate would have to increase to 9.4% (last year: 10.4%).

As disclosed in the accounting policies note C1, the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions, given the reduced level of headroom, could lead to an impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions. A 3% reduction in cash flows from the three-year plan would reduce the headroom by £261.9m, a 25 basis point increase in the discount rate would reduce the headroom by £297.1m, neither of which in isolation would result in an impairment. A 50 basis point decrease in the long-term growth rate (reducing the growth rate down to just reflect the expected long-term inflation rate) would result in an impairment of £134.2m. In the event that all three were to occur simultaneously, an impairment of £643.7m would be recorded.

Based on the corrected prior year headroom, a 3% reduction in cash flows from the three-year plan would have reduced the headroom by £311m, a 25 basis point increase in the discount rate would have reduced the headroom by £290m and a 50 basis point decrease in the long-term growth rate would have reduced the headroom by £499m. In the event that all three were to occur simultaneously, no impairment would have resulted.

B Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 30 March 2019 is disclosed below.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

Subsidiary and other related undertakings registered in the UK⁽ⁱ⁾

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 Ordinary	—	100	Marks and Spencer Guernsey Investments LLP	Partnership interest	—	100
Founders Factory Retail Limited	£0.0001 Ordinary	—	0.002	Marks and Spencer Holdings Limited	£1 Ordinary	100	—
	£0.0001 Preferred	—	49.999	Marks and Spencer International Holdings Limited	£1 Ordinary	—	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 B Ordinary	—	50	Marks and Spencer Pension Trust Limited⁽ⁱⁱ⁾	£1 A Ordinary	100	—
M&S Limited	£1 Ordinary	—	100		£1 B Ordinary	—	—
Manford (Textiles) Limited	£1 Ordinary	—	100		£1 C Ordinary	—	—
Marks & Spencer Company Archive CIC⁽ⁱⁱⁱ⁾	N/A	—	—	Marks and Spencer plc	£0.25 Ordinary	100	—
Marks & Spenser Simply Foods Limited	£1 Ordinary	—	100	Marks and Spencer Property Developments Limited	£1 Ordinary	—	100
Marks and Sparks Limited	£1 Ordinary	—	100	Marks and Spencer Scottish Limited Partnership^(iv) Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	—	100
Marks and Spencer (Northern Ireland) Limited Registered Office: 8 Laganbank Road, Belfast, BT1 3LR	£1 Ordinary	—	100	St. Michael (Textiles) Limited	£1 Ordinary	—	100
Marks and Spenser France Limited	£1.14 Ordinary	—	100	St. Michael Finance plc	£1 Ordinary	—	100

UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 March 2019. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number	Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Amethyst Leasing (Properties) Limited	—	100	04246934	Marks and Spencer 2005 (Parman House Kingston Store) Limited	—	100	05502588
Busexport Limited	—	100	04411320	Marks and Spencer 2005 (Pudsey Store) Limited	—	100	05502544
Marks & Spenser Outlet Limited	—	100	04039568	Marks and Spencer 2005 (Warrington Gemini Store) Limited	—	100	05502502
Marks and Spencer (Initial LP) Limited Registered Office: No 2 Lothrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	—	SC315365	Marks and Spencer Chester Limited	—	100	05174129
Marks and Spencer (Bradford) Limited	—	100	10011863	Marks and Spencer Hungary Limited	—	100	08540784
Marks and Spencer (Property Investments) Limited	—	100	05502582	Marks and Spencer Investments	—	100	04903061
Marks and Spencer (Property Ventures) Limited	—	100	05502513	Marks and Spencer Property Holdings Limited	—	100	02100781
Marks and Spencer 2005 (Brooklands Store) Limited	—	100	05502608	Marks and Spencer Shared Services Limited	—	100	04461788
Marks and Spencer 2005 (Chester Satellite Store) Limited	—	100	05502519	Minterton Services Limited	—	100	04763836
Marks and Spencer 2005 (Chester Store) Limited	—	100	05502542	Ruby Properties (Cumbernauld) Limited	—	100	04922798
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	—	100	05502598	Ruby Properties (Enfield) Limited (Strike off requested)	—	100	04716390
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	—	100	05502546	Ruby Properties (Hardwick) Limited	—	100	04716018
Marks and Spencer 2005 (Hedge End Store) Limited	—	100	05502538	Ruby Properties (Long Eaton) Limited	—	100	04716031
Marks and Spencer 2005 (Kensington Store) Limited	—	100	05502478	Ruby Properties (Thorncliffe) Limited	—	100	04716110
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	—	100	05502523	Ruby Properties (Tunbridge) Limited	—	100	04716032
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	—	100	05502520	Simply Food (Property Investments)	—	100	05502543
				Simply Food (Property Ventures) Limited	—	100	02239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £6.4m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.

(ii) No share capital, as the company is limited by guarantee. Marks and Spencer plc is the sole member.

(iii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C ordinary shares are both directors of that company.

(iv) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

B Related undertakings continued
International subsidiary undertakings⁽ⁱ⁾

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)	Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100	Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	100
Marks and Spencer (Belgium) S.P.R.L.	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100	Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks & Spencer Inc.	Brussels Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100	Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 G/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100	Marks and Spencer (Israel) Limited	31 Ahad Haam Street, TEL AVIV 65202, Israel	Israel	NIS Ordinary	100
Marks and Spencer Commercial (Shanghai) Ltd	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, JingAn District, Shanghai, China	China	Registered Capital	100	Per Una Italia SRL (in liquidation)	via Crotto 25 - 59100 Prato, Italy	Italy	€ Quota	100
Marks and Spencer Czech Republic a.s.	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100	Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
			CZK 100,000 Ordinary	100	UAB MSF Lithuania	A. Ciausto g. 40B, Vilnius m., Lithuania	Lithuania	LTL 100 Ordinary	100
			CZK 1,000,000 Ordinary	100	M & S Mode International B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Services S.R.O	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	Registered Capital	100	Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
OÜ MSF Estonia	Paldiski mnt 102, Tallinn, 13522, Estonia	Estonia	Registered Capital	100	Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Andis SARL	48 Rue de la Chausée-d'Antin, 75009 Paris, France	France	€1,060 Ordinary	100	Marks and Spencer Nederland (Retail) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermoi Street, Athens, Greece	Greece	€3 Ordinary	80	Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Ignazia Limited	Heritage Hall, Le Merchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks and Spencer Poland Sp z o.o.	UL Marynarska 11, XI pitro 02-674 Warsaw, Poland	Poland	PLN 50.00 Ordinary	100
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100	Marks & Spence (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Teranis Limited	Heritage Hall, Le Merchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
M.S. General Insurance L.P.	Heritage Hall, Le Merchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	Partnership interest	100	Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suites 1520-25, 15/F, Ocean Centre, 5 Canton Road, Tsim Sha Shui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100	MSF Slovakia S.R.O	European Business Center, Suché Mýto 1, 811 02 Bratislava, Slovakia	Slovakia	Registered capital	100
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	100	Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100	M&S (Spain) S.L.	Calle Fuencarral No.119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer Reliance India Pvt Ltd	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51	Marks and Spencer Clothing Textile Trading L.L.C	Havalanı Karsısi İstanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, İstanbul, Turkey	Turkey	TRL 25.00 Ordinary	100
			INR 10 Class B	100					
			INR 5 Class C(ii)	0					

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).

