M&S

EST. 1884

ANNUAL REPORT & FINANCIAL STATEMENTS 2015

FINANCIAL OVERVIEW

GROUP REVENUE

£10.3bn level

UNDERLYING PROFIT BEFORE TAX	GROUP PROFIT BEFORE TAX
£661.2m +6.1%	£600.0m +3.4%

INTERIM AND FINAL DIVIDEND

6.4p + 11.6p = 18.0p +5.9%

UNDERLYING GROUP EARNINGS PER SHARE	GROUP EARNINGS PER SHARE
33.1p +2.8%	29.7p -8.6%

STRATEGIC PRIORITIES FOR THE YEAR

At the start of this financial year, we set out four strategic priorities to enable us to deliver our plan to become a leading, international multi-channel retailer: Food sales growth, GM gross margin improvement, improving GM performance and strong cash generation.

S UK FOOD REVENUE	S GENERAL MERCHANDISE GROSS MARGIN	S UK GENERAL MERCHANDISE REVENUE	S FREE CASH FLOW PRE DIVIDENDS
£5.2bn	52.6%	£4.0bn	£524.2m
+3.4%	+190bps	-2.5%	+22.5%

See Chief Executive's strategic overview p08-09

ABOUT OUR REPORTING

NAVIGATING THE REPORT In this document you will see a series of icons that demonstrate how we've integrated information about our business model with details of our strategy and risk. The easy to identify icons also tell you where to look for further information.

S STRATEGIC PRIORITIES
A PLAN A
R RISK
LOOKING AHEAD
LINKED TO REMUNERATION
READ MORE

INTEGRATED REPORTING As members of the International Integrated Reporting Council pilot, we have committed to reporting the long-term value created by sustainable business. Our ambition is to have a report that fully meets the principles of the IIRC framework by 2016. Progress this year includes a revised depiction of our business model, which better demonstrates how we create long-term value through the effective use of our resources and relationships, and clear links between our KPIs and remuneration.

PLAN A Plan A is integrated throughout this report to demonstrate how it is embedded in every part of our business. This makes it easier for shareholders to see how our sustainability programme is creating value in our different divisions. More detailed information is available in our online 2015 Plan A Report at **marksandspencer.com/plana2015**

ONLINE INFORMATION To keep shareholders fully up-to-date, we have comprehensive financial and company information on our website. It means that shareholders can access the information they require, 24 hours a day. To register, go to **marksandspencer.com/investors** and follow the **'Electronic Shareholder Communication'** link.

INVESTOR RELATIONS APP Our Marks & Spencer Investor Relations app provides information to investors and the financial media in an iPad™ optimised format. The app displays the latest share price information and corporate news. It also contains financial reports, presentations and videos. For more information visit **marksandspencer.com/investors**

INTRODUCTION

M&S IS ONE OF THE UK'S LEADING RETAILERS, WITH OVER 1,330 STORES WORLDWIDE.

WE ARE COMMITTED TO **DELIVERING SUSTAINABLE VALUE** FOR OUR SHAREHOLDERS AND **ENHANCING LIVES EVERY DAY** THROUGH THE HIGH QUALITY, OWN BRAND FOOD, CLOTHING AND HOME PRODUCTS WE OFFER IN OUR STORES AND ONLINE BOTH IN THE UK AND INTERNATIONALLY.

WHAT'S IN THIS REPORT?

***DIRECTORS' REPORT**
Operating performance and Shareholder information form part of the Directors' Report.

OUR BUSINESS

AT A GLANCE

UK

We sell **high quality, great value products** to 33 million customers through our 852 UK stores and our e-commerce platform. Our business has two divisions: Food, which accounts for 57% of our turnover, and General Merchandise, which accounts for the remaining 43%. We have market leading positions in Womenswear, Lingerie and Menswear.

Read more on p26-28

FOOD REVENUE

£5.2bn +3.4%

GENERAL MERCHANDISE REVENUE

£4.0bn -2.5%

STORES

852 +54 net new stores

M&S.COM

Our M&S.com flagship positions us as a leading multi-channel retailer. Launched in February 2014, the website gives us flexibility to cater to customers' changing shopping habits, whether they are shopping online via their mobile, on a tablet, or at Shop Your Way points in our stores. The site now has **over 7 million registered users**.

Read more on p28

M&S.COM SALES*

£636.5m -2.0%

WEEKLY SITE VISITS

6.1m +10.9%

SHOP YOUR WAY STORES

520 +22

* M&S.com sales for the year ending 2014/15 are on a post store returns basis. M&S.com sales have been restated on a consistent basis for 2013/14.

INTERNATIONAL

M&S has **480 wholly-owned, jointly-owned or franchised stores in 59 territories** across Europe, Asia and the Middle East. Our International business now includes a fast-growing standalone Food operation, meaning that more people around the world can enjoy our delicious, innovative food products. Our significant physical presence overseas is complemented by country-specific General Merchandise websites.

Read more on p29

INTERNATIONAL REVENUE

£1.1bn -5.7%

INTERNATIONAL STORES

480 +25 net new stores

TERRITORIES

59 +5

PLAN A 2020

Plan A, our ethical and environmental programme, underpins everything we do, from sourcing responsibly and reducing waste to helping the communities in which we operate. It is a **business plan** that maps out our route to providing leadership in a world that's increasingly resource-constrained and experiencing social change.

marksandspencer.com/plana2015

TOTAL PLAN A 2020 COMMITMENTS

102

COMMITMENTS ACHIEVED

47

NOT ACHIEVED

9

COMMITMENTS ON PLAN

39

COMMITMENTS BEHIND PLAN

2

COMMITMENTS NOT STARTED

5

OUR BUSINESS

CHAIRMAN'S STATEMENT

From our values to our infrastructure, M&S is a **more capable and better equipped** business than it was a year ago – helping us become the modern, agile company we need to be.

ROBERT SWANNELL CHAIRMAN

INTERIM	FINAL	TOTAL DIVIDEND FOR 2014/2015
6.4p	11.6p	18.0p
PAID ON 9 JANUARY 2015	TO BE PAID ON 10 JULY 2015	

OVERVIEW

This year we have seen outstanding performance in some areas of the business but performance below our expectations in others. The overall result is that underlying profits before tax moved ahead 6.1% to £661.2m. We have achieved a number of the strategic priorities we set out at the beginning of the year, becoming a more capable company with significantly stronger infrastructure, but we experienced some implementation issues along the way. We embedded new values aligned with our strategic goals. These values, which put integrity at their core, respect our heritage whilst helping us to become the modern, agile company we need to be. Above all, we remain focused on one thing: offering our customers products of exceptional quality and value that they can trust, however they choose to shop with us.

PERFORMANCE

Our Food business had an outstanding year in a sector that continues to go through profound change. In the most competitive food market of recent years, we delivered like-for-like growth in every quarter and maintained our margin. We have a clear and distinct offering and our growth plans look clear and achievable.

Our General Merchandise (GM) business delivered significant margin gains – the first step in reaping the benefits of the investment we have made – and our products were well received by our customers and the fashion press. Whilst our overall performance was affected by the implementation issues outlined below, it was pleasing to exit the year in the final quarter with all elements of our GM business showing growth.

Performance in our International business was disappointing. Strong sales performance in key owned markets, for example India and Hong Kong, was more than offset by macroeconomic issues and performance in key franchise markets, particularly Russia, Ukraine and Turkey.

We implemented two crucial pieces of infrastructure: our new M&S.com website and our automated distribution centre at Castle Donington, two of the largest projects of their kind in Europe. Whilst projects of this scale are likely to experience some initial performance issues, these were greater than we anticipated. Our skilled teams acted decisively to address the issues. The strategic rationale for both projects remains clear.

BOARD PRIORITIES

The Board's three priorities have remained the same since I became Chairman in 2011: we are focused on strategy and execution, people and succession, and values. Having completed the bulk of our major three-year investment programme to transform M&S into an international, multi-channel retailer, the Board's focus again this year was on ensuring that our substantial investment delivers the required returns. We also devoted time to ensuring we have the right talent and skills required in our business, and to debating and articulating our values, discussed below.

BOARD CHANGES

There have been a number of changes to the Board this year.

Jan du Plessis, our Senior Independent Director, stepped down in March 2015, having served on the Board since 2008. I would like to thank Jan for his commitment and contribution to M&S over the years. His insights and experience have been invaluable. Vindi Banga, who has served on our Board since 2012, took on the position of Senior Independent Director; he also chairs the Remuneration Committee.

In April 2015, Richard Solomons joined the Board as a non-executive director. Richard is Chief Executive of InterContinental Hotels Group and brings strong commercial, consumer, branding and global experience to the M&S Board.

On the executive team I would like to extend a warm welcome to Helen Weir, our new Chief Finance Officer. Helen has exceptional credentials in both retail and finance having previously held the same position at John Lewis Partnership, Lloyds Banking Group and Kingfisher.

This year we reviewed our senior remuneration framework to align it more clearly with our strategic objectives. Further details are laid out in our Remuneration Report on page 52.

OUR VALUES AND PLAN A

The culture at M&S is important to the Board. Our values are a fundamental part of how we do business – they are what makes M&S different. Last June we introduced four

GOVERNANCE PROFILE

Independence Half of our Board is made up of independent non-executive directors, in line with the UK Corporate Governance Code.

Senior Independent Director Our Senior Independent Director is Vindi Banga.

Accountability and election We have clear separation of duties between Chairman and CEO roles, and require all the directors to stand for re-election annually.

Evaluation An externally facilitated performance evaluation of the Board and its committees was undertaken during the year, as it is every three years.

Attendance The Directors have all attended an acceptable level of Board and Committee meetings.

Compliance The composition of all Board committees complies with the application recommendations of the Code.

Experience Throughout 2014/15, two members of the Audit Committee had recent and relevant financial experience.

Tenure The tenure of our previous external auditor was over ten years. In 2014/15 we appointed a new statutory auditor, Deloitte, following a thorough tender process.

Non-audit policy We have a policy for the award of non-audit work performed by our auditor, which is disclosed on our website, and we have disclosed the limited non-audit work undertaken.

Auditor appointment We disclose our external auditor appointment policy.

Internal Audit Details on the internal audit function are provided within this report.

Performance-related pay A significant part of our performance-related pay is delivered through shares.

Reward Our reward framework is simple and transparent and is designed to support and drive our business strategy.

OUR GOVERNANCE PRINCIPLES

LEADERSHIP

See p34

The Board rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the decisions we make are of the highest quality.

EFFECTIVENESS

See p41

The Board's performance is scrutinised in an annual effectiveness review. This examines the progress we are making against our plan, our collective and individual effectiveness, and the independence of our non-executive directors.

ACCOUNTABILITY

See p44

All of our decisions are discussed within the context of the risks involved. Effective risk management is central to us achieving our strategic objectives.

ENGAGEMENT

See p51

Maintaining strong relationships with our shareholders, both private and institutional, is crucial to achieving our aims. We hold numerous events throughout the year to maintain an open dialogue with investors.

See Governance Section p32-82

new core values built on the principles that have guided M&S since it was founded in 1884. The values – Inspiration, Innovation, Integrity and In Touch – aim to equip us all to deliver our strategic plans.

But while the words are new, we have not changed what matters to us. Acting with integrity is at the heart of the way we do business. So our customers can be sure that the GM margin gains we achieve will not come at the expense of the standards we expect in our factories; they can be safe in the knowledge that we will not compromise on the provenance of our food; and they can rely on us to be a force for good in the communities in which we operate.

Our commitment to Plan A, the programme we launched eight years ago to become the world's most sustainable major retailer, remains as deeply held today as it ever was. As people become increasingly aware of how their behaviour impacts the world around them, we believe businesses need to connect with the communities in which they operate. From healthy living to ethical sourcing, we are committed to leading the way and striving to offer our customers the most sustainable options possible. As M&S becomes more international, our ability to lead with others on a global scale grows, whether by using our scale to drive improvements in our own supply chain, or by lending our expertise to global industry initiatives.

STAKEHOLDER ENGAGEMENT

Engaging with stakeholders and employees is particularly important during times of change. We communicate regularly with our shareholders to ensure they understand our progress and plans. Outside our results, this year, we held investor briefings on M&S.com and our International business, and Marc Bolland and his executive team had many meetings with investors. All information shared at these events is available to shareholders at **marksandspencer.com/investors**. We again held a governance event for our largest shareholders, which I led with our Senior Independent Director.

We have recently implemented a new loyalty scheme for our private investors. The scheme allows over 190,000 of our UK-registered private investors to use money from their dividend payment to buy an M&S Shareholder Card at a discount. It operates much like a gift card. The initiative reflects the fact our private investors are also some of our most loyal customers and we value them greatly.

Our 'Fit for the Future' programme was one of our biggest ever engagement exercises, where employees discussed the shape of the new values. We also launched a scheme for the 3,500 section managers who between them manage 92% of our sales floor colleagues. The programme inspired and motivated these managers, who are the beating heart of M&S.

LOOKING AHEAD AND DIVIDEND

M&S is a more capable and better equipped business than it was a year ago. In the coming year we will continue to focus on growth in Food, improving GM performance, further improving margins and cash generation.

Our dividend policy remains a progressive one, with dividends broadly covered twice by earnings. We intend to pay a final dividend of 11.6p this year, taking the total dividend to 18.0p, up 5.9% on last year. In the context of our increased free cash flow, we are also pleased to announce an ongoing programme of returns of capital to shareholders, starting this year, with a share buyback programme of £150m.

Finally, I would like to thank all our employees for their hard work and commitment at a time of significant change. M&S employees are dedicated and upbeat – I am always struck by their positive attitude and energy. Their pride in M&S and commitment to the business are what makes us special. I want to thank every one of them in stores and in our offices for their contribution this year.

Robert Swannell

ROBERT SWANNELL CHAIRMAN

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OUR BUSINESS

CREATING SUSTAINABLE VALUE

OUR BUSINESS MODEL

We create long-term value through the effective use of our resources and relationships. We manage these in line with our core values of Inspiration, Innovation, Integrity and In Touch.

These values influence how we behave and they run through everything we do – they make the M&S difference: **enhancing lives every day** through the products and services we offer our customers in the UK and internationally.

OUR RESOURCES & RELATIONSHIPS

FINANCIAL
Generating returns for our stakeholders through effective management of our financial resources

MANUFACTURED
Maintaining our channels and supply chain infrastructure to meet customer demand

INTELLECTUAL
Strengthening our brand through creation and protection of our intellectual properties

LISTEN & UNDERSTAND

Understanding our customers informs everything we do. Our Customer Insight Unit (CIU) listens and talks to around 60,000 customers a month, analysing the results to build a comprehensive understanding of what our customers want and how this is changing. We also engage with over 2.6 million customers every day via our social media channels, giving a constant flow of information about how they are feeling about M&S and our products. By keeping closely in touch with our customers, we can ensure that we stay relevant and continue to offer the products and services they want to see at M&S.

STRATEGY & FINANCIAL PLANNING

A well run business relies on robust financial management and planning. We are committed to creating value for shareholders by making M&S a more profitable business through improved gross margin and strong cash generation, driven by rigorous control of costs and capex. In line with our strategy to build an infrastructure fit to support the future growth of the business, we continue to invest in our supply chain and technology. We fund future growth through existing cash flows, a policy which supports our commitment to maintaining an investment grade rating.

PRESERVING OUR TRUSTED BRAND

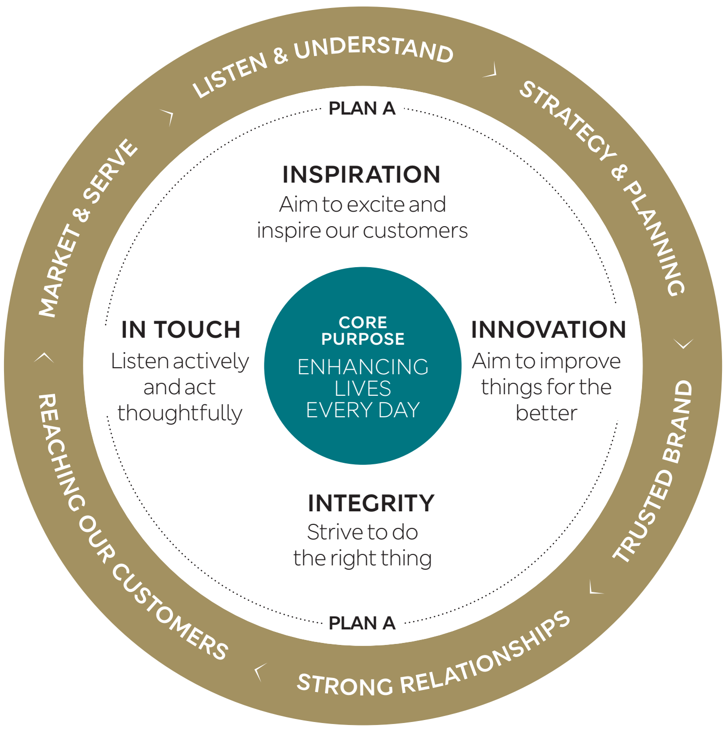
Our own brand model sits at the very heart of the M&S difference. Our unique products set us apart and our innovative culture means we are always improving them for the better. By providing high-quality products alongside an industry leading approach to provenance, ethics and environmental standards, we have built a brand that our customers trust – this is our competitive advantage. M&S occupies a very special place in Britain and we work hard to protect that position by always acting with the integrity our customers have come to know and expect.

FIND OUT MORE

Read about **Our Plan** on p09-13 | Read more on **Risk** on p23-25

Read more on **KPIs** on p14-15

OUR BUSINESS MODEL



OUR RESOURCES & RELATIONSHIPS

NATURAL
Sourcing responsibly and using natural resources efficiently

SOCIAL & RELATIONSHIP
Building and nurturing relationships with our customers and suppliers, and in the communities in which we operate

HUMAN
Developing people and their knowledge

THE M&S DIFFERENCE

BUILDING STRONG RELATIONSHIPS

We are committed to building and maintaining collaborative, sustainable relationships throughout our supply chain and in the communities where we operate. We encourage and support our suppliers to apply the same rigorous standards against which we measure ourselves. M&S has over 3,000 product, raw material and service suppliers with current social compliance assessments covering many aspects of human rights listed on the Supplier Ethical Data Exchange. We are longstanding members of the Ethical Trading Initiative and Global Social Compliance Programme. Our Global Sourcing Principles cover what we expect and require of our suppliers – we updated them this year to incorporate the UN's Guiding Principles on Business and Human Rights.