(ii) INR 10 Class C shares and INR 10 Equity shares 100% owned by joint venture partner.

(iii) No share capital as the company is limited by guarantee.

GROUP FINANCIAL RECORD

	2019 52 weeks £m	2018 52 weeks £m	2017 52 weeks £m	2016 53 weeks £m	2015 52 weeks £m
Income statement					
Revenue¹					
UK	9,440.7	9,611.0	9,441.7	9,470.8	9,223.1
International	936.6	1,087.2	1,180.3	1,084.6	1,088.3
	10,377.3	10,698.2	10,622.0	10,555.4	10,311.4
Operating profit/(loss)¹					
UK	52.8	23.2	327.6	627.3	640.6
International	109.6	133.3	(74.4)	(43.2)	60.7
Total operating profit	162.4	156.5	253.2	584.1	701.3
Net interest payable	(103.6)	(107.4)	(106.1)	(110.6)	(111.8)
Pension finance income	25.8	17.7	29.3	15.3	10.5
Profit on ordinary activities before taxation	84.6	66.8	176.4	488.8	600.0
Analysed between:					
Profit before tax and adjusting items	523.2	580.9	613.8	689.6	661.2
Adjusting items	(438.6)	(514.1)	(437.4)	(200.8)	(61.2)
Income tax expense	(47.3)	(37.7)	(60.7)	(84.4)	(118.3)
Profit after taxation	37.3	29.1	115.7	404.4	481.7
	2019 52 weeks	2018 52 weeks	2017 52 weeks	2016 53 weeks	2015 52 weeks
Basic earnings per share ¹	Basic earnings/ Weighted average ordinary shares in issue	2.1p	1.6p	7.2p	24.9p
Adjusted basic earnings per share ¹	Adjusted basic earnings/ Weighted average ordinary shares in issue	25.4p	27.8p	30.4p	35.0p
Dividend per share declared in respect of the year		18.7p	18.7p	18.7p	18.0p
Dividend cover	Adjusted earnings per share/Dividend per share	1.4x	1.5x	1.6x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	3.8x	3.8x	3.4x	3.7x
Statement of financial position					
Net assets (£m)	2,680.9	2,954.2	3,150.4	3,443.4	3,198.8
Net debt ² (£m)	1,545.1	1,827.5	1,934.7	2,138.3	2,223.2
Capital expenditure (£m)	294.5	300.5	331.2	525.1	526.6
Stores and space					
UK stores	1,043	1,035	979	914	852
UK selling space (m sq ft)	17.2	17.6	17.4	17.0	16.8
International stores	444	428	454	468	480
International selling space (m sq ft)	4.9	5.2	5.9	6.1	6.0
Staffing (full-time equivalent)					
UK	50,578	53,273	53,562	52,388	52,247
International	4,862	5,655	6,202	6,507	6,849

The above results are prepared under IFRS for each reporting period on a consistent basis, with the exception of the implementation of IFRS 9 and IFRS 15 in 2018/19 for which comparative periods have not been restated.

1. Based on continuing operations.
2. Excludes accrued interest.

GLOSSARY

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets.

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial information relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable to similarly-titled measures reported by other companies due to differences in the way they are calculated.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
International owned retained and franchise revenue growth at constant currency	Movement in revenue per the income statement	Sales from closure markets	The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results.
			FY 18/19 FY 17/18 £m £m %
			International Revenue
			Reported currency 936.6 1,087.2 (13.9)
			Owned exit - (66.4) 100
			Owned retained and franchise 936.6 1,020.8 (8.2)
			Impact of FX translation - (6.1) 100
			Owned retained and franchise at constant currency 936.6 1,014.7 (7.7)
Management gross margin	Gross profit margin ¹	Certain downstream logistics costs (see note 2)	Where referred to throughout the Annual Report, management gross margin is calculated as gross profit on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.
EBIT before adjusting items	EBIT ²	Adjusting items (see note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the Consolidated Income Statement. This measure is used in calculating the Return on Capital Employed for the Group.
Profit before tax and adjusting items	Profit before tax	Adjusting items (see note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
Adjusted earnings per share	Earnings per share	Adjusting items (see note 5)	This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (see note 5)	This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used.
			Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
			Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK pension scheme less cash, cash equivalents and unlisted and short-term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of Return on Capital Employed.
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination.
Return on Capital Employed	None	Not applicable	Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:
			FY 18/19 £m FY 17/18 £m
		EBIT before adjusting items	601.0 670.6
		Average capital employed	4,267.9 4,785.3
			This measure is used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.

1. Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.
2. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

IMPORTANT NOTICE

**NOTICE OF
ANNUAL
GENERAL
MEETING
2019**

**WEMBLEY STADIUM, WEMBLEY
LONDON HA9 0WS**

Tuesday 9 July 2019 at 11am

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser. If you have sold or otherwise transferred all your shares in the Company, please forward this document and accompanying documents (except any personalised form of proxy, if applicable) to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF MEETING 2019

DEAR SHAREHOLDER



"I am pleased to invite shareholders to the 18th Annual General Meeting of Marks and Spencer Group plc."

NICK FOLLAND GROUP GENERAL COUNSEL AND COMPANY SECRETARY

M&S WEBSITE

Our corporate website, **marksandspencer.com/thecompany**, is the principal means we use to communicate with our shareholders. There is a wealth of information online including:

- A copy of our full Annual Report, which includes our Strategic Report.**
- All the latest M&S news, press releases and investor presentations.**
- A detailed account of our approach to corporate governance at M&S.**

ANNUAL GENERAL MEETING (AGM)

The AGM is an important day in our calendar and is the Board's opportunity to present the Company's performance and strategy to shareholders and to listen and respond to your questions.

The AGM will be held at Wembley Stadium, Wembley, London HA9 0WS. This venue offers superb facilities and is accessible by bus, rail and tube. In addition, this year we will be enabling shareholders unable to attend the meeting in person to do so electronically. Further information on how to join the meeting electronically can be found on page 156.