REACHING OUR CUSTOMERS

Our range of selling channels enables our customers to shop with us in the way which is most convenient for them. M&S.com offers our full range in a stylish, editorial-led format that aims to inspire and excite our customers. We have a strong presence on the UK high street and in retail parks with a combination of larger full line stores and smaller stores, all supported by our Shop Your Way service that delivers our products wherever and whenever our customers want them. Our expanding Simply Food format means we are well positioned to respond to changing consumer shopping habits. We have a strong presence in key convenience locations, including city centres, hospitals and travel hubs, such as petrol stations, train stations and airports.

MARKETING & SERVING OUR CUSTOMERS

For the first time, we have brought food and fashion together under one brand identity – Only M&S. This unified brand provides the ideal platform from which to share the many stories that make our products unique. It also clearly communicates what M&S stands for through a unified campaign. The refreshed brand delivers a simpler, more contemporary look and, importantly, 'Est. 1884' celebrates our 131-year history, reflecting the value our customers place on our heritage. We have always prided ourselves on our commitment to customer service – it is a key part of our heritage. Every product is built around our customer. Our employees, trained to the highest standard, are united in their dedication to giving our customers the best shopping experience.

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OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC OVERVIEW

We are transforming M&S into a stronger, more agile business – putting the right infrastructure, capabilities and talent in place to drive our strategic priorities.

MARC BOLLAND CHIEF EXECUTIVE

UK FOOD REVENUE	GENERAL MERCHANDISE GROSS MARGIN	UK GENERAL MERCHANDISE REVENUE	FREE CASH FLOW PRE DIVIDENDS
£5.2bn	52.6%	£4.0bn	£524.2m
+3.4%	+190bps	-2.5%	+22.5%

OVERVIEW

In 2014/15 we made further progress against our strategy to become a leading international, multi-channel retailer – as we enhanced our M&S.com infrastructure.

With our new infrastructure largely in place, we have been focused on execution. A number of key projects, for example improvements to our product allocation and replenishment systems, have been successfully implemented this year. We also built up our design capabilities and capitalised on our market leading food product development. Whilst we faced some difficulties during the bedding in period of the website and distribution centre, we have learned more about how to improve our online customer experience and how best to stabilise the complex operations at Castle Donington. Thanks to our strengthened in-house capabilities, these learnings have been effectively put into practice, enabling us to return M&S.com to growth in the final quarter of the year.

In 2014/15 we invested in our organisation and our people to get the very best from our new infrastructure and ensure we are truly fit for the future. We have brought in key skills and competencies that have historically been outsourced – helping us work more profitably and with greater pace. This has included strengthening our in-house clothing and home design capability and our software engineering team.

We developed four new core values of Inspiration, Innovation, Integrity and In Touch. By putting these values at the heart of everything we do, we are encouraging employees to do things differently and take a fresh look at how we can inspire our customers – with exquisite quality and styling in our clothing, and innovative, first to market, exceptional quality food. This consistency will help customers recognise the values of our brand and what makes M&S different.

PERFORMANCE OVERVIEW

We made good progress in three of our four key strategic priorities for the year. In driving Food growth we delivered an excellent performance with sales up 3.4% and growth ahead of the market. We significantly increased our GM gross margin by 190bps. GM sales, however, were challenging, particularly in the third quarter due to the impact of the disruption at Castle Donington and the unseasonal weather. Finally, we continued to control costs tightly and reduced capital expenditure. This, combined with a focus on working capital, has delivered free cash flow pre dividends of £524.2m up 22.5%.

FOOD

The strategy we set out in 2010 to be more of a specialist in Food is working very well and differentiates us from the competition. We had an outstanding year in a difficult market. Sales increased despite deflation across the sector and our profitability rose as we streamlined our processes. Our Food division has now seen 22 consecutive quarters of like-for-like sales growth. Customers continued to turn to M&S for both everyday quality and special moments. They love our constant innovation: over the year we launched 1,700 new products. It is this newness and innovation that makes M&S food special.

GENERAL MERCHANDISE

Customers recognised the improvements in the style and quality of our clothing. Our collections over the year were a stylish, wearable interpretation of the key trends, meeting with approval from the fashion press and customers alike. By the fourth quarter, all GM departments were seeing growth. The rise in gross margin came about through better buying and sourcing. We also focused on full price sales and saw customers trade up to our better and best ranges.

CHANNELS

Despite a difficult start to the year, the performance of M&S.com steadily improved as we listened to customers' feedback and worked hard to improve the online shopping experience. The site made gains on three key metrics as the year progressed: traffic, conversion and customer satisfaction levels. We now offer

Our values underpin everything we do...

INSPIRATION	INNOVATION
We aim to excite and inspire our customers	**We are restless in our aim to improve things for the better**

LOOKING AHEAD

As we continue the work to transform our infrastructure, we will now focus on consolidating our position as a leading international, multi-channel retailer.

Using our strengthened capabilities, our priorities, both in the UK and International, will be to accelerate our Food growth, deliver an end-to-end GM operating model and to drive the experience on M&S.com. We will continue to develop a world class talent pool, further growing our skills in key strategic areas.

The UK food market will remain challenging but we are well positioned with a store format that caters for how shopping habits are changing. We opened 62 Simply Food stores this year, and we have a strong pipeline with the fastest Food store opening programme planned in M&S's history.

Whilst we expect the Clothing and Home market to remain highly competitive, we will deliver growth through a focus on stylish design, quality and newness, with better availability and more choice.

We anticipate that our International business will continue to be impacted by this year's weakening euro and macroeconomic factors will remain a challenge, particularly in our Middle East region. However, we will focus on delivering relevant ranges to our local customers, improving our like-for-like sales performance across our owned and franchised market and building our international supply chain.

Our strategic priorities for 2015/16 remain unchanged

FOOD SALES GROWTH	GM GROSS MARGIN IMPROVEMENT	IMPROVE GM PERFORMANCE	STRONG CASH GENERATION

our customers a much more engaging online experience. M&S.com is a superior shop window for our products and our customers appreciate its strong editorial point of view: 8.2m people visited its Style & Living editorial section over the year. Together, this has resulted in a steady improvement in sales and we finished the year with growth of 13.8% in Q4. Over 7m people have registered to use the site, surpassing registrations on our old site.

We continue to improve our stores to make them more inspiring places to shop. We invested in the quality of the store environment, with refreshed Womenswear departments and new look Menswear departments. We also improved Shop Your Way with extended delivery cut-off times, offering a more convenient and joined-up customer experience.

INTERNATIONAL

Our International business faced multiple macroeconomic challenges this year. These issues affected franchise partners, particularly in Russia, Ukraine and Turkey – our Middle East region – and resulted in reduced wholesale shipments, which led to lower profits. However, we were pleased by our performance in other priority markets, particularly India, and by the good growth in our Food business in Europe and Hong Kong.

BRAND

The new core values are aligned with our business and will drive the behaviours needed to achieve our customer promise of 'enhancing lives, every day'. Our brand was enhanced by imaginative marketing. We launched Only M&S, a unified campaign for Food and clothing – we are one brand with many stories to tell. In Food, 'Adventures in...' celebrated the creativity, craftsmanship and passion behind our food and was very well received by our customers. The clothing campaign marked a step change in approach and with renewed confidence we showcased our edit of the latest trend. 'The Two Fairies' Christmas campaign combined bold ideas with imaginative use of social media to position M&S as a relevant, lively brand.

PEOPLE

For M&S to thrive in the future, we have to be a modern, forward-looking and agile company today. Over the year, we continued to roll out the necessary systems and processes to ensure that – from top to bottom – we are in the right shape to meet future challenges. Our Fit for the Future programme saw us refine the way we do things. We streamlined our processes, clarified lines of command and introduced initiatives to encourage entrepreneurialism. We also realigned our executive team's responsibilities. The changes ensure greater accountability and our new simplified team structures allow us to move with more speed and agility.

PLAN A

Over the last 131 years, M&S has built a unique position and a significant part of that is down to customer trust. Maintaining this position of integrity is central to the Company's future. Our customers trust us to always do the right thing, which is why Plan A 2020 is absolutely crucial. Plan A has taught us that we can achieve more when we collaborate inside and outside of the business. We celebrated a decade of Marks & Start, our scheme which provides training and work experience within M&S and our supply chain for the long-term unemployed. Make Your Mark, our programme that focuses on supporting young people facing barriers to employment, is part of Movement to Work, a larger programme we helped to found in 2013. Almost 200 of the UK's biggest companies are now signed up. Engaging with our communities underpins Plan A and this year our employees and customers raised a total of £7.5m for our local and national charity partners. We have a clear plan to further engage our customers and communities in Plan A. In 2010, we set out our goal to be the world's most sustainable retailer and this continues to drive our ambition to improve things for the better.

MARC BOLLAND CHIEF EXECUTIVE

INTEGRITY

We always strive to do the right thing

IN TOUCH

We listen actively and act thoughtfully

OUR PLAN IN ACTION:

FOOD SALES GROWTH

In a crowded marketplace, our position as a food specialist sets us apart from our rivals. Customers love our innovation: it's a strategy that makes us truly different. Last autumn, our Belgian Chocolate Jaffa Sphere became our fastest-selling dessert ever: we sold 170,000 in just six weeks. Such was the demand that our supplier went into 24-hour production.

+ See more about **Food** on p26

We have improved levels of availability and choice. 112 stores now carry our full range of 6,300 Food products, increasing convenience for our customers. By offering our full range in a larger number of stores we are helping people cater for their busy lives; over 40% of our customers buy food for today or tonight.

Our Simply Food format continues to grow strongly. We opened 62 new stores in the UK this year, taking our total to 504. Our franchise partners play a key role in this growth. In March we opened our 200th Simply Food store through our partnership with BP.

OUR PLAN IN ACTION:

GM GROSS MARGIN IMPROVEMENT

As part of our strategy to improve our margins, we are bringing much of our design in-house. 35% of our clothing is now created, designed and sourced by our own teams, up from 20% at the end of last year, and our target is 60% by 2016/17. Our Direct Design strategy has led to greater collaboration between our buying teams, our design teams and our regional Sourcing Offices.

See more in **Financial review** on p16-19 and **General Merchandise** on p27

A better buying process has helped increase our margins, for example through the way that we procure our fabric. We used to source our linen from 28 fabric mills. Now, we use eight. Consolidating the number of mills has allowed us to create efficiencies, save time and be smarter in how we buy.

Better availability is key to boosting our margins, but some of the behind-the-scenes systems and processes which regulate this are over 25 years old. Our GM4 Programme is changing this – we are overhauling everything from our merchandise planning systems to our allocation and replenishment systems. GM4 will make us more efficient and more profitable.

OUR PLAN IN ACTION:

IMPROVE GM PERFORMANCE (WOMENSWEAR)

When we see a trend coming, we work quickly to interpret it for our customers. As the UK market leader in Womenswear denim, we knew that the recent denim catwalk trend would resonate with our shoppers. With strong editorial backing on M&S.com, a feature in Vogue, bold in-store visual merchandising and joined-up marketing, our range was a hit. We sold 4.3m pairs of women's jeans, up 7% on the year.

See more about **General Merchandise** on p27

Customers love newness, so we've made sure that we send more to more stores, with new lines landing in store every 2-3 weeks. Our Limited Edition range is now in all stores and our Rosie for Autograph lingerie and sleepwear is in the majority of stores, giving more choice to more of our customers, no matter where they live.

Over 70% of our female customers deem the fit of a garment to be the number one determining factor of quality. Our Fit Development team, which is unique to M&S, undertook a major project to ensure a consistent, good fit across all our brands. It has resulted in a 20% reduction in customer complaints about fit. We want our customers to feel confident about finding stylish clothes that fit and flatter, whatever they buy.

OUR PLAN IN ACTION:

STRONG CASH GENERATION

Prudent cost management has led to strong cash generation across the business. We run our stores more efficiently than in the past. This year we launched a new Resource Planning System to increase the effectiveness of our colleagues' work patterns. We also saw the benefits of a new payroll system which centralised administration. Our free cash flow before dividends was £524.2m this year, compared to £427.9m last year.

See more in **Financial review** on p16-19

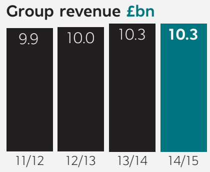
We have become a more agile and flexible organisation, resulting in improved working capital. Tactical supply chain initiatives such as our move to 'push allocation' – whereby stock is replenished automatically based on customer demand – have resulted in better, more efficient stocking, saving us time and money.

Capital expenditure this year fell to £527m, from £710m, following a period of major investment to bring our infrastructure up to date. We are now in a good position to maintain our existing assets while also having the headroom to invest in new ones as we fulfil our ambition to be an international, multi-channel retailer.

OUR PERFORMANCE

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL OBJECTIVES

OBJECTIVE	KPI	DEFINITION	2014/15 DATA	
Grow Group revenue	GROUP REVENUE	Total Group sales including retail sales for owned business and wholesale sales to franchise partners. Group revenue was broadly flat year-on-year, with the growth in Food sales offset by the decline in GM and International.	£10.3bn Level	
Increase earnings and returns	UNDERLYING GROUP PROFIT BEFORE TAX	Underlying profit provides additional useful information on the underlying performance of the business adjusting for income and significant one-off charges. Underlying PBT grew as a result of a significantly improved performance in the UK business.	£661.2m +6.1%	13/14 £622.9m 12/13 £648.1m 11/12 £705.9m[1]
	RETURN ON CAPITAL EMPLOYED (ROCE)	Return on capital employed is a relative profit measurement that demonstrates the return the business is generating from its net operating assets. The reduction in ROCE from last year reflects an increase in average net operating assets, partially offset by an increase in underlying earnings.	14.7% LY14.8%	13/14 14.8% 12/13 15.8% 11/12 16.4%[1]
	UNDERLYING EARNINGS PER SHARE	Earnings per Share (EPS) is the underlying profit divided by the average number of ordinary shares in issue. The weighted average number of shares in issue during the period was 1,635.6m (last year 1,615.0m).	33.1p +2.8%	13/14 32.2p 12/13 31.9p 11/12 34.9p[1]
	DIVIDEND PER SHARE	Dividend per share declared in respect of the year. The Board is recommending a final dividend of 11.6p per share, resulting in a total dividend of 18.0p, 1.0p above last year.	18.0p +1.0p	13/14 17.0p 12/13 17.0p 11/12 17.0p
Strong cash generation	FREE CASH FLOW (PRE DIVIDEND) S	Free cash flow is the net cash generated by the business in the period before dividend payment. Improvement was driven by better working capital management and improvements in underlying EBITDA.	£524.2m +22.5%	13/14 £427.9m 12/13 £204.1m 11/12 £385.2m

NON-FINANCIAL MEASURES

OBJECTIVE	KPI	DEFINITION	2014/15 DATA	
Improve product sustainability	PRODUCTS WITH A PLAN A QUALITY A	A quality or feature regarded as a characteristic or inherent part of a product which has a demonstrable positive or significantly lower environmental and/or social impact during its sourcing, production, supply, use and/or disposal.	64% +7%	
Reduce impact	GROSS GREENHOUSE GAS EMISSIONS A	Total gross CO_2e emissions resulting from M&S operated activities worldwide. We continue to offset emissions to a net figure of zero (carbon neutrality).	592,000 CO_2e +4.4%[2]	Looking ahead Our aim is for all M&S products to have at least one Plan A quality by 2020. We have targets to improve energy efficiency by 50% and reduce refrigeration gas emissions by 80% by 2020. We also plan to continue to offset our gross greenhouse gas emissions to zero (carbon neutral).
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT A	Total gross CO_2e emissions per 1,000 sq ft resulting from M&S operated activities worldwide.	30 tCO_2e/1,000sq ft Level	

FIND OUT MORE

Read about Our Plan on p09-13

Read more on Remuneration on p52-76

STRATEGIC OBJECTIVES

OBJECTIVE | KPI | FOOD | GENERAL MERCHANDISE | M&S.COM | INTERNATIONAL

Driving growth

KPI: SALES REVENUE

FOOD

UK REVENUE
£5.2bn
+3.4%

13/14 £5.1bn

Definition UK Food sales including retail sales for owned business and wholesale sales to franchise partners.

Our strategy is to be more specialist and focus on quality and innovation. Through improvements in availability and choice, we made M&S food more relevant to our customers, more often.

GENERAL MERCHANDISE

UK REVENUE
£4.0bn
-2.5%

13/14 £4.1bn

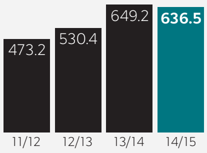
Definition UK GM sales including retail sales for owned business.

Customers recognised the improvements in the style and quality of our clothing. Demonstrated improvements with positive GM sales growth in the last quarter.

M&S.COM

TOTAL ONLINE SALES
£636.5m[3]
-2.0%

Total online sales £m

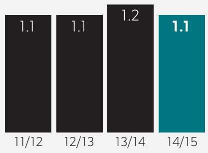


Definition Total multi-channel revenue including web to home and Shop Your Way transactions. M&S.com sales returned to growth in the fourth quarter and we saw gradual improvement across all key metrics.

INTERNATIONAL

REVENUE
£1.1bn
-5.7%

International revenue £bn



Definition Sales from the International business including retail sales for owned business and wholesale sales to franchise partners.

Reaching customers

KPI: SALES GROWTH/ SPACE GROWTH/ ONLINE VISITS

FOOD

UK LFL SALES GROWTH
0.6%

Definition Sales growth from those stores which have been open for 12 months. The Food division has seen 22 quarters of positive like-for-like sales growth.

UK SPACE GROWTH
+2.9%

Definition Year-on-year increase in weighted average selling space. We continued to grow our successful Simply Food store format.

GENERAL MERCHANDISE

UK LFL SALES GROWTH
-3.1%

Definition Sales growth from those stores which have been open for 12 months.

Demonstrated improvements with positive GM sales growth in the last quarter.

M&S.COM

WEEKLY SITE VISITS
6.1m
+10.9%

Definition Weekly visits to our UK desktop, tablet, mobile and app sites.

Over 7 million customers have now registered on M&S.com.

INTERNATIONAL

INTERNATIONAL SPACE GROWTH
7.1%

Definition Year-on-year increase in weighted average selling space.

We opened 25 net new International stores this year.

Improve profitability

KPI: GROSS MARGIN/ PROFITS

FOOD

UK GROSS MARGIN
32.8%
+30bps

Definition Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location.

Food gross margin was up as we eliminated inefficiencies by streamlining our processes.

GENERAL MERCHANDISE

UK GROSS MARGIN
52.6%
+190bps

Definition Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location.

GM gross margin improvement was largely as a result of better buying and sourcing, resulting in an overall increase in profitability.

INTERNATIONAL

UNDERLYING OPERATING PROFIT
£92.3m
-24.8%

Definition Year-on-year increase or decrease in operating profit generated by the International business.

Profit was impacted by macroeconomic challenges in our Middle East region and the weakening euro.

Our plans for the future

KPI: For 2015/16, the directors' remuneration targets will include cash flow, GM UK LFL sales, GM gross margin, M&S.com sales growth, and International sales and operating profit.

FOOD: We see a material sales opportunity and a more modest gross margin opportunity. We will continue to exploit the opportunity in our Food business – maintaining our specialist strategy and growing our Food space.

GENERAL MERCHANDISE: We see a material gross margin improvement opportunity, with a more modest sales growth opportunity. In the year ahead we will continue to deliver gross margin benefits through a combination of a more direct approach to sourcing and improved trading capabilities.

M&S.COM: Our website and distribution centre are powerful engines for growth. Our investment in them will help drive online sales growth and increase online profitability.

INTERNATIONAL: We see a long-term growth opportunity across a number of international markets. We anticipate that in the short term we will continue to be impacted by this year's weakening euro and challenging macroeconomic backdrop.

Linked to remuneration

1. For the year ending 2011/12 no restatement for the revised IAS 19 'Employee Benefits' has been made.
2. For the year ended 2013/14, we have made adjustments to exclude a warehouse that is no longer under our operational control and include five smaller international warehouse locations.
3. M&S.com sales for the year ending 2014/15 are on a post store returns basis. M&S.com sales have been restated on a consistent basis for years 2011/12 to 2013/14.

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FINANCIAL REVIEW

Strong financial disciplines are at the heart of how we run the business.

HELEN WEIR CHIEF FINANCE OFFICER

OVERVIEW

In 2014/15, we made progress in the delivery of our strategy, with sales of £10.3bn level on last year, and underlying profit of £661.2m, up 6.1%. Underlying earnings per share were 33.1p, up 2.8% on last year.

Strong financial management is at the heart of our strategic priorities. Focusing on margin and cash generation, we have finished the year in a stronger financial position and delivered improved returns for shareholders, with a total dividend of 18.0p and significant share price growth over the period.

FINANCIAL HIGHLIGHTS

S

UK Food revenue was up 3.4% and we outperformed the market by 3.5%. Food gross margin was up 30bps at 32.8% as we eliminated inefficiencies by streamlining our processes.

UK GM revenue was down 2.5% year-on-year. However, this decline was offset by the stronger gross margin. We delivered gross margin improvement of 190bps at 52.6%. 180bps of the increase was a result of improvement in the buying margin driven by the shift to direct design and sourcing which allow us to buy more effectively.

Whilst M&S.com delivered sales of £636.5m, down 2% on last year, we saw a steady improvement in performance, exiting the year with growth of 13.8% in Q4.

UK operating costs were up 1.5% against last year, to £3.2bn. However, 2.4% of this growth was accounted for by depreciation and asset impairments, meaning that the remaining costs were down, demonstrating our tight control of costs and the benefit of initiatives such as better resource allocation in stores and new contractual terms with our main Food logistics supplier.

Whilst some key owned international markets continued to perform well despite challenging trading conditions, macroeconomic issues significantly impacted International second half profit, particularly in our franchise business. Wholesale shipments to our franchise partners in our Middle East region slowed as a result of some destocking. A review of our International store estate, coupled with the adverse euro exchange rates and tough consumer environment, resulted in writedowns of £37.2m relating to certain underperforming stores in Western Europe, Ireland and China.

M&S Bank performed well with underlying profit contribution of £60.2m, up 5.3%, and there was good take up of the fee-free current account launched in May 2014.

STRONG CAPITAL MANAGEMENT

Improved performance and effective balance sheet management have resulted in strong cash generation. As a result, our net debt position has reduced by £240.4m to £2.2bn. Fixed charge cover was 3.6 times, broadly level with last year.

We performed well against the criteria we set out for capital allocation at the start of the year:

- → Strong free cash flow pre dividends of £524.2m, up 22.5% on last year;
- → Reduced capital expenditure of £526.6m down by £183.0m;
- → Full year dividend at 18.0p, up 5.9% on last year, in line with our progressive policy;
- → BBB minus rating, in line with our commitment to maintaining an investment grade rating;
- → Net debt/EBITDA ratio of 1.7x, comfortably within our ratio range of 2.0x –1.5x.

After a period of significant investment, our ROCE has now stabilised. By ensuring we achieve the appropriate balance between investment for growth and investment to maintain the business, we expect our returns to improve going forward.

DELIVERING RETURNS TO SHAREHOLDERS

Following the recent programme of investment, we now have a stronger, more capable business. While there is still more to do, the reduction in capital investment and the improving business performance will lead to strong cash generation.

The Board is now setting out a clear capital allocation policy:

- → Commitment to a strong balance sheet, including maintaining an investment grade credit rating;
- → Continuing to invest in the business for growth, underpinned by strong investment disciplines;
- → Progressive dividend policy, broadly twice covered by earnings; and
- → Returning any surplus cash generated to shareholders on a regular basis.

Consistent with this approach, we have announced an ongoing programme of returns of capital to shareholders. In 2015/16, we expect to return £150m of cash to shareholders in the form of a share buyback programme. This is the first of what is expected to be an ongoing programme of returns, with the quantum and method determined by the Board each year based on the performance and needs of the business.

FIND OUT MORE

See our **Key performance indicators** on p14-15

See **Our plan** and **Strategic priorities** on p08-13

Read about **Our operating performance** on p26-31

See how performance links to **Remuneration** on p62

INVESTING IN OUR INFRASTRUCTURE

Investment to make our supply chain fit for the future continued with a focus on our GM IT systems and logistics network. Upon completion, these two interdependent projects will deliver greater supply chain flexibility and better availability for our customers. In IT, we completed the Allocation & Replenishment element of our GM4 programme, implementing a new stock distribution system that allocates stock to stores based on demand, ensuring our customers can get the products they want in the location in which they want them. In logistics, we continue to reshape our GM warehouse network, and the next milestone will be the launch of our redeveloped Bradford National Distribution Centre in 2016.

MANAGING OUR PROPERTY PORTFOLIO

We added 1.5% of UK selling space, driven by our Simply Food growth programme. We opened 67 new stores this year, including 62 Simply Food stores. We closed 13 stores, of which five were relocations, as we continue to reshape our portfolio to ensure that our stores are in the most convenient locations. We expect Food space to increase by 4.5% in 2015/16, again driven by growth in Simply Food store numbers. Our strategy is for GM space to remain flat, although we will continue to manage our estate to improve the quality of stores for our customers.

SUSTAINABLE REPORTING

A

Our commitment to Plan A drives us to run our business efficiently. An effective, sustainable business plan ultimately delivers value for shareholders. Investors recognise the long-term value of sourcing responsibly, cutting waste and using resources efficiently.

As members of the International Integrated Reporting Council and the Prince's Accounting for Sustainability project (A4S), we are committed to reporting the long-term value created by sustainable business. We have participated in projects supporting natural capital accounting, and we are taking part in the development of natural capital protocols led by the Natural Capital coalition, with the results due in 2016.

We are committed to managing and reporting our global tax affairs in keeping with our longstanding values and paying our fair share of tax. There is further detail on our tax contribution on page 18.

SUMMARY OF RESULTS

	52 weeks ended		
	28 Mar 15 £m	29 Mar 14 £m	% var
Group revenue[1]	**10,311.4**	10,309.7	Level
UK	**9,223.1**	9,155.7	+0.7
International[1]	**1,088.3**	1,154.0	-5.7
Underlying operating profit	**762.5**	741.9	+2.8
UK	**670.2**	619.2	+8.2
International	**92.3**	122.7	-24.8
Underlying profit before tax	**661.2**	622.9	+6.1
Non-underlying items	**(61.2)**	(42.5)	-44.0
Profit before tax	**600.0**	580.4	+3.4
Underlying basic earnings per share	**33.1p**	32.2p	+2.8
Basic earnings per share	**29.7p**	32.5p	-8.6
Dividend per share (declared)	**18.0p**	17.0p	

1. On reported currency basis.

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GROUP REVENUE

Group revenues were level (up 0.4% on a constant currency basis). UK revenues were up 0.7% in total with a like-for-like decrease of 1.0%. International revenues were down 5.7% (down 2.1% on a constant currency basis).

GROSS MARGIN

UK gross margin was up 75bps at 41.4% as a result of strong improvement in GM margin.

UK GM gross margin was up 190bps at 52.6% driven mainly by an improvement in buying margin as a result of sourcing initiatives. Despite a highly promotional marketplace, we remained focused on full price sales and we reduced the number of price promotions. However, clearance markdown was higher due to additional stock into sale as a result of unseasonal Autumn/Winter conditions.

Food gross margin was up 30bps at 32.8% due to ongoing operational efficiencies. The benefits realised through streamlining our operations have been reinvested in price and quality, and also shared with our suppliers to help them create further efficiencies.

OPERATING COSTS

	52 weeks ended		
	28 Mar 15 £m	29 Mar 14 £m	% var
Retail staffing	**954.5**	978.8	-2.5
Retail occupancy	**1,116.4**	1,054.4	+5.9
Distribution	**408.7**	445.5	-8.3
Marketing and related	**167.6**	147.7	+13.5
Support	**560.2**	533.2	+5.1
Total	**3,207.4**	3,159.6	+1.5

UK operating costs were up £47.8m (1.5%), with higher depreciation and asset impairments contributing £76.0m (2.4%) of the total increase.

Retail staffing costs were down in part as a result of lower volumes, but also helped by better resource allocation following the implementation of a new labour planning system. Our store customer satisfaction scores were up on the year.

The increase in occupancy costs mainly reflects increased depreciation and asset impairments arising from investment made in our UK store environment as well as the addition of new space in Food.

Distribution costs were down, reflecting new contractual terms with a key Food logistics supplier, the benefits of the first stage of our single tier network and lower volumes in GM.

Marketing and related costs increased due to the re-launch of the M&S brand, including new TV advertising campaigns across both Food and GM.

Support costs were up largely due to higher depreciation on the new M&S.com web platform and additional staff incentive costs this year, partially offset by the release of employee benefit provisions.

NET FINANCE COSTS

Net underlying interest payable was down 15.9% to £94.8m due to a decrease in the average cost of funding to 5.0% (last year 5.4%) and a £240.4m reduction in net debt. This has resulted in a decrease in net finance costs of £12.8m.

UNDERLYING PROFIT BEFORE TAX

Underlying profit before tax grew by 6.1% to £661.2m (last year £622.9m) as a result of the significantly improved performance in the UK business and lower interest costs.

NON-UNDERLYING PROFIT ITEMS

	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	**(13.8)**	(50.8)
Restructuring costs	**(4.6)**	(77.3)
IAS 39 Fair value movement of embedded derivative	**1.3**	(3.5)
(Loss)/profit on disposal and impairment once commitment to closure	**(6.9)**	82.2
International store review	**(37.2)**	(21.9)
UK and Ireland one-off pension credits	**–**	27.5
Strategic programme costs	**–**	(2.0)
Fees incurred on tax repayment	**–**	(1.6)
Adjustment to operating profit	**(61.2)**	(47.4)
Interest income on tax repayment	**–**	4.9
Adjustment to profit before tax	**(61.2)**	(42.5)

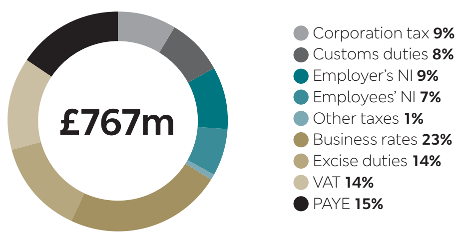
Non-underlying adjustments to profit were £61.2m net charge (last year £42.5m net charge). The main element of these charges is a provision for impairment in underperforming stores in Western Europe, Ireland and China.

Full details of **non-underlying items** are disclosed in **note 5** on p100.

TAXATION

The full year underlying effective tax rate was 18.9% (last year 18.8%) and statutory effective tax rate was 19.7% (last year 12.8%).

TOTAL TAX CONTRIBUTION



In 2015 our total cash tax contribution to the UK Exchequer was £767m (2014: £803m[1]); split between taxes ultimately borne by the Company of £388m (2014: £372m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity which are collected on behalf of the government of £379m (2014: £431m[1]) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

1. The 2014 numbers have been restated to exclude PAYE in relation to pensioners paid by the M&S Pension Trust.

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 2.8% to 33.1p per share. The weighted average number of shares in issue during the period was 1,635.6m (last year 1,615.0m).

DIVIDEND

We are pleased by the improvement in cash generation over the year. Following the increase in the interim dividend, the Board has proposed a 7.4% increase in the final dividend to 11.6p. This will result in a total dividend of 18.0p, up 5.9% on last year.

CAPITAL EXPENDITURE

	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
UK store environment	**92.7**	163.2
New UK stores	**63.5**	89.4
International	**37.5**	69.0
Supply chain and technology	**273.8**	346.2
Maintenance	**94.5**	67.2
Proceeds from property disposals	**(35.4)**	(25.0)
Total capital expenditure	**526.6**	710.0

Group capital expenditure was down £183.4m versus last year, as many of our large infrastructure projects have now been completed.

The largest proportion of spend continued to be on supply chain and technology as we developed our single tier distribution network and continued to roll out our GM4 commercial systems.

We also continued to invest in our UK store estate to create a more inspiring environment, including the launch of our new look and feel Menswear departments.

The proceeds from property disposals mainly relate to the deferred consideration from the sale of the White City warehouse, which is being received over three years.

CASH FLOW AND NET DEBT

	52 weeks ended	
	28 Mar 15 £m	29 Mar 14 £m
Underlying EBITDA	**1,312.6**	1,219.7
Working capital	**179.5**	47.9
Pension funding	**(143.0)**	(92.0)
Capex and disposals	**(664.4)**	(616.6)
Interest and taxation	**(177.1)**	(175.2)
Share transactions	**16.6**	44.1
Free cash flow pre dividends	**524.2**	427.9
Dividends paid	**(280.7)**	(273.6)
Free cash flow	**243.5**	154.3
Opening net debt	**(2,463.6)**	(2,614.3)
Exchange and other non-cash movements	**(3.1)**	(3.6)
Closing net debt	**(2,223.2)**	(2,463.6)

The business delivered strong free cash flow pre dividends of £524.2m which, after the payment of dividends, led to a reduction in net debt of £240.4m. The improved free cash flow reflects stronger business performance resulting in £1,312.6m of underlying EBITDA, an increase of £92.9m (7.6%) on last year. In addition, there was a £179.5m reduction in working capital, due to lower inventory levels and also higher creditor levels, in part due to the earlier timing of Easter this year. In addition, it includes an ex-gratia payment of £40.0m (last year nil) from HSBC following agreement reached over a number of issues in connection with the Relationship Agreement. These movements are partially offset by capital expenditure cash payments of £664.4m. These are higher than our actual capital expenditure as a result of high prior year end capex accruals which were paid in the first half of this year. Pension funding includes £56.0m of additional deficit reduction funding contributions paid into the UK defined benefit scheme during the year.

SUPPLIER INCOME

The Financial Reporting Council (FRC) has asked retailers "to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements". Due to our focus on own brand products, supplier income is a relatively small proportion of our value of stock expensed. As at the year end, accrued income in relation to supplier income was £13.5m (last year £9.3m).

⊕ Further details are disclosed in **note 1**, on p94, **note 17**, on p112 and in the **Audit Committee Report** on p49.

PENSION

At 28 March 2015 the IAS 19 net retirement benefit surplus was £449.0m (last year £189.0m). The increase is due to movement in the UK defined benefit surplus, specifically an increase in the market value of scheme assets attributable to higher than expected returns. This is partly offset by an increase in the present value of scheme liabilities due to a decrease in the discount rate from 4.45% to 3.10% from the movement in corporate bond yields.

The Strategic Report, including the market context on pages 20-21 and risk management on pages 23 to 25, was approved by a duly authorised Committee of the Board of the Directors on 19 May 2015, and signed on its behalf by

Helen Weir Chief Finance Officer
19 May 2015

OUR PERFORMANCE

MARKETPLACE

In a fast-changing retail world, it is crucial that **we listen to our customers and understand their needs.** Our Customer Insight Unit (CIU) analyses **responses from 60,000 customers a month.** It combines this feedback with market research to monitor the consumer climate and understand how it is influencing shopping behaviour.

OVERVIEW

The UK economy continues to improve. Unemployment is falling and house prices are rising. Last summer, consumer confidence moved into positive territory for the first time since March 2005. As a result of the more optimistic outlook, there has been a gradual opening up of purses and wallets. Rather than increasing their everyday spending, people are looking to spend on the big purchases they put off in the downturn. This spending, however, is accompanied by a healthy dose of caution. Consumers still feel bruised by the credit crisis; they are looking to save, and spending remains careful and considered.

Feelings of stability among UK consumers have also been dented by a year of upheaval abroad. From the Middle East to Russia and Ukraine, the last 12 months have been tumultuous. This has tempered people's positivity. Domestically, the Scottish independence referendum and the recent general election had similar effects. People like certainty, and there is always uncertainty around the outcome of such events.

UK

We saw more confidence among our customers this year. They told us that they are feeling secure, stable and cautiously optimistic.

Although clothing sales were down year-on-year, customers were investing more in our 'better' and 'best' products. People told us they were excited to shop with us. They particularly loved the colours and vibrancy of our Spring/Summer 2015 collections. This renewed confidence was reflected in fewer promotions than last year. The shift towards convenience store shopping within the food market means there is intense competition for a limited number of sites. In order to help us address this challenge we have put in place a Simply Food surveying team to identify and secure the best located sites and we also benefit from our longstanding franchise partnerships with the likes of BP and SSP. Customers in our smaller stores told us they wanted greater choice when they shopped. We responded by increasing the ranges available in those stores. When it came to our in-store environment, customers told us that our stores are now more exciting and enjoyable places to shop.

But we also benefited from the continuing undercurrent of caution among shoppers. With consumers' focus on clever spending, they want to buy once and buy well, and turn to brands they can trust and whose quality can be relied on, like M&S.