More details about the day and how to get there, including a map, can be found on pages 155 and 156 of this Notice.

The formal Notice of Meeting follows this letter. The meeting will start at 11am, with light refreshments available before the meeting and following its conclusion. After the meeting, a lunch bag will be provided for you to enjoy either at the venue or during your onward journey.

If you cannot attend the meeting in person or electronically, we would still like to understand the themes and issues of concern to you, as shareholders. You may send your comments by email to **chairman@marks-and-spencer.com** with the heading AGM 2019.

YOUR VOTE COUNTS

Your vote is important to us. You can:

- Register your proxy vote electronically by logging on to our Registrar's website, **sharevote.co.uk**, or by using the service offered by Euroclear UK & Ireland Limited for members of CREST.
- Complete and return the enclosed proxy form.
- Attend and vote at the AGM either in person or electronically – see page 156 of this Notice for further details.

VOTING

The accompanying proxy form invites you to vote in one of three ways for each of the resolutions: 'for', 'against' or 'vote withheld'.

Voting on all resolutions will be by way of a poll. Your vote counts whether you are able to attend the meeting or not and we think poll voting is the most democratic approach as the proxy results are added to the votes of shareholders attending in person or electronically.

The results of the voting will be announced through a Regulatory Information Service and will be published on our website **marksandspencer.com/thecompany** on 9 July 2019 or as soon as reasonably practicable thereafter.

If you have already appointed a proxy you will still be able to attend and vote at the meeting and your vote on the day will replace your previously lodged proxy voting instructions.

In 2018, all resolutions were passed at the meeting with votes ranging from 91.56% to 99.99% in favour.

EXPLANATORY NOTES

An explanation of each of the resolutions being proposed at the AGM is set out on the following pages.

EXPLANATORY NOTES TO THE RESOLUTIONS

TO RECEIVE THE REPORTS AND ACCOUNTS 1

The Board asks that shareholders receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 30 March 2019, together with the report of the auditor.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT 2

The Directors' Remuneration Report sets out the pay and benefits received by each of the directors for the year ended 30 March 2019. In line with legislation, this vote is advisory and the directors' entitlement to remuneration is not conditional on it.

FINAL DIVIDEND 3

The Board proposes a final dividend of 7.1p per share for the year ended 30 March 2019. If approved, the recommended final dividend will be paid on 12 July 2019 to all shareholders who were on the Register of Members at the close of business on 31 May 2019.

ELECTION OF DIRECTORS 4–12

The directors believe that the Board continues to maintain an appropriate balance of knowledge and skills and that all the non-executive directors are independent in character and judgement. This follows a process of formal evaluation, which confirms that each director makes an effective and valuable contribution to the Board and demonstrates commitment to the role (including making sufficient time available for Board and Committee meetings and other duties as required). In accordance with the UK Corporate Governance Code and in line with previous years, all directors will again stand for election or re-election, as relevant, at the AGM this year. Biographies are available on pages 36 and 37 of the Annual Report, with further details available on our website, marksandspencer.com/thecompany. It is the Board's view that the directors' biographies illustrate why each director's contribution is, and continues to be, important to the Company's long term sustainable success.

APPOINTMENT AND REMUNERATION OF AUDITOR 13–14

On the recommendation of the Audit Committee, the Board proposes in resolution 13 that Deloitte LLP be re-appointed as auditor of the Company.

Resolution 14 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

RENEWAL OF THE POWERS OF THE BOARD TO ALLOT SHARES 15

The Company is currently conducting a rights issue (the "Rights Issue") to raise up to £601.3m, the terms of which were announced on 22 May 2019, using authorities granted at the 2018 AGM. Further details are in the Company's announcement, made on that date. The Rights Issue is expected to complete before the date of the 2019 AGM, and is not dependent on the resolutions proposed at that AGM.

Paragraph (A) of this resolution 15 would give the directors the authority to allot ordinary shares of the Company up to an aggregate nominal amount equal to £162,504,984 (representing 650,019,936 ordinary shares of 25p each). This amount represents approximately one-third (33.33%) of the Company's anticipated issued share capital following completion of the Rights Issue.

In line with guidance issued by the Investment Association (IA), paragraph (B) of this resolution would give the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £325,009,968 (representing 1,300,039,872 ordinary shares), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. This amount (before any reduction) represents approximately two-thirds (66.66%) of the anticipated issued ordinary share capital of the Company following completion of the Rights Issue.

The authorities sought under paragraphs (A) and (B) of this resolution will expire at the conclusion of the AGM in 2020 or on 1 October 2020, whichever is sooner. The directors have no present intention to allot shares, except to satisfy options under the Company's share option schemes and in connection with the Rights Issue; however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources.

As at the date of this Notice, no shares are held by the Company in treasury.

AUTHORITY TO DISAPPLY PRE-EMPTION RIGHTS 16–17

Resolutions 16 and 17 are proposed as special resolutions. If the Directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are first offered to shareholders in proportion to their existing holdings.

At last year's AGM, a special resolution was passed, in line with institutional shareholder guidelines, empowering the directors to allot equity securities for cash without first offering them to existing shareholders in proportion to their existing holdings. It is proposed, under resolution 16, that this authority be renewed. If approved, the resolution will authorise directors to issue shares in connection with pre-emptive offers, or otherwise to issue shares for cash up to an aggregate nominal amount of £24,375,748 (representing 97,502,990 ordinary shares) which includes the sale on a non pre-emptive basis of any shares the company holds in treasury for cash. This aggregate nominal amount represents approximately 5% of the anticipated issued ordinary share capital of the Company following completion of the Rights Issue.

The Pre-Emption Group's Statement of Principles also support the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities and sales of treasury shares for cash where these represent no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares) and are used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

Accordingly, the purpose of resolution 17 is to authorise the directors to allot new shares and other equity securities pursuant to the allotment authority given by resolution 15, or sell treasury shares for cash, without first being required to offer such securities to existing shareholders, up to a further nominal amount of £24,375,748 (representing 97,502,990 ordinary shares), representing approximately 5% of the anticipated issued ordinary share capital of the Company following completion of the Rights Issue. The authority granted by this resolution, if passed, will only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 17 is used, the Company will publish details of its use in its next Annual Report.

The authority granted by resolution 17 would be in addition to the general authority to disapply pre-emption rights under resolution 16. The maximum nominal value of equity securities which could be allotted if both authorities were used would be £48,751,496, which represents approximately 10% of the anticipated issued ordinary share capital of the Company following completion of the Rights Issue.

The directors intend to adhere to the provisions in the Pre-emption Group's Statement of Principles and not to allot shares or other equity securities or sell treasury shares for cash on a non pre-emptive basis pursuant to the authority in resolution 16 in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company, excluding treasury shares, within a rolling three-year period, other than:

- (i) With prior consultation with shareholders; or
- (ii) In connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The directors consider the authorities in resolutions 16 and 17 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions.

These authorities will expire at the conclusion of the AGM in 2020 or on 1 October 2020, whichever is sooner.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

18

Authority is sought for the Company to purchase up to 10% of its ordinary shares anticipated to be in issue following completion of the Rights Issue, renewing the authority granted by the shareholders at previous AGMs.

The directors have no present intention of exercising the authority to purchase the Company's own shares; however, this authority would provide them with the flexibility to do so in the future, if the prevailing market conditions made such purchases in the best interests of shareholders generally.

Ordinary shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled. It remains the Company's intention to cancel any shares it buys back rather than hold them in treasury. The Company currently holds no shares in treasury. The minimum price, exclusive of expenses, which may be paid for an ordinary share is 25p. The maximum price, exclusive of expenses, that may be paid for an ordinary share is the highest of:

- (i) An amount equal to 105% of the average market value for an ordinary share for the five business days immediately preceding the date of the purchase; and
- (ii) The higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Company has options outstanding over 37.5 million ordinary shares, representing 2.31% of the Company's issued ordinary share capital as at 21 May 2019, the latest practicable date before the publication of this Notice.

If the existing authority given at the 2018 AGM and the authority now being sought by this resolution were to be fully used, these options would represent 2.96% of the Company's ordinary share capital in issue at that date.

NOTICE OF GENERAL MEETING

19

In accordance with the Companies Act 2006 (the "2006 Act"), the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

- (i) Has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and
- (ii) Offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 19 seeks such approval and, should this resolution be approved, it will be valid until the end of the next AGM. This is the same authority that was sought and granted at last year's AGM.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

AUTHORITY TO MAKE POLITICAL DONATIONS

20

The 2006 Act prohibits companies from making any political donations to EU political organisations or independent candidates, or incurring EU political expenditure, unless authorised by shareholders in advance.

The Company does not make, and does not intend to make, donations to EU political organisations or independent election candidates, nor does it incur or intend to incur any EU political expenditure.

However, the definitions of political donations, political organisations and political expenditure used in the 2006 Act are very wide. As a result, this can cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform.

Shareholder approval is being sought on a precautionary basis only, to allow the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, to continue to support the community and put forward its views to wider business and government interests, without running the risk of inadvertently breaching legislation.

The Board is therefore seeking authority to make political donations and to incur political expenditure not exceeding £50,000 in total. In line with best practice guidelines published by the IA, this resolution is put to shareholders annually rather than every four years as required by the 2006 Act.

THE REPUBLIC OF IRELAND SHARESAVE PLAN 2019

21

The existing Marks and Spencer Group Republic of Ireland Sharesave Plan was approved by shareholders in 2009, and is due to expire this year. It is proposed a new Republic of Ireland Sharesave Plan (the "ROI Sharesave Plan 2019") be approved by shareholders to replace the existing plan. The terms of the ROI Sharesave Plan 2019 are substantially the same as the existing Republic of Ireland Sharesave Plan, and the Marks and Spencer Group UK Sharesave Plan. The principal terms of the ROI Sharesave Plan 2019 are summarised in Appendix 1 to this Notice of Meeting.

RECOMMENDATION

Your directors believe that the proposals described above are in the best interests of the Company and its shareholders as a whole and recommend you to give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

Yours faithfully,

Nick folland

NICK FOLLAND GROUP GENERAL COUNSEL
AND COMPANY SECRETARY

London, 21 May 2019

MARKS AND SPENCER GROUP PLC

NOTICE OF MEETING

9 JULY 2019

Notice is hereby given that the Annual General Meeting of Marks and Spencer Group plc (the "Company") will be held at Wembley Stadium, Wembley, London HA9 0WS and electronically in accordance with the information provided on page 156 on Tuesday 9 July 2019 at 11am (the "AGM") for the purposes set out below.

Resolutions 1 to 15, 20 and 21 will be proposed as ordinary resolutions, and Resolutions 16 to 19 will be proposed as special resolutions.

1. To receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 30 March 2019, together with the report of the auditor.

2. To approve the Directors' Remuneration Report for the year ended 30 March 2019, as set out on pages 63-75 of the Annual Report.

3. To declare a final dividend of 7.1p per ordinary share.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

4. Archie Norman

5. Steve Rowe

6. Humphrey Singer

7. Katie Bickerstaffe

8. Alison Brittain

9. Andrew Fisher

10. Andy Halford

11. Pip McCrostie

To elect the following director appointed to the Board since the last Annual General Meeting:

12. Justin King

To view our Board biographies go to the Investors section of our corporate website, marksandspencer.com/thecompany.

13. To resolve that Deloitte LLP be, and is hereby, re-appointed as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

14. To resolve that the Audit Committee determine the remuneration of the auditor on behalf of the Board.

15. DIRECTORS' AUTHORITY TO ALLOT SHARES

To resolve that the directors be and are hereby authorised generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(A) Up to a nominal amount of £162,504,984 (such amount to be reduced by any allotments or grants made under paragraph (B) below in excess of such sum); and

(B) Comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a nominal amount of £325,009,968 (such amount to be reduced by any allotments made under paragraph (A) above) in connection with an offer by way of a rights issue:

(i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary, and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The authorities conferred on the directors to allot securities under paragraphs (A) and (B) will expire at the conclusion of the AGM of the Company to be held in 2020 or on 1 October 2020, whichever is sooner, unless previously revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

16. GENERAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of Resolution 15, the directors be empowered to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution (set out in this Notice of Meeting), and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be limited:

(A) To the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (B) of Resolution 15, by way of a rights issue only):

(i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

NOTICE OF MEETING CONTINUED

(B) In the case of the authority granted under paragraph (A) of Resolution 15 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) above) up to a nominal amount of £24,375,748 and shall expire at the conclusion of the AGM to be held in 2020 or on 1 October 2020, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

17. ADDITIONAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of Resolution 15, the directors be empowered in addition to any authority granted under Resolution 16 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that Resolution 15 (set out in this Notice of Meeting) and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be:

(A) Limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £24,375,748; and

(B) Used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice of Meeting, and shall expire at the conclusion of the AGM to be held in 2020 or on 1 October 2020, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

18. COMPANY'S AUTHORITY TO PURCHASE ITS OWN SHARES

To resolve as a special resolution that the Company is authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 25p each ("ordinary shares"), such power to be limited:

(A) To a maximum number of 195 million ordinary shares.