Consumers' emphasis on celebrating life and indulging their loved ones played to our Food division's strengths. Our mission in Food is to excite customers with the newness, quality and difference of our products, and we continued to distinguish ourselves with unrivalled innovation. Britain is fast becoming a nation of foodies and, in an intensely price focused market, we focused on offering high-quality, good value food to our customers. As a result, we outperformed the market once again. There is a sense of discovery in buying food at M&S, and our customers trust us when it comes to scouring the world for the best there is. We excelled during events such as Christmas and Valentine's Day. And we extended our events beyond dates in the calendar; our summer-long food campaign saw us promote our barbecue, grill and world food ranges throughout the season.

INTERNATIONAL

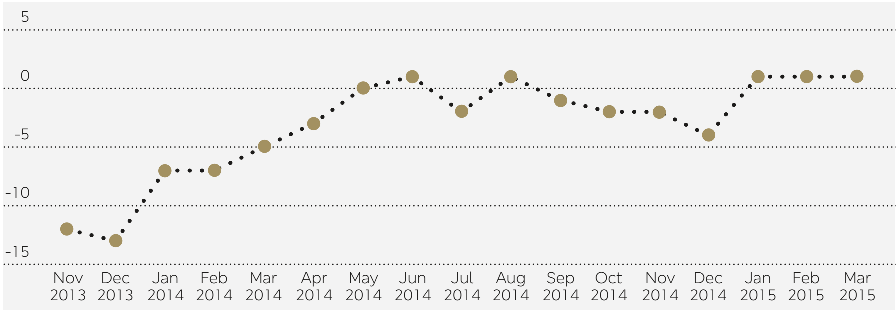
Convenience continues to drive growth in the European food market, with demand in France particularly strong. This presents good growth opportunities for our international Food offer and we opened six standalone Food stores in Paris this year in convenient city centre and transport locations. Following the popularity of our online stores on China's leading websites and in response to the expanding Chinese children's clothing market, we launched a dedicated Kidswear store on Tmall.com, which resulted in exceptional year-on-year growth. We continue to target the growth of the middle class and the expanding lingerie market in India with our Lingerie & Beauty stores. Our overseas shoppers see M&S as a respected brand and they like the fact that we are firmly grounded in our Britishness.

TECHNOLOGY

Technology continues to shape how customers shop. The proliferation of different channels – stores, online, tablet, mobile – is turning shopping into a seamless experience. Mobile is increasingly the first port of call for consumers' research and the number of shoppers using smartphones to search for clothing increased by more than half over the last year. Visits to M&S.com via mobile were also up 51%. We have adopted a mobile-first approach to digital development, ensuring the primary devices our customers use are at the heart of the design. The pace of change in technology continued – with the launch of some of the first wearable tech devices. Our Digital Labs team – made up of product design specialists and data scientists – ensure we stay at the forefront of technological developments. The team uses the agile techniques of the start-up world to help us test and validate new ideas and concepts and apply the learnings as quickly and efficiently as possible. For example, the team was able to develop our popular Cook with M&S app for the Apple Watch ahead of its UK launch.

CONSUMER CONFIDENCE INDEX

Last summer, consumer confidence moved into positive territory for the first time in almost a decade as people felt more secure about the macroeconomic environment. Although it has fluctuated since, confidence has remained consistently higher than in previous years. There remain regional differences throughout the UK. But wherever they are, consumers are looking for both value and quality.



INSPIRATION

Customer Insight Our customers tell us they want an inspiring shopping experience every time they enter an M&S store or visit our website. They also want to see ranges that are creative and exciting. We seek to inspire our customers with every product they buy from us, be it a prepared meal or a raincoat.

Products & Channels Our ranges were positively received by the fashion press this year. Customers' feedback about the quality and style of our clothing ranges has improved, and they have noticed the better fit of our clothing. With our Food ranges we want to delight our customers and we independently test all our products for taste and quality, ensuring our products are always a cut above the rest.
Read more on p26-27

Brand & People Our new M&S logo emphasises the heritage and quality for which we are known. It is just one of the ways that we have inspired customers this year. At Christmas, we carried out random acts of kindness all across the UK. The strategy forged a warm connection between our people and our customers at a special time of year.
Read more on p30.

INNOVATION

Customer Insight We know our customers look to M&S for innovative ideas. In a crowded retail market, they want to know that when they shop with us they will get high-quality products that are only available at M&S and are better than ever before.

Products & Channels Over a quarter of our Food products were new this year. And our clothing ranges were constantly refreshed with wearable interpretations of the latest trends. As the UK market leader in lingerie, our bra fit service is popular with our customers, however one in four will not go into store for a bra fit. So our team of software engineers developed a digital solution. Our digital Bra Fit tool gives customers an accurate and convenient way of measuring themselves in the privacy of their own home. Read more on p26-27.

Brand & People Store presentation is crucial; we have great products and we want to showcase them at their best. So this year around 5,000 colleagues trained in The M&S Way, supported by an innovative online learning tool to promote consistent visual merchandising standards across our GM ranges. Our marketing campaigns constantly break new ground. Our 'Adventures In...' Food ads used new photography techniques to showcase our food innovation with dancing fruit and bursting berries. Read more on p28 and 30.

INTEGRITY

Customer Insight Our customers tell us that they trust us to do the right thing. At M&S, we pride ourselves on the high levels of integrity in our products and in our supply chain. In a competitive and challenging food market, customers know that we will not cut corners when it comes to the quality and provenance of the food that we sell.

Products & Channels Traceability is key. Due to our close relationship with our suppliers, we can pinpoint the very herd that produces any particular batch of our milk. This year, a third of our food products came from Gold and Silver sustainability standard producers, in line with our Plan A target. Today, 64% of our food and clothing products have a Plan A quality, up from 57% last year. The quality either relates to the materials that the products are made from or to the manufacturing process.

Brand & People Since we started our Shwopping initiative in 2012, customers have shwopped 10.6 million clothing garments for Oxfam, worth £7.3 million to the charity. Our Behind the Barcode initiative ensured that colleagues in our International stores were up to speed when it came to brand awareness and the service standards that make M&S a world-class retailer.

IN TOUCH

Customer Insight To stay relevant, our customers tell us we need to stay in touch with them, so we constantly talk to them and monitor their spending habits. As well as analysing responses from 60,000 customers a month, our CIU looks at 600 million unique customer transactions a year. We use the data to help us give our customers a great experience every time they shop with us.

Products & Channels It is crucial that we are in touch with our customers through every channel available. M&S.com uses bespoke content to communicate with our customers 24 hours a day and is regularly updated to take into account customer feedback. Social media is an increasingly important way of communicating and we have a social media 'audience' of over 2.6 million via platforms and websites such as Twitter, Instagram and Facebook.
Read more on p28.

Brand & People We pride ourselves on the connections we have with the communities in which we work – staying in touch with the communities where we operate is central to Plan A. Whether it's through the volunteer work of our store colleagues, through our partnerships with local charities, or via community-based initiatives like the Big Beach Clean-Up, we aim to be a force for good in the towns and cities where we have stores and operations.

OUR PERFORMANCE

PEOPLE BEHIND THE PLAN

OVERVIEW

Our people are at the very heart of M&S: bringing our values to life and putting our strategy into action. To create value for our shareholders we must engage employees across the business in our strategic plans and ensure we have the right people, with the right mix of skills to drive our growth ambitions.

ENHANCING LIVES, EVERY DAY

We have done a lot of work this year to ensure that we have the correct management structures in place to deliver on our promise of enhancing lives, every day. In the face of changing shopping habits, we have to make sure that our framework is fit for the future.

Last summer we realigned our executive team's responsibilities to ensure greater accountability across the business. We also streamlined our processes and introduced more collaborative ways of working throughout the Company to speed up decision-making.

Our four new core values underpin everything we do: Inspiration, Innovation, Integrity and In Touch.

OUR LEADERSHIP TEAM

The changes we made last June saw UK Retail and International represented at Board level for the first time. To reflect the increasingly 'channel neutral' outlook of our customers, Laura Wade-Gery assumed responsibility for UK Retail as well as Multi-channel.

Patrick Bousquet-Chavanne took on responsibility for International, as well as Marketing, to help bolster M&S's global brand position.

We were delighted to welcome Helen Weir onto our Board as Chief Finance Officer on 1 April 2015. Helen, who replaced Alan Stewart, brings with her a wealth of retail, consumer and financial experience. She was formerly Chief Finance Officer at the John Lewis Partnership. Prior to that she held senior positions at Lloyds Banking Group and Kingfisher.

Our Management Committee helps shape our annual business priorities and drives the delivery of our plan. To ensure that all areas of our business work as one team, it was extended to ensure it is fully representative of the entire business. The Management Committee is ably supported by the Senior Leadership Group, whose key objective is to drive a high performance culture and promote a wide understanding of our plans and priorities, so that every employee feels clear and confident about the direction of our business.

A NEW APPROACH

In order to support the organisational changes, we launched a new leadership programme – Fit to Lead The Future. Designed to equip our people with the insights and practical techniques to build and lead high performing teams, it will ensure our leaders understand what's required of an organisation to remain sustainable in a quickly changing world. We are also running engagement events for our 1,300 head office employees who have responsibility for directly managing individuals or teams to ensure they understand the important role that they play in driving high performance. Our new values are reflected in our employee policies, including the behaviours we look for when we recruit, the induction of new employees, in performance management and as part of our development programmes.

MANAGEMENT COMMITTEE

Marc Bolland
Chief Executive

Patrick Bousquet-Chavanne
Executive Director, Marketing & International

John Dixon
Executive Director, General Merchandise

Steve Rowe
Executive Director, Food

Laura Wade-Gery
Executive Director, Multi-channel

Helen Weir
Chief Finance Officer

Hugo Adams
Director of Property Development & Facilities Management

Andy Adcock
Director of Food Trading

Costas Antimissaris
Director of International

Mike Barry
Director of Plan A

Sacha Berendji
Director of Retail

Carl Dawson
Director of IT

Florence De Boosere
Global Director of Store Environment & Product Presentation

Tanith Dodge
Director of HR

Belinda Earl
Style Director

Paul Friston
Executive Assistant & Business Development Director

Dominic Fry
Director of Communications & Investor Relations

Dirk Lembregts
Director of Supply Chain

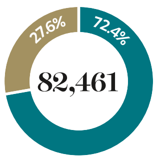
Amanda Mellor
Group Secretary & Head of Corporate Governance

Chris Taylor
Business Improvement Director

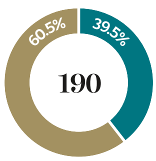
David Walmsley
Director of M&S.com

Rob Weston
Global Brand & Marketing Director

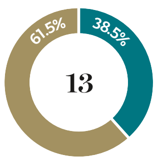
EMPLOYEE DIVERSITY AS AT 31 MARCH 2015



Total employees
● Female 59,710
● Male 22,751



Total senior managers
● Female 75
● Male 115



Total Board*
● Female 5
● Male 8

* Includes Helen Weir and Richard Solomons, who both joined the Board in April 2015.

OUR PERFORMANCE

RISK MANAGEMENT

We believe that **effective risk management** is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business.

APPROACH TO RISK MANAGEMENT

The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee reviews the effectiveness of the Group Risk Process. Each business area is responsible for identifying, assessing and managing the risks in their respective area.

Risks are identified and assessed by all business areas half-yearly and are measured against a defined set of criteria, considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a risk identification and assessment exercise with the Executive Board members. This information is combined to form a consolidated view of risk. The top risks (based on likelihood and impact) form our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of final review and approval by the Group Board.

To ensure that our risk process drives continuous improvement across the business, the Executive Board monitors the ongoing status and progress of key action plans against each risk quarterly.

KEY AREAS OF FOCUS

We continue to drive improvements to our risk management process and the quality of risk information generated, whilst at the same time maintaining a simple and practical approach. This year we have placed significant focus on developing our approach to risk appetite.

The objective of our risk management approach is to identify and assess all significant risks to the achievement of our strategic objectives. Risk appetite is an important consideration in strategic decisions made by the Board. It is an expression of the types and amount of risk we are willing to take or accept to achieve our plan and should support the definition of mitigating activities required to manage risk likelihood and impact to within acceptable levels. By defining our risk appetite we aim to support consistent, risk-informed decision-making across the Group.

This year we have taken steps to strengthen our approach to risk appetite, starting with the definition of draft, Group-level risk appetite statements. The purpose of these is to articulate the Board's desired risk-taking approach to the achievement of our strategic objectives, in the context of managing our principal risks. During the 2015/16 financial year we will further develop our approach to risk appetite, refining these statements and integrating them with our wider risk management processes. **For more information on this, please see p45.**

PRINCIPAL RISKS AND UNCERTAINTIES

As with any business, we face risks and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise.

Overleaf are details of our principal risks and uncertainties and the mitigating activities in place to address them. It is recognised that the Group is exposed to risks wider than those listed. However, we have disclosed those we believe are likely to have the greatest impact on our business at this moment in time and those that have been the subject of debate at recent Board or Audit Committee meetings.

To achieve a holistic view of the risks facing our business, both now and in the future, we consider those that are:

→ External to our business;

→ Core to our day-to-day operation;

→ Related to business change activity; and

→ Those that could emerge in the future.

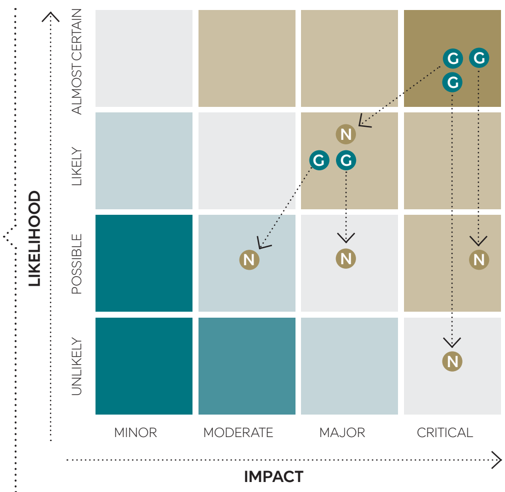
The 'risk radar' below maps our principal risks against these categories. This tool is also used to facilitate wider Executive and Board level discussions on risk.

RISK LIKELIHOOD AND IMPACT

Identification
Risks highlighted and documented in a centrally managed Risk Register

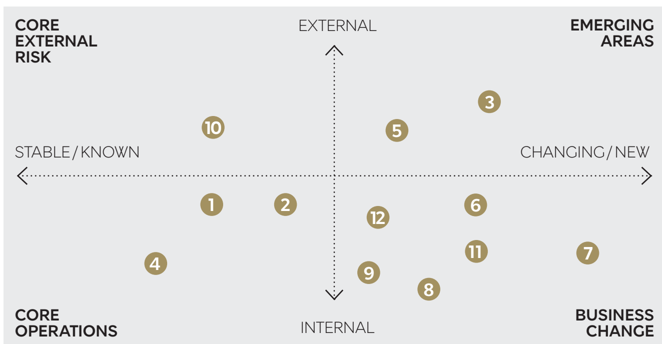
Assessment
Risks assessed in terms of likelihood of occurrence and potential impact on the Group

Mitigation
Required actions are agreed and assigned, with target deadlines and quarterly status updates



G GROSS RISK LEVEL BEFORE MITIGATION N NET RISK LEVEL AFTER MITIGATION

RISK RADAR



KEY
1 GM customer engagement
2 Food safety and integrity
3 Food competition
4 GM margin
5 Information security
6 IT change
7 M&S.com business resilience
8 International expansion
9 Our people
10 Staff retention
11 Programme and workstream management
12 GM supply chain and logistics network

OUR PERFORMANCE
PRINCIPAL RISKS AND UNCERTAINTIES

RISK	DESCRIPTION	MITIGATING ACTIVITIES	
BRAND AND REPUTATION			
Our updated values of Inspiration, Innovation, Integrity and In Touch influence how we do business and our reputation for being one of the UK's most trusted brands			
1 **GM CUSTOMER ENGAGEMENT** Continued loss of engagement with our customer	As we strengthen our brand recognition and reassert our GM quality and style credentials, it is important that we understand and address our customers' needs in an increasingly competitive market.	→ Regular engagement with customers through data gathered by our Customer Insight Unit and focus groups. → Updated brand positioning and marketing approach with greater emphasis on product. → Continued focus on product quality and style, including adherence to our Clothing Quality Charter.	→ Continual updates to the M&S.com website to enhance the online customer shopping experience. → Ongoing improvements to store environment, addressing specific customer feedback. → Targeted marketing and promotional activity using customer loyalty data.
2 **FOOD SAFETY AND INTEGRITY** A food safety or integrity related incident occurs or is not effectively managed	As a leading retailer of fine quality fresh food, it is of paramount importance that we manage the safety and integrity of our products and supply chain, especially as we grow our global food business and given the heightened risk of fraudulent behaviour in the supply chain.	→ Dedicated team responsible for ensuring that all products are safe for consumption through rigorous controls and processes. → Continuous focus on product quality. → Proactive horizon scanning, including focus on fraud and adulteration.	→ Food Standards Agency endorsed approach to reducing campylobacter. → Updated supplier and depot auditing programme.
3 **FOOD COMPETITION** Loss of market share, due to changes in the competitive landscape or customer behaviours	With the current upheaval amongst the supermarkets and the polarisation between value and premium, it is important that we continue to provide a point of difference through product quality, value and innovation, as well as convenience.	→ Significant focus on product innovation to retain point of difference and drive customer loyalty. → Continued focus on product availability to customers.	→ Regular review of price positioning. → Simply Food expansion to provide convenience to customers.
DAY-TO-DAY OPERATION			
We are a customer-centric business and strive to deliver an efficient and effective operation			
4 **GM MARGIN** Failure to improve margin whilst maintaining our quality and Plan A standards	As we drive increased GM margin through improved design and sourcing capability it is essential that we maintain our ethical sourcing standards and continue to drive improvements to product quality.	→ Margin targets defined and regularly monitored. → Robust and established supplier ethical audit programme in place.	→ Strong sourcing capability led by experienced overseas Sourcing Directors. → End-to-end review of GM design, trading and sourcing underway.
5 **INFORMATION SECURITY** We experience a major breach in cyber, system or information security	The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.	→ Extensive security controls in place including policies, procedures and security technologies.	→ Tight control of sensitive data through limited and monitored access and the roll-out of systems possessing enhanced security. → Established team dedicated to managing security requirements for M&S.com.
6 **IT CHANGE** Unforeseen impact of IT changes to new and existing systems disrupts business operations	As we undertake a number of significant change programmes, the rate and scale of IT change is substantial, with potential to significantly impact our complex and interdependent systems.	→ Clear decision-making process for system changes, including established Change Approval Board process and change freezes during critical trading periods.	→ Proactive management of cross-programme dependencies including 'release management' approach to Group system changes together. → Robust disaster recovery plans in place for critical business applications.