(B) By the condition that the minimum price which may be paid for an ordinary share is 25p and the maximum price which may be paid for an ordinary share is the highest of:

- (i)** An amount equal to 105% of the average market value of an ordinary share for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
- (ii)** The higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out, in each case, exclusive of expenses,

such power to apply until the end of the AGM to be held in 2020 or until 1 October 2020, whichever is sooner, but in each case so that the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase ordinary shares pursuant to any such contract as if the power had not ended.

19. CALLING OF GENERAL MEETINGS ON 14 DAYS' NOTICE

To resolve as a special resolution that a general meeting other than an Annual General Meeting may be called on no fewer than 14 clear days' notice.

20. POLITICAL DONATIONS

To resolve that, in accordance with section 366 of the Companies Act 2006, the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, be and are hereby authorised to:

- (A)** make political donations to political parties or independent election candidates, not exceeding £50,000 in total;
- (B)** make political donations to political organisations other than political parties, not exceeding £50,000 in total; and
- (C)** incur political expenditure not exceeding £50,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000, during the period beginning with the date of the passing of this resolution and ending at the conclusion of the AGM to be held in 2020 or on 1 October 2020, whichever is sooner.

For the purpose of this resolution the terms "political donations", "political parties", "independent election candidates", "political organisations" and "political expenditure" have the meanings set out in sections 363 to 365 of the Companies Act 2006.

21. THE MARKS AND SPENCER GROUP REPUBLIC OF IRELAND SHARESAVE PLAN 2019

To resolve that the Marks and Spencer Group Republic of Ireland Sharesave Plan 2019 (the "ROI Sharesave Plan 2019"), the principal terms of which are summarised in the Appendix to this Notice and the rules of which are produced to the meeting and signed by the Chairman for the purposes of identification, be approved and the directors of the Company be authorised to do all such acts and things they consider necessary or expedient to implement and to give effect to the ROI Sharesave Plan 2019, including but not limited to making any modifications to the ROI Sharesave Plan 2019 as may be necessary or desirable to obtain the approval of the Irish Revenue Commissioners for the ROI Sharesave Plan 2019.

By order of the Board

NICK FOLLAND GROUP GENERAL COUNSEL
AND COMPANY SECRETARY
London, 21 May 2019

Registered office Waterside House,
35 North Wharf Road, London W2 1NW.

Registered in England and Wales
No. 4256886.

NOTES

1. Biographies of the directors seeking election are given in the Annual Report on pages 36 and 37, including membership of the principal Committees. The terms of the current directors' service contracts are such that all executive director appointments may be terminated by the Company giving 12 months' notice and by the individual giving six months' notice; non-executive directors have agreements for service which can be terminated on three months' notice by either party; the Chairman has an agreement for service which requires six months' notice by either party.

2. Registered Shareholders: Members are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the AGM. Members may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional proxy forms (to appoint more than one proxy), please contact our shareholder helpline on 0345 609 0810 or, alternatively, you may photocopy the enclosed proxy form. Please indicate the number of shares in relation to which each proxy is authorised to act in the box below the proxy holder's name. Please also indicate if the instruction is one of multiple instructions being given, and if a proxy is being appointed for less than your full entitlement, please enter the number of shares in relation to which each such proxy is entitled to act in the box below the relevant proxy holder's name. The proxy form accompanying this Notice assumes you wish to vote on all your shares in the same way. To vote only part of your holding or to vote some shares one way and some another, please contact the shareholder helpline. All proxy forms must be signed and should be returned together.

3. If you would like to submit your vote electronically in advance of the AGM, please visit sharevote.co.uk, where there are full instructions, and submit your vote by no later than 11am on Friday 5 July 2019. You are advised to read the terms and conditions of use. If you return paper and electronic instructions, those received last by the Registrar before 11am on Friday 5 July 2019 will take precedence. Electronic communication facilities are available to all shareholders and those that use them will not be disadvantaged.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

5. To be valid, any proxy form or other instrument appointing a proxy must be received by post (during normal business hours only) or by hand at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 11am on Friday 5 July 2019.

6. The return of a completed proxy form, other such instrument or any CREST proxy instruction (as described in paragraph 14 on this page) will not prevent a shareholder attending the AGM and voting in person or electronically if he/she/they wishes to do so.

7. Indirect shareholders: Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

8. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 to 6 does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

9. To be entitled to attend, speak and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be entered on the Register of Members of the Company by 6.30pm on Friday 5 July 2019 (or, in the event of any adjournment, 6.30pm on the date which is two working days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend, speak and vote at the meeting.

10. The following documents are available for inspection at an agreed time at the Company's registered office: Waterside House, 35 North Wharf Road, London W2 1NW. Please ring +44 (0) 20 8718 9888 during normal business hours on any weekday (excluding public holidays). These documents will also be available for inspection at Wembley Stadium, Wembley, London HA9 0WS from 10am on 9 July 2019 until the conclusion of the AGM:

- (i)** Copies of the executive directors' service contracts.
- (ii)** Copies of the non-executive directors' letters of appointment.
- (iii)** Copies of the directors' Deeds of Indemnity.
- (iv)** A copy of the Articles of Association of the Company.

(v) A copy of the ROI Sharesave Plan 2019.

11. Shareholders are advised that, unless otherwise specified, the telephone numbers, website and email addresses set out in this Notice or proxy forms are not to be used for the purpose of serving information or documents on the Company, including the service of documents or information relating to proceedings at the Company's AGM.

12. As at 21 May 2019 (the latest practicable date before the publication of this Notice) the Company's issued share capital consists of 1,625,049,840 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 21 May 2019 are 1,625,049,840. Following completion of the Rights Issue, the Company's issued share capital is expected to consist of 1,950,059,808 ordinary shares carrying one vote each.

13. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST-sponsored members, and those CREST members who have appointed a service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

14. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST manual (available via euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by 11am on Friday 5 July 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

NOTES CONTINUED

15. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her/their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

16. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

17. Any corporation that is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

18. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

- (i) The audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
- (ii) Any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

19. Any member attending the meeting has the right to ask questions. The Company must have cause to answer any such question relating to the business being dealt with at the meeting but no such answer need be given if

- (i) To do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- (ii) The answer has already been given on a website in the form of an answer to a question; or
- (iii) It is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

20. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at marksandspencer.com/thecompany.

21. Please see the letter dated 21 May 2019 from the Group General Counsel and Company Secretary on pages 147 to 150 for further explanatory notes.