FIND OUT MORE

Read our **Audit Committee Report** on p46-50

Read **Risk in action** on p44

RISK	DESCRIPTION		
SELLING CHANNELS			
We have ambitious plans for our UK, International and multi-channel businesses as part of our evolution to be a truly international, multi-channel retailer			
7 **M&S.COM BUSINESS RESILIENCE** A major failure of our M&S.com platform or at our Castle Donington distribution centre impacts our ability to trade online	As our online traffic grows and our network infrastructure and operating model evolve, it is increasingly important to ensure that the M&S.com business and key dependencies are resilient.	→ Dual site M&S.com command centre operates 24/7 to monitor website availability and performance. → Social media monitored to observe and respond to trends in customer experience.	→ Business continuity plans, incident reporting and management procedures are well established and tested, with regular monitoring including quarterly Business Continuity Committee meetings.
8 **INTERNATIONAL EXPANSION** Our plan to grow our International business is limited by global volatility, the start up profitability of new markets or substandard infrastructure	As we continue to increase our international presence and build a leadership position in priority markets it is crucial that we maximise performance in both legacy and new markets, supported by robust systems and supply chain capability. It is also critical that we have systems in place to ensure that we can respond proactively to any geo-political issues, and to local regulatory matters, including taxation.	→ Geographic spread mitigates against localised geo-political or economic risks. → Local market knowledge provided by franchise and joint venture partnerships. → Performance monitoring by region, country and store, including focus on like-for-like performance and action planning for poor performing stores.	→ Property Board approval of new store openings and monitoring of returns on investment. → International representation in key Group initiatives.
PEOPLE AND CHANGE			
Our people are fundamental to the long-term success and growth of this business			
9 **OUR PEOPLE** Our organisational culture and structure limit our ability to adapt to market changes with pace	As our evolution to a truly international, multi-channel retailer continues, it is essential that our organisational set-up allows us to respond to market changes and competition with pace.	→ Robust employee engagement process. → Alignment of employee development programmes with business strategy.	→ Fast decision-making enabled through the removal of structural complexity. → Employee reward based on performance in line with our values of Inspiration, Innovation, Integrity and In Touch.
10 **STAFF RETENTION** Failure to retain key people due to offers from competitors or loss of confidence in the business	From our expert food technologists and product developers to our recently strengthened GM design teams, our people are in demand from our competitors.	→ Succession planning in place for key roles and senior leaders. → Performance management process and bonus scheme structure focused on rewarding high performers.	
11 **PROGRAMME AND WORKSTREAM MANAGEMENT** Benefits from our major business programmes and workstreams are not realised	We continue to undertake a number of major programmes to underpin the achievement of our plan; the delivery of forecasted benefits is critical to this.	→ Our Strategic Programme Office provides central governance for major Group initiatives, including cross-programme inter-dependencies, supported by robust project management discipline.	→ Status and benefits realisation updates provided to the Executive Board. → Proactive management of programme portfolio and associated benefits in the context of current market conditions and the Group's three-year plan.
12 **GM SUPPLY CHAIN AND LOGISTICS NETWORK** We fail to evolve our supply chain and logistics network to maximise availability to customers and speed up delivery times	As we stabilise and leverage the capability of our Castle Donington distribution centre, we must continue to focus on the implementation of our single-tier network, to provide a modern and flexible infrastructure for our business.	→ Ongoing simplification and stabilisation of Castle Donington distribution centre ahead of peak 2015. → Phased approach to distribution centre transformation.	→ Robust programme governance in place, including interdependencies with other Group initiatives. → Management team strengthened through external hires into key roles. → Ongoing review of progress against agreed operational and financial objectives.

Notes: The Group Risk Profile will evolve as mitigating activities reduce net risk over time, or as new risks emerge. Two new risks have been added to the Group Risk Profile since the prior year (Food competition and Staff retention); the remaining risks have essentially remained the same. No risks have been removed from the Group Risk Profile since the prior year.

The risks listed do not comprise all those associated with Marks & Spencer and **the numerical referencing does not denote an order of priority.** Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business. Further information on the financial risks we face and how they are managed is provided on pages 113 to 116.

OPERATING PERFORMANCE

FOOD

Our mission in Food is simple: **inspire our customers** with high quality, great value products in stores full of new ideas.

STEVE ROWE EXECUTIVE DIRECTOR, FOOD

UK FOOD REVENUE	MARKET SHARE[1]	NUMBER OF NEW LINES
£5.2bn	4.1%	1,700
+3.4%	+0.1%	

PERFORMANCE OVERVIEW

Following another very strong year in Food, we have now seen 22 consecutive quarters of like-for-like sales growth. Our mantra has been to become 'more relevant, more often' for our customers. We have achieved this through our constantly evolving ranges, our quality and our innovation. We continue to excite people with our products, whether they are doing the weekly shop, buying for tonight or picking up a treat for a loved one. At M&S we have a Food business that is ambitious in nature, adventurous in scope and growing in size, highlighted by us outperforming the market by 3.5%.

QUALITY AND PRICE

Our industry-beating growth springs from our focus on the provenance, taste and excitement of the food on our shelves. We have maintained a competitive stance on price. For example, this year we refused to match the industry in cutting the price of milk. The reason is simple: our milk is better than our competitors'. At M&S we will not compromise on either our quality or our relationships with our farmers. We independently taste test all our food and upgrade or eliminate any product that does not exceed our rivals' equivalent. We know that customers like this stance. As a result, we are growing our market share.

INSPIRATION

This year we introduced 1,700 new products, equivalent to over a quarter of our entire range. Our teams of technologists, chefs and nutritionists searched the world for interesting new food ideas. Thanks to the longstanding bond of trust between us and our customers, we can be counted on to source the most exotic and authentic flavours. Popular new lines included our Taste range of cuisine from Thailand, Mexico, Vietnam and Japan. Whether customers wanted a pho or a taco, a gyoza or a pad thai, we had it covered. We also launched our 39-strong Frozen Meals range, which firmly destroyed the notion that ready meals are limited to lasagne and cottage pie, with new dishes including Slow Cooked Chicken and Chorizo Stew and Pulled Pork with Potato and Kale Hash. The convenient dishes showed customers that a busy lifestyle shouldn't be an impediment to a delicious meal. We continued to perform particularly well on special occasions, from Valentine's Day to Christmas. Our Collection range of gifting and chocolate treats saw sales rise by 27% over the festive period.

STORES

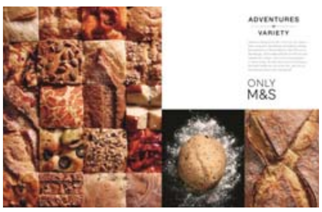
Our store opening programme continued at pace. This year we opened 62 Simply Food stores in the UK and ten overseas. We also upped the opening target set in 2013/14 of 200 new stores by 2016/17 to 250. The Simply Food format plays into evolving shopping habits. People are shopping more regularly and more locally, meaning that our convenience format is one of our key differentiating factors. In terms of our in-store environments, we updated the look and feel of our stores, introduced chefs and increased the roll-out of Deli counters, adding theatre to the shopping trip.

SUPPLY CHAIN AND INTEGRITY

We continued our programme to rebase our supply chain. By streamlining our processes, optimising volumes and consolidating factories we have generated efficiencies and savings. We have reinvested this money in price and quality, and also shared it with suppliers to help them create further efficiencies, thus establishing a virtuous circle. Nothing is more important to us than food safety and we have led the way in reducing campylobacter in our poultry, a stance which has been endorsed by the Food Standards Agency.

SUPPORTING OUR COMMUNITIES

Food waste is a key concern for our customers. Our priority is to reduce food waste whilst ensuring that, where there is food surplus, we put it to the best possible use by working with redistribution partners like FareShare and Community Shop. The first social supermarket in the UK, Community Shop, gives shoppers on the cusp of food poverty access to surplus products that would otherwise have been wasted. We believe supporting communities in this way is the right thing to do.



1.

2.

3.

1. Our relaunched 'Adventures in...' brand marketing campaign pioneered new camera techniques and won us a raft of awards.
2. Our Dine In deals continued to grow in popularity. Over the Valentine's weekend, 830,000 couples enjoyed our menu.
3. As the market-leader in healthy meals, our share of the market is 44% and we sold 40 million meals from our healthy ranges.

Note 1 In January 2015 Kantar Worldpanel changed its methodology for recording M&S variable weight barcodes and as a result historical market share data was reprocessed and adjusted. The market share data used in this report is based on these updated figures. This data is not comparable to any published before January 2015.

OPERATING PERFORMANCE

GENERAL MERCHANDISE

We have improved the **quality and style of our ranges** and delivered strong gross margin growth.

JOHN DIXON EXECUTIVE DIRECTOR, GENERAL MERCHANDISE

UK GM REVENUE	WOMENSWEAR MARKET SHARE[1]	LINGERIE MARKET SHARE[1]	MENSWEAR MARKET SHARE[1]	KIDSWEAR MARKET SHARE[1]
£4.0bn	9.0%	26.3%	10.8%	5.9%
-2.5%	-0.2% pts	–0.4% pts	–0.8% pts	–0.4% pts

PERFORMANCE OVERVIEW S

Two of M&S's key priorities for 2014/15 were to increase our GM gross margin and to improve GM performance. We achieved the former, with a 190bps increase – one of the largest margin improvements ever seen in one year at M&S. The rise was largely due to better buying and sourcing, resulting in an overall increase in profitability for our GM business. We also focused on further improving our clothing ranges, which were well received by customers and the fashion press, most notably Womenswear. This was underlined by our fourth quarter performance – we ended the year in growth on a total and like-for-like sales basis, giving us positive momentum to take into the new financial year.

MARGIN AND SALES S

Despite a highly promotional marketplace, we remained focused on full price sales and we reduced the number of price promotions this year. This approach also contributed to our substantial gross margin improvement. However, whilst we remain the UK's clothing leader, our focus on margin growth and full price sales has impacted our discounted market share, contributing to a slight reduction in our overall market share.

We also changed the way we buy our merchandise. We now design 35% of our products in-house compared to 20% last year, and we are making good progress against our long-term target of 60% by 2016/17. We continue to use our scale to source fabric and raw materials more effectively whilst ensuring we uphold our quality credentials – perceptions of quality were up 6%.

Sales for the year as a whole were disappointing. The UK retail sector was impacted by the third warmest autumn on record and we were disproportionately affected due to our high market shares in winter categories such as knitwear and coats. We also faced disruption to deliveries due to the unsatisfactory performance of our online distribution centre over the peak Christmas period. At the start of the year, we said that our GM sales would be negatively impacted by the settling in period of our new website. Since then, good progress has been made – M&S.com sales were back in growth in the fourth quarter.

OUR PRODUCTS

Overwhelmingly positive press coverage gave customers confidence to turn to us for our interpretation of the key trends. Customers' feedback was equally encouraging; they were excited to see more confident, bolder collections.

We continue to improve the style of our ranges – customer perceptions of style were up 4%. We listened to customer feedback and brought greater consistency to the fit of our garments across all product categories and brands. Overall, customer complaints fell by 34% over the year as customers noticed the improvements to our Womenswear.

INSPIRING OUR CUSTOMERS

We have made a number of improvements to our stores to make them easier and more inspiring places to shop. We presented outfit ideas to customers in smarter ways through better use of mannequins and pictures in our stores. We introduced a new Menswear layout with simplified displays and strong images emphasising our style and quality. We extended our Womenswear Limited Edition brand to all stores and our popular Rosie for Autograph lingerie and sleepwear ranges to more stores, giving our customers more choice no matter where they shop.

WORKING EFFICIENTLY AND WITH INTEGRITY A

Much has been going on behind the scenes to improve our supply chain. We have successfully rolled out the first new system to improve the replenishment of our products and availability. Along with the ongoing improvements we are making to how we design, source and buy, further planning system changes will be made in the coming year.

R Responsible supply chain management is a key part of ensuring we offer customers the high-quality products they expect from us. We believe that great quality starts with good factory and supply chain ethics, and we continue to work closely with our suppliers to ensure these rigorous standards continue to be upheld.

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1. In response to customer demand, we opened a registration list for our Autograph Suede Skirt heroed by the fashion press as a key item for this summer's 1970s trend – thousands of customers joined the list.
2. We launched David Gandy for Autograph, a luxurious range of sleepwear and underwear – we sold over 450,000 items.
3. A We were pleased to be included on Ethisphere's World's Most Ethical Companies list.

Note 1 We continuously work with Kantar to ensure an accurate representation of our business as well as our sales performance. This has resulted in the recalibration of historical market share data to provide a more accurate representation. This data is not comparable to any published before November 2014.

OPERATING PERFORMANCE

CHANNELS

We aim to deliver a **consistent, convenient and inspirational experience** for our customers whichever way they choose to shop with us.

LAURA WADE-GERY EXECUTIVE DIRECTOR, MULTI-CHANNEL

TOTAL UK STORES	FULL LINE STORES	OUTLET STORES	M&S SIMPLY FOOD OWNED	M&S SIMPLY FOOD FRANCHISE
852	302	46	198	306

PERFORMANCE OVERVIEW

To ensure that we have one view of the M&S customer, we brought our UK Retail and M&S.com channels together under single management this year. The change reflects our need to deliver a consistent and convenient experience for our customers however they shop with us, whether it's on a computer, a tablet, a mobile phone or in one of our 852 UK stores. It has been a pivotal year in terms of our infrastructure. Whilst we faced some difficulties during the bedding in period, our investment in M&S.com and our distribution centre at Castle Donington are the right thing for our business in the long term. We are now fit for the future and in control of our multi-channel ambitions.

STORES

We focused our space growth on the Simply Food format, opening 62 new stores, which increased customer access – an additional 1.2 million people are now within ten minutes drive of a Simply Food. Although our strategy is to add no net new GM space to our store estate after 2015/16, we continue to review our portfolio to ensure that our stores are in the most convenient locations. We opened two full line stores at Monks Cross in York and Wolstanton near Stoke-on-Trent.

Within our stores we concentrated on creating an environment that projects our products' style and innovation credentials. Guidance was a central theme. Using the M&S Way principles, we merchandised our collections in more cohesive and colour coordinated ways to show customers how they might wear the latest styles. We upgraded the environment in many of our stores, including new Menswear departments in our top 70 stores, with elements of the new scheme rolled out to a further 48, and refreshed Womenswear departments in 44 stores. Stronger visual merchandising in Food helped customers to discover new flavours. We have started the roll out of our new Food Hall concept, which adds theatre and adventure to the shopping trip.

Knowledgeable employees are our bedrock, and this year our training initiatives continued to ensure that customers had an easy and enjoyable shopping experience. Our colleagues know that our unyielding focus on Presentation, Availability, Cross-selling and service, and Knowledge – our PACK priorities – is what separates us from the competition.

M&S.COM

Following our move from the Amazon web platform, this was the first full year in which we had control of our website. Whilst it proved to be technically resilient, the new site presented a bigger change for our customers than we anticipated and sales were affected. We worked hard to address this and made a number of updates to improve the shopping experience. Our customers liked the enhanced functionality and cleaner look of the site, which we continually fine-tune to make as intuitive as possible. M&S.com sales returned to growth in the fourth quarter and we saw gradual improvement across all key metrics: over the year traffic grew by 10.9%, customer satisfaction rose by 18% and conversion rates improved as customers got more familiar with the new site layout. Some 7 million shoppers have now registered on the site, surpassing the number on our former Amazon-run site. Customers enjoy the site's strong editorial point of view – we know they are more likely to buy if they see supportive editorial alongside a garment they like. On average, conversion was 20% higher on products that were featured as Editor's Picks.

Our performance was impacted by operational challenges at our Castle Donington distribution centre over the peak Christmas period. Highly automated sites like this often need refinement during their first period of sustained demand and we have made progress in addressing the issues. We have learned from this, made improvements to our systems, and strengthened our management team who continue to closely monitor its performance. We are confident in our long-term ability to serve our customers better. Customers saw improvements in our delivery proposition as the year progressed, with the introduction of a 10pm cut-off for paid next day home delivery and a 5pm cut-off for free next day store collection. Since it opened, Castle Donington has handled over 85 million products.

Our website and distribution centre are powerful engines for growth. Following our investment in them, we now have a big opportunity to drive online sales growth, increase our online profitability and set M&S up for years to come.

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1. The number of visits to our website via mobile phones rose from 7 million in 2012, to 80 million in 2015.
2. We installed the UK's largest single roof-mounted solar panel array on our distribution centre – it will generate over 5,000 MWh of electricity per year, equivalent to the energy needed to power 1,190 houses.
3. Our Newcastle store was our first full line store to be given a full Plan A eco refit, and features a 167sq metre green wall irrigated with rainwater.

OPERATING PERFORMANCE

INTERNATIONAL

This year, we **accelerated the roll-out of our Food stores overseas** and continued to focus on our priority markets.

PATRICK BOUSQUET-CHAVANNE EXECUTIVE DIRECTOR, MARKETING & INTERNATIONAL

INTERNATIONAL REVENUE	INTERNATIONAL STORES	TERRITORIES
£1.1bn	480	59
-5.7%	+25 NET NEW STORES	

PERFORMANCE OVERVIEW

From Paris to Prague and from Cairo to Kolkata, M&S is seen as a trusted and progressive brand with a strong sense of British identity. We now trade from 480 stores and online in 59 territories across the world. We accelerated the roll-out of our Food stores overseas and continued to focus on our priority markets, delivering some strong performance in key owned markets such as India and Hong Kong. Following the action we took to restructure our business in the Republic of Ireland and the Czech Republic, we were pleased to see improvements in profitability in both markets.

However, sales in our International business fell by 2.1% on a constant currency basis. The profitability of our franchise business was impacted by a geopolitically turbulent year in a number of our franchise territories. This particularly affected performance in Russia, Ukraine and Turkey, where our franchise partner was impacted by political instability and local currency fluctuations which resulted in lower shipments. Elsewhere in the Middle East region, the macroeconomic situation has impacted consumer demand and our franchise partners have adapted to the challenging environment by managing their businesses prudently and ordering less stock.

A review of our international store estate, coupled with the adverse euro exchange rates and tough consumer environment, resulted in writedowns of £37.2m relating to certain underperforming stores in Western Europe, Ireland and China.

However, with a strong International management team and proven overseas partners, we remain committed to the longer-term opportunity which we firmly believe exists within our international markets.

OUR PRIORITY MARKETS

We are growing in scale and relevance in our two key markets of India and China. In India we opened 12 stores and our store opening plan is on track. Sustainable economic development, a burgeoning middle class, and an instinctive understanding of the M&S brand make India a fertile market for continued expansion. In Greater China, we opened a store in Macau and announced our intention to open flagships in Beijing and Guangzhou from next year, and we will continue to invest in our existing flagship store portfolio. However, following the completion of a review, we are closing five of our smaller stores in the Shanghai region as we refocus our emphasis on stores in the more affluent areas. We are also seeing significant online growth in China on our site on the Tmall.com marketplace – sales increased by 200% on last year. We launched a new dedicated Kidswear store on Tmall.com and a new clothing store on JD.com. The success of our online expansion further strengthens our continued commitment to China.

INTERNATIONAL FOOD GROWTH

We have seen tremendous success from the roll-out of our Food stores overseas. Around the world, grocers are moving closer to the consumer and we are tapping into that trend. We opened six stores in Paris and four in Hong Kong over the year, taking the total number of international Food stores to 31. Overall sales per square foot are in line with our best performing Simply Food stores in the UK. Our recipe for success is the same as in our home market: we sell good value, delicious food from convenient locations.

NEW OPENINGS

In May 2015, we re-entered Brussels with a new 54,000 square foot store at Toison d'Or and in November we will open a second store in Macau at The Venetian Mall. We have an exciting pipeline of openings in the Middle East. In February we opened our largest international store in Kuwait. The View is a 72,000 square foot flagship that is operated by our longstanding franchise partner Al-Futtaim Group. The store contains our largest Clothing, Food, Home and Beauty offer in the region and houses a 60-seat café.

GLOBAL LANDSCAPE R

The last year has been volatile economically and politically in a number of our territories. However, there are two ways that our International strategy mitigates any risk stemming from events beyond our control. Firstly, our geographical diversification means that we are not too exposed to any one country. Secondly, the growing role of Food internationally means that we effectively have two businesses overseas, giving us a broader – and more stable – international footprint.

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1. The in-store bakery in our branch in La Défense, Paris, takes more money than any other bakery in our entire estate.
2. We now have five standalone Lingerie & Beauty stores in the Middle East and India.
3. A We are rolling out the Marks & Spencer Clothes Exchange, known as Shwopping in the UK, to our international markets following a successful trial in our Czech Republic and Hong Kong stores, which saw 35,000 items donated.

OPERATING PERFORMANCE

OUR BRAND

We reinforced our strengths as a **trusted and unique British lifestyle brand** with a new approach that told the many stories that make our products different.

PATRICK BOUSQUET-CHAVANNE EXECUTIVE DIRECTOR, MARKETING & INTERNATIONAL

PERFORMANCE OVERVIEW

One brand, multiple stories. That was our mission this year: to speak in unison across the GM and Food sides of our business, across communication channels, and across geographies. By uniting all narratives under the 'Only M&S' umbrella, we reinforced our strengths as a trusted and unique British lifestyle brand.

We raised the bar with our advertising, gaining strong brand recognition for our renewed focus on product. In Food, we showed that we are at the forefront of discovery and creativity. We remained focused on our core strength as a speciality retailer – innovation. In Clothing, we demonstrated that our ranges are fresh, stylish and in sync with the current trends.

A FRESH APPROACH

Our new logo – M&S Est. 1884 – was designed to show our brand heritage in a contemporary and relevant way. Through the logo, we are expressing our roots but also showing that we are a modern brand that has inspired the British high street for generations. With 131 years of trading under our belts, our heritage is a great differentiator and we are rightly proud of it. We revamped all our publications to reflect this new look, from our Home catalogue to our Food to Order catalogue, and we launched Womenswear and Menswear Style Guides for the first time. The new brand handwriting extended to M&S.com and its daily publications hub, Style & Living. As a modern retailer, we must provide an inspiring digital or printed expression of who we are on every platform.

THE CONNECTED CONSUMER

Our Christmas marketing campaign – The Two Fairies – was a great example of how all our channels can come together to tell a holistic and believable story. The campaign followed two fairies as they spread Christmas magic and sparkle across the land. It started secretly and quickly went viral as we covertly carried out random acts of kindness in schools, hospitals and stores. Our @TheTwoFairies Twitter tag amassed 30,000 followers before we revealed that M&S was behind it. The TV ad that followed – an escapist fantasy that continued the random acts of kindness theme – achieved recognition of 68%. Customers liked the warmth and wit of M&S's first truly social campaign.

Today, all our communications start with a core idea that gets expressed across all the consumer touchpoints: stores, online, mobile, social media, print media, billboards and TV. Our award-winning 'Adventures in' Food TV ads harnessed online videos to get their message across. Today, a fifth of our media budget goes on social media, four times more than three years ago. This approach reflects how people live today and how they expect to engage with M&S.

SEASONAL AND FOCUSED

After last year's Leading Ladies campaign re-established M&S's style credentials, our approach to marketing this year has been more product focused and richer in digital video content. We sought to emphasise our leadership in authoritative categories such as knitwear, occasionwear and cashmere. In Food, our January marketing focused on our health ranges while our 'Adventures in Imagination' campaign highlighted the expertise, creativity and passion behind our food ranges from around the world. Customers will see even more of this storytelling next year as our marketing becomes more personalised.

STAYING RELEVANT R

We may have a broad church of customers around the world, but by harnessing technology and leveraging the power of our Customer Insight Unit, we can talk to all 33 million of our customers in a more personalised way. There is always a risk that brands will lose their relevancy, but by engaging with our customers and adapting to their needs, we will remain pertinent to their everyday lives.

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1. The combined size of our social media audience through platforms such as Facebook, Twitter, Instagram and Pinterest is 2,606,000, up 22% on the previous year.
2. M&S was one of the official sponsors of London Fashion Weekend. The partnership demonstrated our fashion credentials.
3. The 'Cook with M&S' app we launched this year saw 250,000 people sign up in just four months and was featured as the #1 Food & Drink app in the Apple App Store.

OPERATING PERFORMANCE

PEOPLE

Our people continue to be **the most important part of our company** – they drive the high performance culture that is vital for our future success and embrace the values that make M&S different.

AVERAGE NUMBER OF EMPLOYEES	EMPLOYEE ENGAGEMENT SCORE	TRAINING AND DEVELOPMENT DAYS
83,069	77%	1.5 PER CUSTOMER ASSISTANT

OVERVIEW

This year we made a number of changes to the way we do things to ensure that M&S is a collaborative and innovative place to work.

FIT FOR THE FUTURE

R

From the boardroom to the salesfloor, every one of our 83,000 employees has a direct stake in our future. So this year we undertook a Company-wide employee engagement programme. 'Fit for the Future' was designed to ensure that we are in the best shape to face the challenges and opportunities of a fast-changing retail landscape with an environment and culture that encourages innovation.

As a result of the programme, we improved organisational efficiency and simplified our decision-making processes. We also introduced a raft of measures to encourage entrepreneurialism and a more digital mindset. Taken together, these initiatives spread a sense of ownership throughout M&S. Our people are now equipped to challenge behaviour that slows us down and champion ideas that will inspire our customers.

THE POWER OF 92

An informed workforce is a motivated workforce. Last summer we directly engaged with the greatest influencers on our store staff: our 3,500 Section Managers. These people manage 92% of our salesfloor colleagues, and our 'The Power of 92' engagement programme saw us hold one-day events in locations across the UK including Wembley Stadium. The events were designed to inspire these front line managers and better inform them about why M&S takes the decisions it does. After all, their leadership directly impacts our customers' experiences of M&S.

ENGAGEMENT AND EFFICIENCY

Considerable internal change meant that our 'Your Say' survey showed a slight fall in employee engagement levels this year. However we were pleased it remained high at 77%. Our 'Your Manager' score rose by 4% to 83%, demonstrating the commitment of our managers in driving a high performance culture.

We implemented numerous new operational systems over the year. Our Resource Planning System increased our effectiveness when it came to establishing colleagues' work patterns. And our centralised payroll, time and attendance system, which has now been in place over a year, won Personnel Today's Managing Change Award, one of the numerous accolades we received this year.

TALENT AND TRAINING

M&S is a very different business to the one it was five years ago. In that time we have upskilled our teams in areas such as digital, international, logistics and design to ensure we have the right capabilities to compete. Training remains key. Our new Customer Assistant Induction programme replaced a workshop-heavy induction process with a largely salesfloor-driven one. In the third quarter alone, 15,000 colleagues took part in the new programme. This resulted in our new starters becoming operationally effective 40% faster than previously. Technology is a great enabler when it comes to training. Around 6,000 employees completed our app-based The M&S Way training module about in-store presentation.

PLAN A

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In 2014 we celebrated a decade of our Marks & Start employability scheme. Along with our Make Your Mark youth scheme, we have helped over 13,600 people who face significant barriers to employment take their first steps into the job market. We plan to provide opportunities to another 4,400 people by 2016.

We have a duty of care for people all through our supply chain. We surveyed over 100,000 workers via text message in countries including China, India and Bangladesh. Their feedback on issues such as workplace health and safety helped us to align our strategies with their needs.

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1. We introduced a new uniform design for our store colleagues this year, which reflects the modern look and feel of the new M&S branding. It is already in our top 70 stores and is being rolled out to all stores by January 2016.
2. 2,000 of our International staff took part in Beyond the Barcode, an app-based training module about our in-store service standards.
3. A Since 2010, we've provided training to over 652,000 workers in our GM supply chain, improving knowledge and skills in areas like health and nutrition, financial management, sanitation, childcare, education and community leadership.

GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW

We have built a team with **the skills and experience to support our strategy.** In this section we look at their roles and their performance, and outline their independence, their effectiveness, ongoing professional development and succession.

ROBERT SWANNELL CHAIRMAN

OVERVIEW

As I mentioned earlier in this report, this has been another year of mixed progress for the Company. Our Food business delivered another very strong year in a difficult market. In Food we continue to pursue a clear strategy with a distinct and differentiated position, remaining true to our values and with a well articulated plan for future growth.

We are encouraged by the improved performance across the business in the final quarter 2014/15, particularly in GM and M&S.com. However, our full year performance was constrained by a number of issues associated with the necessary and significant transformation of our infrastructure, implemented in the last few years, and macroeconomic and performance issues impacting delivery in a number of key international markets.

The launch of our new website and our distribution centre at Castle Donington represented the completion of two significant investments, essential for the long-term growth of our business. This has been a key area of focus for the Board over the last two years. Yet, and despite rigorous planning and mitigation of potential risks, both experienced initial execution issues beyond those that we expected. We believe these issues are now resolved, or that plans are in place to resolve them, and both projects continue to be areas of focus for the Board.

This year we have sought to provide insight into the scope of the Board's activities, discussions and resulting actions. These are provided on pages 38 and 39 of this report.

As a Board we have taken away a number of learnings, particularly about our management of and approach to risk.

The Board, supported by the Audit Committee, spent time discussing risk appetite across the business as well as our investment criteria. Whilst defining our approach to risk appetite remains a work in progress, we believe this will improve the quality of our investment process, the mitigation of associated risks and will deliver improved project implementation going forward. A greater understanding of risk appetite and its management will also support our ambition to become a more agile, innovative and entrepreneurial organisation, as embodied by 'Fit for the Future' and our updated values, which were discussed earlier in this report.

CULTURE AND VALUES

The scale of investment and transformation of the business over the last few years has necessitated this shift in our culture and behaviours. It will enable us to respond to the changing consumer landscape, the constant evolution in technologies, and our aim to be a leading international, multi-channel business. But while we adapt and move forward, we are clear that staying true to the M&S tenet of integrity is non-negotiable.

Integrity underpins all of our Board discussions, from debate on the management of our teams, to the safety and integrity of our food supply chain. It affects the way we implement the changes required in our GM supply base to deliver our ambitious gross margin targets, while staying true to our high sourcing standards. It shapes how we operate in our international markets, and the management of our property assets. Integrity has protected the M&S brand and supported its reputation for over 130 years and the Board is focused on ensuring it continues to do so for the long term.

Having Integrity as a value also means being honest in how we judge our own performance as a Board and where we can do things better. We are disappointed not to have made more progress against our Board Action Plan this year. We discuss this performance and our Board evaluation and Action Plan on page 41 of this report. We are clear about how we can be more effective, and what information we need to monitor and challenge our progress and ensure proper debate.

I have highlighted before the importance of the Board as being critical friends. We have a strong team and we have had a number of robust discussions throughout the year on our execution issues at Castle Donington, the performance of the website and our International business, the results of unsatisfactory audits, our financial performance and progress against our targets. We have reflected, and will continue to debate openly the results of our Board evaluation and how we ensure we have the highest quality of debate, coupled with the right planning, information and environment to support this. We must do this to drive our effectiveness as a Board and to be fit for the future.

FIT FOR THE FUTURE

The introduction of 'Fit for the Future' brings greater focus on high performance, our teams, development and succession planning, all of which remain a key part of our Board and Committee agendas. Associated detail on the activities of the Nomination and Remuneration Committees are provided on pages 42-43 and 52-76 respectively. Our Action Plan for the 2015/16 year is stretching and sets out specific objectives to improve our performance. The plan aims to support and enable greater debate and reflection,

THIS YEAR'S REPORT – KEY FEATURES

The structure of the Annual Report has been updated this year, providing greater focus to the key strategic messages within the Strategic Report, whilst still including the broader information on later pages for those that find it interesting.

These changes have been made to promote clear and concise reporting, focusing the report on those factors that are most important to the long-term prospects of the business and ensuring key messages are clear, concise and easy to locate.

We have again focused on ensuring this report is fair, balanced and understandable. It is a reflection of how we have done business and how the Board has served its stakeholders. We believe this practical approach will support our performance for the long term and should protect the trust and integrity of our values, and the M&S brand.

The Governance report provides:

- A clear and honest review of the year;
- The outcome of our externally facilitated Board Evaluation;
- **Greater disclosure around Board discussions and associated actions; and**
- **Information on our progress towards understanding our risk appetite.**

As a Board we regularly discuss and debate:

- **Strategy and Company performance**
- **Culture and behaviour**
- **Succession planning**
- **Ecommerce**
- **The M&S brand**
- **International**
- **Supply chain**
- **Risk**
- **Property**
- **Plan A 2020**

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2012 (the 'Code') is the standard against which we were required to measure ourselves in 2014/15.

We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review.

A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out on page 5 of the Strategic Report.

To keep this report interesting and engaging we continue to focus on the key insights from the business; however, further detail on how we comply with the Code can be found in our Corporate Governance Statement, available at **marksandspencer.com/thecompany**.

and enhance the quality of our decisions. Through the Action Plan, we aim to ensure that our values underpin the manner in which we operate as a Board at all times.

UK CORPORATE GOVERNANCE CODE

The key themes of the Code form the framework for articulating our narrative; a model that we have consistently adopted for a number of years. As such, our approaches to **Leadership and Effectiveness** are outlined on pages 34 to 43, **Accountability** on page 44 and pages 23 to 25 within the Strategic Report and pages 44 to 50 in the Directors' Report, **Engagement** and relations with shareholders on page 51, **Remuneration** on pages 52 to 76 and the Governance of our Pensions Scheme on page 77.

The required governance and regulatory assurances are provided throughout this Directors' Report. Where information that would previously have been located within the Directors' Report has instead been incorporated into the Strategic Report, a list of page references is available within the 'Other disclosures' section on page 78. As in previous years, we have sought to provide a genuine understanding of how governance supports and protects the M&S business and stakeholders in a practical way.

Our governance framework is reviewed and benchmarked against best practice every year. It sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at **marksandspencer.com/thecompany**.

Governance at M&S is seen as an important element of our Board environment, which feeds into how we do business and is reflected in our Board effectiveness review. We hope this report demonstrates how our governance helps us test whether we are doing the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin every decision we take.

We continue to drive the agenda of diversity in its broadest sense across gender, experience, ethnicity and age. Further insight on this is provided on page 43 and in our Plan A Report.

MONITORING RISK

R

The Audit Committee has played a key role in ensuring that the appropriate governance and challenge around risk and assurance is embedded throughout the business. It is closely monitoring the management of the problems generated by M&S.com and Castle Donington.

Read more on the work of the **Audit Committee** on p46-50.

APPOINTMENTS AND SUCCESSION

2014/15 saw significant changes to the Board. Following the resignation of Alan Stewart in July 2014 we undertook a thorough search process resulting in the appointment of Helen Weir, who joined the business as Chief Finance Officer on 1 April 2015. Helen brings considerable retail and finance experience and we are delighted to welcome her to the Board.

In March 2015, Jan du Plessis retired after six years on the Board. Jan has been succeeded in his role of Senior Independent Director by Vindi Banga, who maintains his existing role as Chairman of the Remuneration Committee. Subsequently, I have joined the Remuneration Committee and Miranda Curtis has joined the Audit Committee.

As a result of Jan's retirement, and in order to provide the necessary balance, Richard Solomons was appointed to the Board on 13 April 2015. We had a clear specification for this appointment and are delighted that he has joined our Board, bringing his experience as a serving CEO with great knowledge of operating an international, multi-channel consumer business. Information on the inductions that both Richard and Helen are undertaking is provided on page 40.

These appointments bring new challenge and oversight to the Board. Their skills and experience build on our existing talent, standing us in good stead for the year ahead.

We are a more capable business following a sustained period of investment in our infrastructure and people. As outlined on page 16, our focus will continue to be on delivery of our strategy and improvement in shareholder returns.

ROBERT SWANNELL CHAIRMAN

LEADERSHIP & EFFECTIVENESS

OUR BOARD

CHAIRMAN

Robert Swannell Chairman

Appointed: Chairman in January 2011, Non-Executive Director in October 2010

Skills, competence and experience: Robert is a Chartered Accountant and a Barrister. He has extensive government and regulatory experience and possesses a wealth of knowledge of many different business areas, banking and the City acquired over a 33-year career in investment banking. He has significant experience as a director and chairman across various sectors, and his leadership in the area of governance promotes robust debate and drives a culture of openness in the boardroom.

Other roles: Chairman of the advisory board of the Shareholder Executive, Trustee of Kew Foundation, Advisory Board Member of Sutton Trust.