APPENDIX 1: Republic of Ireland Sharesave Plan 2019

Summary of principal terms of the Marks and Spencer Group Republic of Ireland Sharesave Plan 2019 (the "Plan").

Operation

The operation of the Plan will be supervised by the Board of directors of the Company (the "Board"). It will be approved by the Revenue Commissioners of Ireland in order to provide tax-advantaged options to employees based in the Republic of Ireland.

Eligibility

Employees and full-time directors of the Company and any designated participating subsidiary who are Irish resident taxpayers are eligible to participate. The Board may require employees to have completed a qualifying period of employment of up to three years before the grant of options. The Board may also allow other employees to participate.

Grant of Options

Options can only be granted to employees who enter into a certified contractual savings scheme with a savings carrier that has been approved for this purpose by the Revenue Commissioners of Ireland, under which monthly savings are normally made over a period of three or five years. Options will be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of shares over which an option is granted will be such that the total option price payable for those shares will correspond to the proceeds on maturity of the related savings contract.

Awards may only be granted within the six-week period following (i) approval of the Plan by the Revenue Commissioners of Ireland or (ii) announcement of the Company's results for any period or (iii) on any day on which the Board determines that exceptional circumstances exist. However, options will not be granted at any time when the grant is prohibited by, or in breach of:

- (i) the Market Abuse Regulation or any other law or regulation with the force of law; or
- (ii) any rule of an investment exchange on which the Company's shares are listed or traded, or any non-statutory rule with a purpose similar to any part of the Market Abuse Regulation that binds the Company or with which the Board has resolved to comply.

If there is a restriction on dealing, options will be granted during the 14 days immediately following the day on which such restriction ceases to have effect.

Options may not be granted more than 10 years after shareholder approval of the Plan. Options are not transferable, except on death. Options are not pensionable.

Individual participation

Monthly savings by an employee under all savings contracts linked to options granted under the Plan and any other savings related share option scheme approved by the Revenue Commissioners of Ireland Sharesave Plan may not exceed the statutory maximum (currently €500). The Board may set a lower limit in relation to any particular grant.

Option price

The price per share payable upon the exercise of an option will not be less than the higher of: (i) 75% of the middle-market quotation of a Company share on the London Stock Exchange on the day (or the three days) preceding a date specified in an invitation to participate in the Plan (or such other day or days as may be agreed with the Revenue Commissioners of Ireland); and (ii) if the option relates only to new issue shares, the nominal value of a share.

The option price will be determined by reference to dealing days which fall within six weeks of the Company's announcement of its results for any period or at any other time when the Board considers there are exceptional circumstances which justify offering options under the Plan.

Exercise of options

Options will normally be exercisable for six months from the third, fifth or seventh anniversary of the start of the related savings contracts. Earlier exercise is permitted, however, in the following circumstances:

NOTES CONTINUED

- Following cessation of employment by reason of death, injury, disability, redundancy, retirement on reaching age 65 (or any other age at which the option holder is bound to retire under his terms of employment provided it is between age 60 and 66 years) or the business or company that the employee works for ceasing to be part of the Company's group;
- When an employee reaches 65;
- Where employment ceases more than three years from grant; and
- In the event of a takeover, amalgamation, reconstruction or voluntary winding-up of the Company, except in the case of an internal corporate re-organisation where option holders are offered the opportunity to exchange their existing options for equivalent new options over shares in a new holding company.

Except where described above, options will lapse on cessation of employment or directorship with the Company's group.

Shares will be allotted or transferred to participants within 30 days of exercise.

Plan limits

The Plan may operate over new issue shares, treasury shares or shares purchased in the market.

In any 10-calendar-year period, the Company may not issue (or grant rights to issue) more than 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of these limits unless the institutional investors decide that they need not count.

Variation of share capital

If there is a variation in the Company's share capital then the Board may, subject to the approval of the Revenue Commissioners of Ireland, make such adjustment as it considers appropriate to the number of shares under option and the option price.

Rights attaching to shares

Any shares allotted when an option is exercised under the Plan will rank equally with shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Alterations to the Plan

The Board may amend the provisions of the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the shares to be acquired and the adjustment of options.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

AGM LOCATION

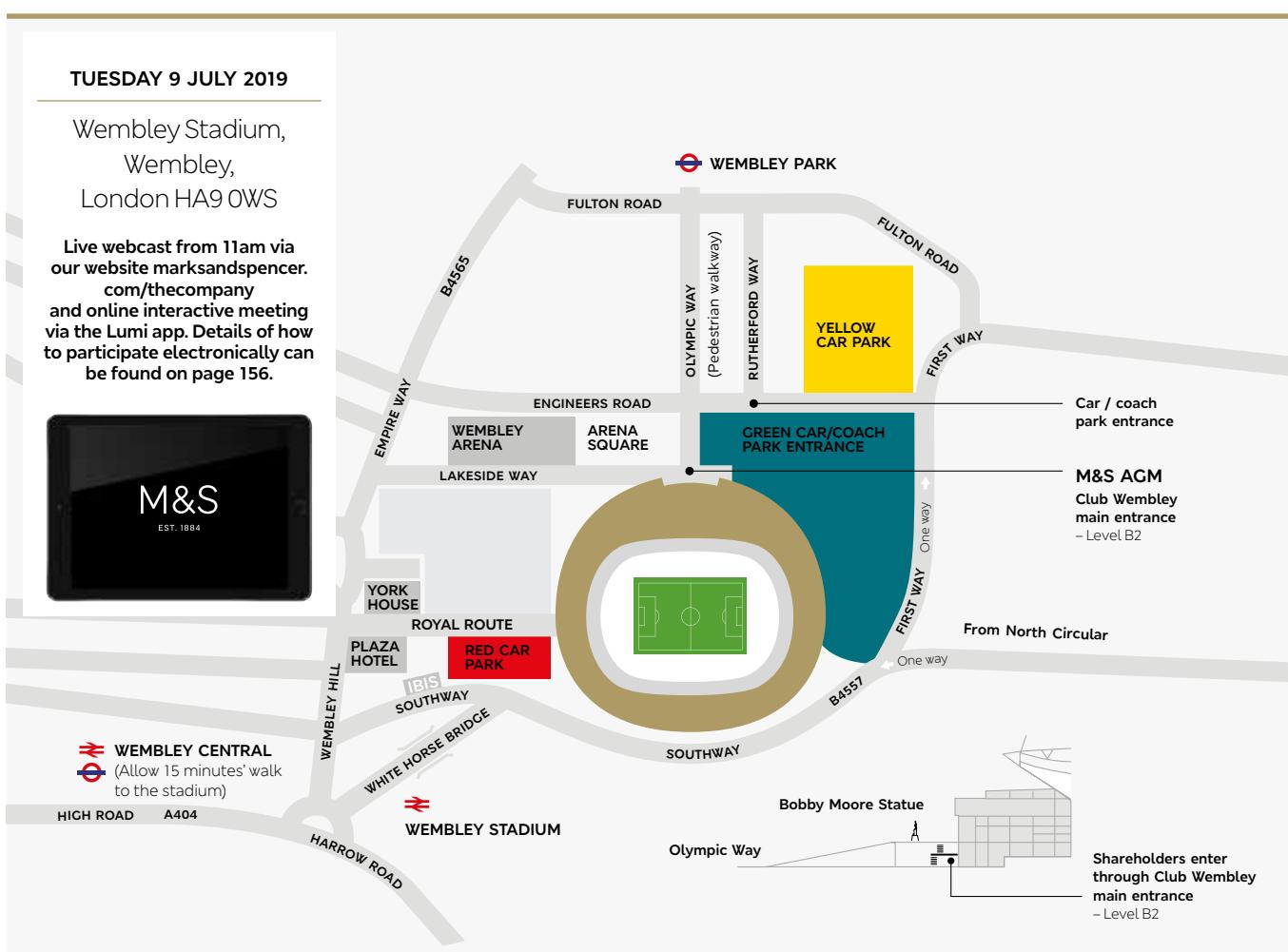
TUESDAY 9 JULY 2019

Wembley Stadium,
Wembley,
London HA9 0WS

Live webcast from 11am via our website marksandspencer.com/thecompany and online interactive meeting via the Lumi app. Details of how to participate electronically can be found on page 156.



WEMBLEY CENTRAL
(Allow 15 minutes' walk to the stadium)



AGM LOCATION CONTINUED

TRAVEL FROM THE STATION TO THE VENUE

Following feedback from previous year's meetings we have looked again at the shareholder journey from the station to the venue. Unfortunately, due to location restrictions, we are unable to offer support from the station and you will be required to make your own way to the venue. Please be advised that this is at least a 10-minute walk. If you are unable to make this unassisted, please do ensure that you have arranged alternative transport. There is a car park available to shareholders (parking fees apply), and taxis are permitted to drop off in front of the venue.

TIMINGS

Date: **Tuesday 9 July 2019**

9.30am Doors open, registration begins. Question Desk opens in the Bobby Moore Room on level 1. Tea and coffee available.

10.15am Doors to the Great Hall open. Please make your way to the Great Hall on level 3 where hosts will direct you to your seats.

11.00am AGM begins.

1.00pm (approximately) AGM closes. The results of the poll will be released to the London Stock Exchange once collated.

ADMISSION

Admission will be through the Club Wembley main entrance on Level B2 (see map opposite). Please plan to arrive before 10.30am to allow enough time for registration and security clearance, bringing your attendance card with you.

The attendance card is either attached to your proxy form or Notice of Availability, or, for those registered for electronic communications, is attached to the email you will have received. This will help us to register you more swiftly.

SHAREHOLDERS WITH DISABILITIES

Wembley Stadium is easily accessible by wheelchair users and has lift access inside. There will also be an assisted hearing loop system in the Great Hall. For further information on the facilities at the venue, please call Wembley Stadium direct on: 020 8795 9748 or 020 8795 9660.

SECURITY

Security measures will be in place to ensure your safety. Please note that bag searches will be in operation and any items deemed inappropriate will be removed and stored until the end of the event. It is highly unlikely, but should it be required, body searches may also be in operation. Flash photography is not allowed at the AGM.

TRANSPORT

Wembley Stadium is well served by numerous public transport links. In line with our Plan A commitments, we recommend that shareholders use these to travel to the meeting if possible.

London Underground and Main Line Railway Stations

Wembley Stadium is served by three stations:

- **Wembley Park (600m walk)** – Jubilee and Metropolitan lines. There is only one lift to street level at this station, so please allow sufficient time to make your way to the venue.
- **Wembley Stadium (750m walk)** – on the Chiltern Main Line, linking London Marylebone and the Midlands, Oxfordshire and Buckinghamshire.
- **Wembley Central (2km walk)** – Bakerloo line and London Overground. Bus routes 83, 92 and 182 run towards Wembley Stadium from stop CM.

For further information regarding your journey, please contact Transport for London travel information on 0343 222 1234, or visit tfl.gov.uk.

CAR PARKING

For those who wish to travel to the AGM by car, there is parking available in the Yellow Car Park. The location of the car park is indicated on the map opposite. Parking is operated by APCOA and payment for spaces can be made at the 'pay on foot' machines within the car park. The postcode is HA9 0EG.

ELECTRONIC MEETING

For the 2019 AGM, M&S is for the first time enabling shareholders to attend and participate in the meeting electronically, should they wish to do so. This can be done by either downloading the dedicated "Lumi AGM" app or by accessing the AGM website, <http://web.lumiagm.com>.

DOWNLOADING THE AGM APP

To access the AGM you will need to download the latest version of the dedicated AGM App, called "Lumi AGM", onto your smartphone from the Google Play Store™ or the Apple® App Store. We recommend that you do this in advance of

the meeting date. Please note that the app is not compatible with older devices operating Android 4.4 (and below) or iOS 9 (and below).

ACCESSING THE AGM WEBSITE

Lumi AGM can also be accessed online using most well-known internet browsers such as Internet Explorer (versions 10 and 11), Chrome, Firefox and Safari on a PC, laptop or internet-enabled device such as a tablet or smartphone. If you wish to access the AGM using this method, please go to <https://web.lumiagm.com> on the day.

Logging In

On accessing either the app or AGM website, you will be asked to enter a Meeting ID which is 104-982-087. You will then be prompted to enter your unique username and password. These can be found printed on your Company Secretary's letter. Access to the meeting via the app or website will be available from 9.30 a.m. on 9 July 2019; however, please note that your ability to vote will not be enabled until the Chairman formally opens the meeting at 11am.

Voting

After the resolutions have been proposed, voting options will appear on the screen. Press or click the option that corresponds with the way in which you wish to vote, "For", "Against" or "Abstain". Once you have selected your choice, you will see a message on your screen confirming that your vote has been received. If you make a mistake or wish to change your voting instruction, simply press or click the correct choice until the poll is closed on that resolution. If you wish to cancel your "live" vote, please press "Cancel".

Please note that an active internet connection is required in order to successfully cast your vote when the Chairman commences polling on the resolutions. It is your responsibility to ensure connectivity for the duration of the meeting.