EXECUTIVE DIRECTORS

Marc Bolland Chief Executive

Appointed: May 2010

Skills, competence and experience: Marc has extensive international experience in growing global consumer brands, as well as significant retail expertise from over 25 years in the industry. He joined M&S from Morrisons where, as CEO, he successfully led the development and implementation of its long-term strategy, turning around the business. Since joining M&S, Marc has led the store modernisation programme, improved the positioning and optimisation of the sub-brands and driven international expansion. Marc continues to work with the Board in developing and implementing the business strategy to become an international, multi-channel retailer.

Other roles: Non-Executive Director, The Coca-Cola Company, Honorary Vice President of UNICEF UK and Director of the Consumer Goods Forum.

Helen Weir Chief Finance Officer

Appointed: April 2015

Skills, competence and experience: Helen is an Accountant, with over 20 years' experience in the finance and retail sectors. She brings substantial strategic financial experience, and a wealth of significant retail and consumer experience to the Board. Helen has strong listed company experience having been group finance director, executive director, and non-executive director on the Board of a number of major listed companies. Helen is a Fellow of the Chartered Institute of Management Accountants and was awarded a CBE for services to Finance in 2008.

Other roles: Non-Executive Director, SAB Miller, Trustee of Marie Curie Cancer Care.

Patrick Bousquet-Chavanne Executive Director, Marketing & International

Appointed: July 2013

Skills, competence and experience: Patrick brings over 25 years of strong experience in the consumer goods industry. His valuable strategic insight is supported by his experience in developing and marketing brands globally, and a broad knowledge of enhancing business performance and customer experience in a multi-channel environment. Patrick played a key role in creating the new marketing strategy for Womenswear, and continues to lead the transformation of M&S's in-store environment and the publishing strategy for M&S.com. In addition to his responsibility for Corporate Strategy and Marketing, Patrick assumed responsibility for the International business from July 2014.

Other roles: Non-Executive Director, Brown-Forman Inc, Non-Executive Director, Collectively.org.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Vindi Banga Senior Independent Director

Appointed: Senior Independent Director in March 2015, Non-Executive Director in September 2011

Skills, competence and experience: Vindi has extensive consumer brand knowledge and global business experience, acquired over 33 years in senior roles within the consumer goods industry. His in-depth knowledge of both UK and international trade and industry provides an invaluable insight into business and enterprise across the globe. He has strong experience as a board member of other listed companies, and is the recipient of the Padma Bhushan, one of India's highest civilian honours.

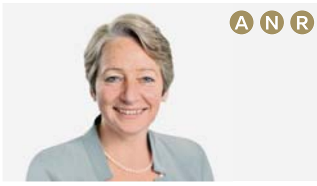
Other roles: Partner at Clayton Dubilier & Rice, Non-Executive Director of Thomson Reuters, Chairman of the Mauser Group, Chairman of the Confederation of British Industry's (CBI) Economic Growth Board, Non-Executive Director of GlaxoSmithKline plc (from 1 September 2015), and sits on the Governing Board of the Indian School of Business.

Alison Brittain Non-Executive Director

Appointed: January 2014

Skills, competence and experience: Alison brings comprehensive financial and commercial experience to the Board, combined with considerable knowledge of running customer facing retail branch networks. She has held a number of senior positions in the financial sector particularly in retail, and has valuable regulatory insight. Alison has an MBA from Cambridge University's Judge Institute.

Other roles: Group Director of Lloyds Banking Group's (LBG) Retail Division, and Chair of the FCA's Practitioner Panel. Alison will be leaving LBG in 2015 and will become CEO of Whitbread plc in the early part of 2016.



Miranda Curtis Non-Executive Director

Appointed: February 2012

Skills, competence and experience: Miranda's substantial experience of the international consumer and technology sectors, and varied knowledge of global industry provide a valuable contribution to the Board. During her 20-year career with Liberty, Miranda led the company's investments in digital distribution and content operations across Continental Europe and Asia-Pacific, most notably in Japan.

Other roles: Chairman of Waterstones, Non-Executive Director of Liberty Global plc, Board Member of both the Institute for Government and the Royal Shakespeare Company, Deputy Chairman of Garsington Opera and Chair of African girls' education charity, Camfed.

Martha Lane Fox Non-Executive Director

Appointed: June 2007

Skills, competence and experience: Martha brings significant experience from the successful operation of online and customer facing businesses. Martha co-founded Europe's largest travel and leisure website lastminute.com in 1998, taking it public in 2000 and selling it in 2005. She has extensive knowledge of the online sector, and her valuable input continues to challenge and influence the development of our multi-channel strategy. In 2013, Martha was awarded a CBE and appointed a crossbench peer in the House of Lords. She was also the UK's Digital Champion until 2013.

Other roles: Chancellor of the Open University, Chair of Go On UK, MakieLab, Co-founder and Chair of Lucky Voice, Non-Executive Director of the Women's Prize for Fiction, Founder of charitable foundation Antigone and Patron of AbilityNet, Reprieve, Camfed and Just for Kids Law.

FIND OUT MORE

See p36 for **Governance and Board structures**
See p38-39 for **Board activities in 2014/15**
See p36 for **Board roles and responsibilities**

John Dixon Executive Director, General Merchandise

Appointed: September 2009

Skills, competence and experience: John joined M&S in 1986 as a management trainee and has worked in many areas across the business. His senior positions have covered Director of M&S.com, Director of Home and Executive Assistant to the CEO until his appointment to the Board in 2009 as Executive Director of Food. John returned Food to growth by focusing on what M&S does best – meeting our customers' desire for quality and innovation. In October 2012 John became Executive Director of GM where he has applied the same focus to the products we sell, strengthened the management team, delivering significant margin improvement and returning the division to growth in Q4 for the first time in four years.

Steve Rowe Executive Director, Food

Appointed: October 2012

Skills, competence and experience: Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to head office in 1992. He has worked in several senior roles across various areas of the business including Director of Home, Director of Retail, and Director of Retail and E-commerce, before his appointment as Executive Director of Food in October 2012. Under his leadership, the Food division has continued to achieve strong growth, broadened its range of quality and innovative products, and maintained high customer satisfaction ratings.

Laura Wade-Gery Executive Director, Multi-channel

Appointed: July 2011

Skills, competence and experience: Laura brings considerable retail, e-commerce and customer experience, gained from over 15 years in senior roles in the retail sector. Laura has been instrumental in the improvement and modernisation of our ecommerce and multi-channel capabilities, which she continues to lead. In July 2014, Laura's role was expanded, adding responsibility for UK stores to provide greater oversight and a fully integrated approach to M&S's multi-channel strategy.

Other roles: Non-Executive Director of British Land, Trustee of Royal Opera House Covent Garden Limited, Member of the Government's Digital Advisory Board, and Trustee of Aldeburgh Music.

N A CC

Andy Halford Non-Executive Director

Appointed: January 2013

Skills, competence and experience: A Chartered Accountant, Andy has a strong finance background and significant recent and relevant financial experience gained from CFO positions in global listed companies. His detailed knowledge of the UK and international consumer market provides the Board with valuable strategic insight. Andy is a member of the Business Forum on Tax and Competitiveness and a Fellow of the Institute of Chartered Accountants in England and Wales.

Other roles: Group Finance Director of Standard Chartered plc.

N

Richard Solomons Non-Executive Director

Appointed: April 2015

Skills, competence and experience: Richard brings strong commercial, financial, consumer, branding and global experience to the Board. His broad international retail and consumer experience, and his role as a CEO of an international business, provides valuable insight to the Board. During his career at InterContinental Hotels Group (IHG), Richard was integral in shaping and implementing IHG's asset-light strategy, which has helped the business grow significantly since it was formed in 2003, as well as supporting the return of $10.4 billion to shareholders.

Other roles: CEO of IHG, Governor of the Aviation Travel Industry Group of the World Economic Forum, Member of both the Executive Committee of the World Travel and Tourism Council and of the Industry Real Estate Financing Advisory Council.

GROUP SECRETARY

Amanda Mellor Group Secretary and Head of Corporate Governance

Appointed: July 2009

Other roles: Non-Executive Director of Kier Group plc.

BOARD DIVERSITY

The Board Diversity Policy was launched in 2012 with the intention of ensuring that diversity, in its broadest sense, remains a central feature of the Board.

The Board continues to take positive steps towards broadening the diversity of both the Board and our senior management. Our Board Diversity Policy on page 43 sets out our ambitions with regard to diversity and what this means for our business, customers and stakeholders, as well as the progress we continue to make against those ambitions.

The tables and graphics below provide a visual outline of our Board's diversity in terms of gender, range of experience and length of tenure.

GENDER DIVERSITY

EXECUTIVE	NON-EXECUTIVE	GROUP BOARD
MALE **67%**	MALE **57%**	MALE **62%**
FEMALE **33%**	FEMALE **43%**	FEMALE **38%**

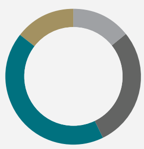
BOARD EXPERIENCE

RETAIL **100%**
CONSUMER **100%**

FINANCE **39%**
E-COMMERCE & TECHNOLOGY **46%**

INTERNATIONAL EXPERIENCE

NON-EXECUTIVE TENURE



- 0-1 YEAR **14%** (1 DIRECTOR)
- 1-3 YEARS **29%** (2 DIRECTORS)
- 3-6 YEARS **43%** (3 DIRECTORS)
- 6-9 YEARS **14%** (1 DIRECTOR)

KEY TO COMMITTEES

- N Nomination
- A Audit
- R Remuneration
- CC Committee Chair

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

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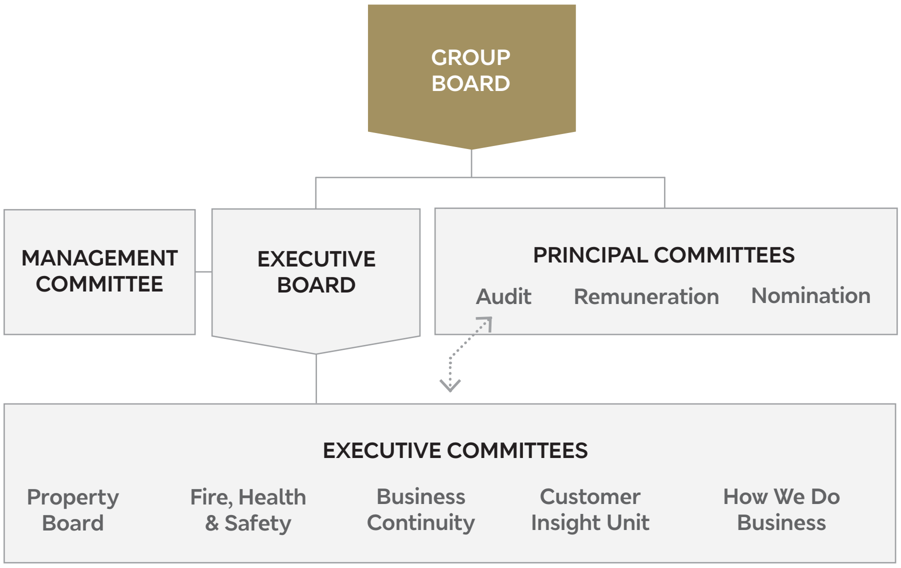
BOARD OVERVIEW

This section looks at our Board members, the role of the Board, its performance and its oversight. We provide an overview of the induction programme undertaken by our two newly appointed directors, highlighting the differences between inductions for non-executive and executive directors respectively. We also outline how our Board contingency plan was tested during the year.

We provide further transparency on activities and discussions undertaken during the year by sharing some of the actions arising from the discussions and the progress against them.

We also provide insight relating to director:

- **Independence** Maintaining the right balance of independence on the Board;
- **Effectiveness** The review this year was externally facilitated. We update on the output and the action plan for the year ahead on page 41; and
- **Ongoing development** Business training, engagement and mentoring.



ROLE OF THE BOARD AND COMMITTEES

The Board is responsible for ensuring leadership through effective oversight and review. Supported by its Principal Committees – **Audit, Remuneration, and Nomination** – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.

Clear terms of reference outline the full schedule of matters reserved for the Board's decision and that of its key committees. These, along with the individual roles of the Board members, can be found in the Group's formal Governance Framework at **marksandspencer.com/thecompany**.

BOARD MEETINGS

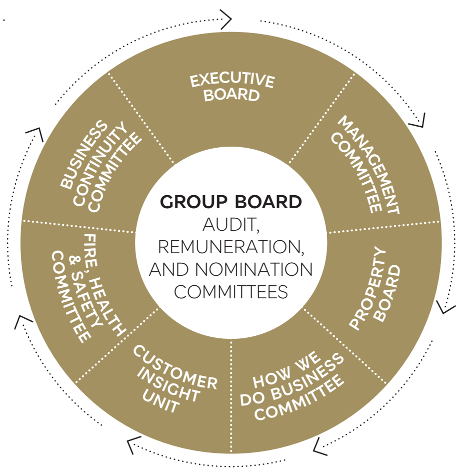
The Board held eight scheduled meetings during the year, and individual attendance is set out on the next page. Sufficient time is provided at the start and end of each meeting for the Chairman to meet privately with the Senior Independent Director and non-executive directors to discuss any matters arising. During the year the Board held two meetings away from the office, one of which was its annual two-day strategy meeting. A brief overview of the key areas of discussion, the actions and the outcomes is provided on the following pages.

See **Board activities** on p38-39

BOARD RESPONSIBILITY

Responsibility for implementing operational decisions and the day-to-day management of the business is delegated to the Chief Executive and the Executive Board. The Management Committee supports the Executive Board by monitoring the development of the Group's workstreams against the Group's three-year plan and inputting annually into the Group's strategic plan. The executive directors update the Board at each Group Board meeting.

There is clear delegation and oversight from the Executive Board to the Executive Committees (outlined in our Governance Framework at **marksandspencer.com/thecompany**), which strengthens decision-making across key areas of the business. In addition, the Audit Committee receives a business update at each meeting.



BOARD COLLABORATION

The work of the Board complements, enhances and supports the work of the Executive Board. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement in standards and performance across our business. Working together, all parts of the Board structure conduct robust interrogation of plans and actions, ensuring high-quality decision-making in all areas of strategy, performance, responsibility and accountability.

See **Board activities** overview on p38-39

See our **Board biographies** on p34-35 See our **Remuneration Report** on p52-76

BOARD COMPOSITION, ROLES AND ATTENDANCE

EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	RESPONSIBILITY	LINKED TO REMUNERATION
Chief Executive Marc Bolland	8	8	Strategy & Group performance	✓
Chief Finance Officer Helen Weir[1] (appointed 1 April 2015)	–	–	Group Financial performance	✓
Alan Stewart (resigned 10 July 2014)	3	3		
Executive Director Patrick Bousquet-Chavanne	8	8	Marketing & International performance	✓
Executive Director John Dixon	8	8	General Merchandise performance	✓
Executive Director Steve Rowe	8	8	Food performance	✓
Executive Director Laura Wade-Gery	8	8	UK Retail & Multi-channel performance	✓

CHAIRMAN	ATTENDED	MAX POSSIBLE	RESPONSIBILITY
Robert Swannell	8	8	Board governance and performance, and shareholder engagement.

NON-EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	RESPONSIBILITY
Vindi Banga	8	8	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of the strategy within the Board's risk and governance structure. In addition, they review the integrity of financial information, devise appropriate succession plans, and monitor Board diversity.
Alison Brittain	8	8	
Miranda Curtis	8	8	
Martha Lane Fox	8	8	
Andy Halford	8	8	
Steven Holliday[2] (retired 8 July 2014)	2	3	
Jan du Plessis[3] (retired 4 March 2015)	6	7	
Richard Solomons[1] (appointed 13 April 2015)	–	–	

This table provides details with regard to meetings held in the 2014/15 financial year.

1. Both Helen and Richard joined the business in the new financial period, and their attendance will be included in next year's Annual Report.
2. Steven Holliday was unable to attend the meeting on 19 May due to business commitments with National Grid.
3. Jan du Plessis was unable to attend the meeting on 9 September due to overseas business commitments.

MONITORING AND OVERSIGHT

RISK MONITORING AND OVERSIGHT

Protecting the business from operational, financial and reputational risk is an essential part of the Board's role. As key transformational projects came online this year, the Board, supported by the Audit Committee, looked to ensure that key financial and operational controls were robust throughout this change. Progress was assessed and challenges were managed within the context of the Board's appetite for risk.

The Group Risk Profile, owned by the Board, is compiled by Group Risk using business area risk registers and one-on-one interviews with Board members and business unit directors. Oversight and independence is provided in the process through the Audit Committee, which ensures that the risks included in the Group Risk Profile continue to reflect the business's strategic objectives. An Internal Audit plan is then mapped to the Group Risk Profile demonstrating where assurance is provided over the mitigating activities.

STRATEGIC PROGRESS

Progress against the strategy is closely monitored by the Executive Board and discussed at each Group Board meeting. The annual two-day strategy meeting held away from the office continues to provide for more relaxed and free-flowing discussion. This year the agenda focused on the Castle Donington distribution centre and M&S.com, GM, customer engagement, our property portfolio and International performance. Progress was reviewed against the three-year plan and the longer-term vision for the future.

The Board debated the priorities and the longer-term challenges, identified opportunities for improvement and agreed an action plan. The non-executive directors shared their expertise and provided independent oversight to the discussion.

There has also been increased focus on the people implementing the plans with key skills and competencies improved throughout the business.

See **People Behind the Plan** on p22.

GOVERNANCE IN ACTION

The role of the non-executives is not limited to Board attendance. Examples of other activities undertaken in the year:

Andy Halford: met with the Groceries Code Adjudicator, visited Castle Donington, the Mumbai store, and the Hong Kong Sourcing Office and store; and

Alison Brittain: visited Castle Donington and undertook a store visit with a multi-channel fashion retail expert from Boston Consulting Group.

See our **Risk management** and **Principal risks** on p23-25, and **Risk in action** on p44-45.

INDEPENDENCE OF DIRECTORS

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

The Chairman is committed to ensuring 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 Board approved the appointment of Martha Lane Fox for a third term in May 2013. At the date of publication, Martha will have served on the Board for eight years. Martha continues to receive strong support from shareholders as can be seen from the voting results of the 2014 AGM. As Martha has served more than six years with the Company and, as required by the Code, her appointment was again the subject of particular review and scrutiny and it was agreed that she continues to make a strong independent contribution to the Board. With the exception of Martha, all continuing non-executive directors have served less than six years on the Board.

See **details and experience of each director** on p34-35.