Process

The process of asking questions, voting and accessing the AGM presentation will be further explained by the Chairman during the meeting.

Duly appointed proxies and corporate representatives

Please contact the Company's registrar before 10.00am on 9 July 2019 on 0345 609 0810 or +44 121 415 7071 if you are calling from outside the UK for your unique username and password.

Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England & Wales).

Shareholders should note that electronic entry to the AGM will open at 10.30am on 9 July 2019.

ONLINE USER GUIDE TO THE ELECTRONIC 2019 ANNUAL GENERAL MEETING

ONLINE (MOBILE) USER GUIDE

1



→ Open the Lumi ACM app and you will be prompted to enter the Meeting ID. If a shareholder attempts to log in to the app before the meeting is live,* a pop-up dialogue box will appear.

* After 09.30am on 9 July 2019

2



→ After entering the Meeting ID, you will be prompted to enter your unique username and password.

3



→ When successfully authenticated, a shareholder will be taken to the Home Screen.

4



→ To view the meeting presentation, expand the "Broadcast Panel", located at the bottom of your device. This can be minimised by pressing the same button.

5



→ When the Chairman declares the poll open, a list of all resolutions and voting choices will appear on your device.
→ Scroll through the list to view all resolutions.

6



→ For each resolution, press the choice corresponding with the way in which you wish to vote.
→ When selected, a confirmation message will appear.

7



→ To change your mind, simply press the correct choice which will override your previous selection.
→ To cancel your vote, press Cancel.

8



→ If you would like to ask a question, select the messaging icon.
→ Type your message within the chat box at the bottom of the messaging screen.
→ Once you are happy with your message click the send button.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 30 March 2019, the Company had 152,756 registered holders of ordinary shares. Their shareholdings are analysed below. It should be noted that many of our private investors hold their shares through nominee companies; therefore the actual number of shares held privately will be higher than indicated below.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1–500	80,282	52.55	15,077,363	0.93
501–1,000	28,988	18.98	21,713,781	1.34
1,001–2,000	22,180	14.52	31,950,891	1.96
2,001–5,000	14,997	9.82	45,968,595	2.83
5,001–10,000	3,914	2.56	26,827,246	1.65
10,001–100,000	1,867	1.22	43,247,559	2.66
100,001–1,000,000	382	0.25	132,723,925	8.17
1,000,001–Highest	146	0.10	1,307,490,870	80.46
Total	152,756	100.00	1,625,000,230	100.00

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	148,334	97.11	167,334,192	10.30
Institutional and corporate	4,422	2.89	1,457,666,038	89.70
Total	152,756	100.00	1,625,000,230	100.00

USEFUL CONTACTS

Marks and Spencer Group plc

Registered Office

Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

General queries

Customer queries: 0333 014 8555
Shareholder queries: 0345 609 0810
Or email
chairman@marks-and-spencer.com

Registrar/shareholder queries

Equiniti Limited, Aspect House, Spencer
Road, Lancing, West Sussex BN99 6DA,
United Kingdom
Telephone 0345 609 0810 and outside
the UK +44 (0)121 415 7071

Online: help.shareview.co.uk
(from here, you will be able to securely
email Equiniti with your enquiry).

Students

Please note, students are advised to
source information from our website.

Additional documents

An interactive version of our
Annual Report is available online at
marksandspencer.com/annualreport2019

Additionally, the Annual Report
(which contains the Strategic Report)
is available for download in pdf format
at marksandspencer.com/annualreport2019.
Alternatively, call 0800 591 697.

Group General Counsel and Company Secretary

Nick Folland

2019/20 FINANCIAL CALENDAR AND KEY DATES

30 May 2019	Ex-dividend date – Final dividend
31 May 2019	Record date to be eligible for the final dividend
9 July 2019	Annual General Meeting (11am)
12 July 2019	Final dividend payment date for the year to 30 March 2019
6 November 2019*	Results – Half Year†
14 November 2019*	Ex-dividend date – Interim dividend
15 November 2019*	Record date to be eligible for the interim dividend
9 January 2020*	Results, Quarter 3 Trading Update†
10 January 2020*	Interim dividend payment date

† Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

* Provisional dates.

SHAREHOLDER INFORMATION CONTINUED

SHAREHOLDER QUERIES

The Company's share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed on page 158. For more general queries, shareholders should consult the Investors section of our corporate website.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, a secure online platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- Sign up for electronic shareholder communication.
- Receive trading updates by email.
- View all of their shareholdings in one place.
- Update their records following a change of address.
- Have dividends paid into their bank account.
- Vote in advance of Company general meetings.

M&S encourages shareholders to sign up for electronic communication as the reduction in printing costs and paper usage makes a valuable contribution to our Plan A commitments. It is also beneficial to shareholders, who can be notified by email whenever we release trading updates to the London Stock Exchange, which are not mailed to shareholders.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

DIVIDENDS

Subject to the relevant Board and shareholder approvals, dividends are paid in January and July each year. Shareholders who receive their dividend payments directly into their bank accounts will receive an Annual Dividend Confirmation in January, covering both dividend payments made during the tax year.

DUPLICATE DOCUMENTS

Many shareholders have more than one account on the Share Register and receive duplicate documentation from us as a result. If you fall into this group, please contact Equiniti to combine your accounts.

SHAREGIFT

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported "brokers" who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a "boiler room". The callers obtain your details from publicly available sources of information, including the Company's Share Register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. **Remember, if it sounds too good to be true, it probably is!**

More detailed information and guidance is available on our corporate website. We also encourage shareholders to read the FCA's guidance on how to avoid scams at fca.org.uk/consumers/protect-yourself-scams.

An overview of current common scams is available on the Action Fraud website actionfraud.police.uk.

ACM

This year's ACM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 9 July 2019. The meeting will start at 11.00am and registration will be open from 9.30am.

For the 2019 ACM, M&S is for the first time enabling shareholders to attend and participate in the meeting electronically, should they wish to do so. This can be done by either downloading the dedicated "Lumi AGM" app or by accessing the ACM website, web.lumiagm.com. For further information, see p156-157.

The meeting will also be webcast live from 11.00am via our corporate website. This will be publicly available to all internet users and will also be available to view online after the event. To register to view the webcast, please visit the website and follow the relevant links. Shareholders attending the ACM should be aware that the proceedings of the meeting will be filmed for the purposes of this webcast. M&S reserves the right to retain and use footage or stills for any purpose, including Annual Reports, marketing materials and other publications. If you have any queries about the ACM or the contents of this document, please call +44 (0)20 7935 4422.

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The Lily
SLIM



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The Ivy
SKINNY



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