The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the Board recognises the recommended term within the UK Corporate Governance Code and is mindful of the need for suitable succession.

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BOARD ACTIVITIES

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Strategy	**Discussed the Group's capital structure and financial strategy, including capital investments and the dividend policy.**	→ Continue to invest for growth. → Consider most appropriate use for increased cash flow now capital expenditure has decreased.	→ Higher growth margins and lower than expected cost growth, delivering stronger cash generation. → Interim dividend increased by 3.2%, with further 7.4% increase in the final dividend.
	Reviewed the property strategy including the property plan and key priorities.	→ Accelerate growth throughout UK Simply Food portfolio. → Deliver international presence against planned objectives. → Acquire, develop and manage the global property portfolio at optimal value. → Deliver new business unit schemes and initiatives. → Investigate opportunities for development in existing stores.	→ Preferred target store locations identified. → Accelerated growth in India and Hong Kong. → Improved property asset management across portfolio. → High level of in-store activity delivered. → Ongoing investigation to ensure optimal balance of in and out of town retail space achieved.
	Two-day off-site meeting provided time to: → Discuss and review GM and Food strategy. → Consider customer engagement and footfall. → Review the property portfolio to improve the quality of, and drive value from, our property assets. → Debate and evaluate International performance and growth. → Test and review the corporate strategy and financial plan. → Review Plan A 2020. → Debate, scrutinise and review performance against the three-year plan and the operating plan. → Review the performance of M&S.com and Castle Donington (see Customers on p39).	→ Review logistics agreements to ensure alignment with future strategy. → Review of International operations. → Debate and approve the Company's capital structure and funding plan. → 102 Plan A commitments to be achieved by 2020. → Improve in-store environment and customer experience.	→ Logistics agreements reviewed resulting in increased transparency and understanding. → Development opportunities identified. → Full evaluation of international presence undertaken. Greater focus on store size, product offering and availability by region. → Writedown of assets and closure of poor performing stores in China. Investment in flagship stores in growth regions. → Plan A 2020 – over half of the commitments achieved or on plan. → Upgraded the store environment in many of our stores, including new Menswear departments in our top 70 stores, and refreshed Womenswear departments in 44 stores.
Governance & risk	**Reviewed the Group Risk Profile half yearly, including core internal and external risks, those driven by business change and areas of emerging risk.** **Discussed the UK Corporate Governance Code requirements regarding risk appetite.**	→ Evaluate the completeness and appropriateness of the Group Risk Profile and identify any additional mitigating activities to be undertaken. → Engage with external risk experts to prepare draft risk appetite statements. → Continue to foster debate on risk appetite.	→ Robust set of Group level risks and mitigating activities agreed and monitored. → Progress made in developing our approach to risk appetite.
	Reviewed progress against the 2014/15 Board Action Plan. **Discussed the outcome of the Board evaluation process conducted by an external facilitator, Ffion Hague of Independent Board Evaluation.** **Discussed the 2015/16 Board Action Plan.**	→ Review of Board decision-making process and debate. → Review of all management information and KPIs to improve quality, transparency and consistency of data, and enable clearer strategic context. → Continue to refine our approach to risk appetite across the business. → Improve tracking, review and debate on quality of past investments, including the role of the Board. → Continue to encourage greater interaction with Board members across the business.	→ Progress has been made in addressing some of the underlying infrastructure issues of the business, Board members were contributing well and there is a positive Board ethos. → Agreed 2015/16 Action Plan with clear monitoring processes over the year. → Plans in place to improve the review and monitoring of past Board decisions, and the quality of supporting information.
Trust & values	**Discussed the evolution of Plan A to Plan A 2020 incorporating the values of Inspiration, Innovation, Integrity, and In Touch, and the increased focus on our customers.**	→ 102 commitments to be achieved by 2020.	→ 39 on plan; 2 behind plan. → 47 achieved; 9 not achieved. → 5 not started.
	Launched 'Fit for the Future', incorporating the new M&S brand and new values of Inspiration, Innovation, Integrity, and In Touch.	→ Engage with employees across the business to increase awareness of the new values and provide an opportunity for employees to give their feedback.	→ Over 1,300 head office employees took part in the Fit for the Future focus groups, including all our executive directors. The feedback received helped shape the final values.

See our Board Effectiveness Review on p41

BOARD ACTIVITIES CONTINUED

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Leadership & employees	**Discussed employee engagement across the business from the results of the annual 'Your Say' survey and quarterly Pulse surveys.**	→ Identify improvement opportunities from the results.	→ Increased engagement with people managers and employees.
	Discussed talent and succession, including gender diversity across management and performance management.	→ Review the gender diversity policy and performance management processes. → Continue to support executive director and senior management development.	→ 38% of Board members are female. → Implemented improved performance management structures to align with our values of Inspiration, Innovation, Integrity, and In Touch. → Continued with successful initiatives including The Leadership Development Service, and mentoring and coaching schemes.
	Reviewed the composition and succession of the Board and its Committees.	→ Committed to maintaining the right balance of skills and experience on the Board and Committees.	→ Approved the appointment of a new Chief Finance Officer, Senior Independent Director and non-executive director.
	Discussed organisational culture, structure and process.	→ Reviewed ways of working to ensure greater accountability across the business.	→ Introduced more collaborative ways of working throughout the Company to speed up decision-making with the launch of Fit for the Future.
Customers	**Reviewed the GM strategy and performance and agreed 2015/16 targets.**	→ Continue focus on further product improvement, increased choice and improved in-store environment. → Strengthen the management team for buying and supplier logistics, and increase design experience within the business.	→ Better buying and supplier models. → Greater design experience in-house delivering better product, stronger margin improvements and faster delivery through the network.
	Greater customer engagement.	→ Investigate opportunities for innovative customer communication and reward programme.	→ Introduction of a new customer engagement strategy, to bring a centralised relationship between the business and the customer. → Introduction of the Shareholder Card, in partnership with Equiniti (Company registrar).
	Discussed the International business, including historic and current performance, negative factors impacting the business, cross-culture engagement with customers, building relationships with key franchise partners, and the vision going forward.	→ Improve like-for-like performance across owned and franchised existing estate. → Grow the business profitably through new stores, new countries and new formats. → Redefine ways of working with franchise partners. → Implement organisational structure with clear accountability to drive the growth in International.	→ Creation of one distinct brand across our various offerings. → Improving global brand relevance, implemented experienced management team, and re-enforced franchise partnerships.
	Reviewed the marketing strategy including the operating model, and improved customer engagement.	→ Create one distinct brand across our various offerings.	→ M&S rebrand, including same branding for GM and Food TV adverts.
	Reviewed and scrutinised the performance of M&S.com and the challenges faced at Castle Donington.	→ M&S.com site optimisation and review of delivery proposition.	→ Customer satisfaction improved, over 7 million registered customers on M&S.com, strong platform stability, and regular cross-functional meetings with representatives from M&S.com, GM, and Castle Donington.
Shareholder engagement	**Strong engagement with stakeholders and investors.**	→ Actively support engagement opportunities.	→ Investor conferences held on M&S.com and International. → Fourth annual governance event.
	Reviewed shareholder feedback in advance of the AGM.	→ Focus areas of Chairman's statement to specifically address issues raised by shareholders.	→ Communicate the key topics raised by shareholders.
	Continued discussions regarding the offering of a wider shareholder reward scheme.	→ Continue discussions with Equiniti to find a solution to provide rewards reflective of the level of investment. → Discuss with nominees a solution to extend initiatives to their beneficial shareholders.	→ Shareholder Card launched in March 2015. → Discussions to extend the M&S shareholder card offer to beneficial shareholders.

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DIRECTOR INDUCTION

Shortly before the publication of this report, two new directors joined the business; Helen Weir, Chief Finance Officer, and Richard Solomons, Non-Executive Director. Both are receiving a tailored induction programme led by the Chairman, which includes time with each of the executive directors, the group secretary, members of the Management Committee, a wide range of senior management from across the business, and the opportunity to meet with major shareholders.

Helen and Richard's induction programmes are comprehensive and both cover:

Company structure and strategy, including: Our history; strategy (including details of all key investment decisions), key people and succession plans; Board procedures including the Governance Framework, Code of Ethics and Behaviours; Board calendar, minutes from previous meetings, effectiveness reviews and action plans; finances, performance, operating plans, current KPIs and targets, operational overview of all business areas; key relationships, including suppliers and major contracts; Group Risk Profile and our approach to risk; insight into key audits and areas of focus.

Industry and competitive environment, including: Customer trends, consumer and regulatory environment including governance and all relevant consumer and industry bodies, Corporate Social Responsibility, environment and sustainability.

Sentiment and reputation, including: Brand positioning and media profile; marketing campaigns; brand values; analyst and investor opinion; review of investor surveys; share register and voting history; key stakeholder relations including employees, customers, suppliers and service providers; opinion leaders; an overview of our remuneration policy and pensions.

Richard's induction as a non-executive was supported by one-on-one meetings, and aimed to provide a broad learning about the business, its operations, its key markets and its risks.

Helen's induction was supported by a greater number of one-on-one meetings with the Chairman, the executive and the non-executive directors, but also management from Strategic Programmes, Finance, HR (including visiting our employee support team), GM (including our overseas sourcing teams), Food, Customer Insight, Communications and Investor Relations (including some of our larger shareholders and our corporate brokers), Store operations (including visiting the Castle Donington facility), Plan A, Health & Safety, Pensions, M&S Bank, Internal Audit & Risk, the Company Archive and the Governance team.

Given that the two directors joined the business within a short space of time, we will take this opportunity to obtain feedback on their experience of the induction process and review the director induction programme. Going forward we will also seek feedback from Alison Brittain, on her induction and her first year with the business. Further information on our induction can be found in the Corporate Governance section of **marksandspencer.com/thecompany**.

SUCCESSION

Succession planning and the succession pipeline remain a key agenda item for the Board.

During the year, our Board contingency plan was tested when, shortly after the AGM, Alan Stewart resigned from the Board. Given Alan had accepted a role with another food retailer, the Board felt it necessary for him to leave the business immediately. Until a suitable replacement was found for the position, Paul Friston, our then Director of Group Financial Control, was appointed Interim Chief Finance Officer. Paul held the position until Helen Weir joined the business on 1 April 2015, at which point Paul took up a new role within the business.

In August 2014, we also announced that Jan du Plessis would be leaving the business in the early part of 2015. Jan had served M&S for six years as a non-executive director. Having Jan remain with the business until March 2015, and Paul cover the Finance role for nine months, allowed the Board to focus sufficient attention on ensuring the new appointments came with the required qualifications, experience and skills to meet the challenges and opportunities ahead.

More detail on succession planning can be found on pages 42-43.

BOARD EFFECTIVENESS REVIEW

The assessment of the Marks & Spencer Board was conducted according to the guidance in the UK Corporate Governance Code and was facilitated by **Ffion Hague of Independent Board Evaluation.** Neither Ffion Hague nor Independent Board Evaluation have any other connection with the Company.

> The external evaluation of our Board is an important factor in ensuring we are creating an open, effective Board and realising our potential.
>
> **ROBERT SWANNELL** CHAIRMAN

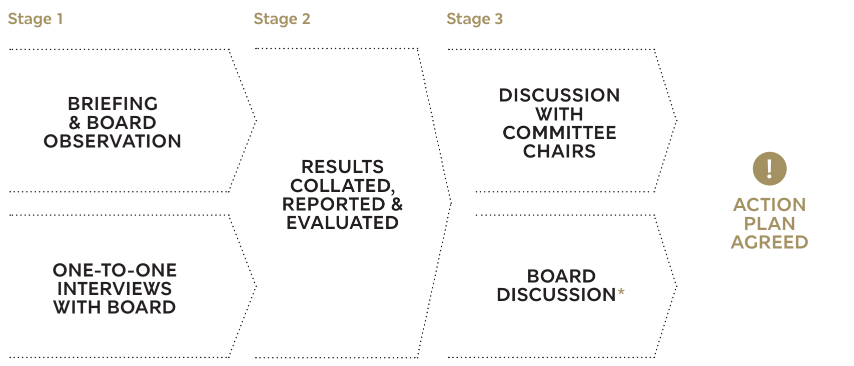
BOARD REVIEW PROCESS

Stage 1 A comprehensive brief was given to the assessment team by the Chairman, Robert Swannell, and Group Secretary, Amanda Mellor, in December 2014. The evaluation team also observed Board and committee meetings in December 2014, and January and March 2015. Copies of all Board papers were provided to the team for briefing purposes prior to the meeting.

In January and February, detailed interviews were conducted with every Board member. All participants were interviewed according to a clear agenda, tailored for the Board. In addition, the team spoke to the Director of HR, the Interim Chief Finance Officer, Head of Internal Audit & Risk, the Group Secretary, the Company's external remuneration consultants, PwC, and the Company's lead Audit Partner from Deloitte.

Stage 2 The report was compiled by the evaluation team based on information and views supplied by the Board and those interviewed. All recommendations were based on best practice as described in the UK Corporate Governance Code and other current corporate governance guidelines.

Stage 3 Draft conclusions were discussed with the Chairman and subsequently discussed with the whole Board at its meeting in April, with Ffion Hague present. The conclusions of that discussion were recorded in the minutes of the meeting. Robert Swannell also received a separate report with feedback on individual directors. Following the Board meeting, Ffion Hague gave feedback on the Chairman to the Senior Independent Director, and to the Committee Chairmen on the performance of each committee. The Senior Independent Director also met with the non-executive directors to review the Chairman's performance. This review was then shared with the Chairman.



Note: The above activities were undertaken by Ffion Hague of Independent Board Evaluation.
*Ffion Hague also attended the Board discussion.

BOARD REVIEW INSIGHTS 2014/15

The ethos and culture of the Board is positive and remains in line with the last independent review in 2012.

Overall, the Board rated its performance as acceptable in the areas of governance and compliance, shareholder accountability and relationships, induction, and succession planning. However, in other areas performance was not considered to be as strong, and progress had been slow in relation to last year's Action Plan. As a result, this year members were clear that there were several key areas that would enable the Board to be more effective, challenge business performance, and drive strategic debate.

The Board review was conducted in December 2014 and January 2015 when M&S's performance was under particular scrutiny, with operational issues affecting the Castle Donington distribution centre and M&S.com. Given this context, members were particularly open, objective and critical with respect to Board performance and the potential changes that should be implemented to improve overall Board effectiveness. A number of these improvements have featured in previous years and primarily relate to information context, content and consistency, and debate around business and strategic risk. These now form the core of the 2015/16 Board action plan.

Board Committees Board Committees were also reviewed and were all considered well run, challenging, structured, trusted and effective. Members noted that committees were improved in terms of quality of information and support from management. Feedback from each Committee meeting to the main Board was felt to be full and transparent, particularly in relation to Audit and Remuneration.

BOARD ACTION PLAN

As in previous years, the Board's focus on culture, values and people development was felt to be strong. However, this year it was felt that more could be done to facilitate greater informal engagement between the Board and the broader management team.

After a thorough debate of the review with Ffion Hague present, the Board has agreed an Action Plan for the year ahead. This plan focuses on the quality of information to support Board discussions, and broadening Board debate and scope around risk.

THE BOARD ACTION PLAN 2015/16 INCLUDES:

- → Review of Board decision-making process and debate.
- → Review of all management information and KPIs to improve quality and consistency of data, and enable clearer strategic context.
- → Continue to refine our risk appetite statements across the business, building on the progress delivered on risk in 2014/15.
- → Improve tracking, review and debate on quality of past investments.
- → Continue to encourage greater interaction with Board members across the business.

LEADERSHIP & EFFECTIVENESS

NOMINATION COMMITTEE REPORT

We have an **established mapping of the experience and skills requirements for our Board**. This allowed us to move with clarity on the replacement and succession of Jan du Plessis as Senior Independent Director.

ROBERT SWANNELL CHAIRMAN OF THE NOMINATION COMMITTEE

INTRODUCTION

We have seen further change to our Board composition this year. I am pleased to welcome our new Chief Finance Officer, Helen Weir. We announced Helen's appointment in November 2014 and she formally took up her position on 1 April 2015. In August 2014 we announced that Jan du Plessis would be stepping down in the early part of 2015. He left the business on 4 March after nearly six years on the Board. As part of our Board succession planning process, we have established mapping of our experience and skills requirements, future Board and Committee requirements, and director tenure. As a result, following Jan's retirement, we were well placed to appoint Vindi Banga as Senior Independent Director, in addition to his responsibilities as Remuneration Committee Chairman, and also appoint Miranda Curtis to the Audit Committee, in addition to her membership of the Remuneration Committee. Following the retirement of Steven Holliday from the Board in July 2014, we recognised the benefits that a serving CEO brings to our Board mix, along with international, brand and consumer experience. This clear brief underpinned the appointment of Richard Solomons to the Board in April 2015.

Vindi Banga succeeded Steven Holliday as Remuneration Committee Chairman. Vindi and Steve managed an exemplary handover, including consultation and meetings with investors ahead of the approval of our Remuneration Policy at the AGM in July 2014.

In addition to these Board changes, throughout the year, the Committee focused on executive director development and senior management talent development and pipeline. We have continued to support executive coaching and mentoring and are pleased with the benefits and insights these initiatives have brought.

Building on initiatives in previous years, our non-executive directors continue to engage with both senior management and the broader business, hosting lunches and breakfast presentations. As highlighted in our Action Plan, this is something we intend to build on in the year ahead.

As a Board we continue to drive diversity across the business. We are pleased that women now represent almost 40% of our Board membership. Our current diversity percentage is also reflective of broader senior management, where female representation also accounts for almost 40%.

EFFECTIVENESS OF THE NOMINATION COMMITTEE

Independent review

The Committee's performance was reviewed externally this year by Ffion Hague of Independent Board Evaluation. Performance was felt to have improved, with better support and more professional processes coming into effect. We intend to build on this in the coming year with our 2015/16 Action Plan.

Nomination Committee activity

We continued to refresh and review non-executive director tenure and skillset to ensure an appropriate mix and diversity of experience. As part of this, we agreed the process, timetable, shortlist and final recommendation for the appointment of Richard Solomons and succession planning following the departure of Jan du Plessis.

We continued to support succession and development of the executive directors, implemented development initiatives for senior executives, further international business school training, executive coaching and non-executive director mentoring. Committee members also participated in several employee-focused and diversity-based initiatives, giving increased access to the organisation, direct employee feedback and greater visibility of high potential talent.

MEMBER ATTENDANCE

	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Vindi Banga	3 Sep 2011	4	4	100%
Marc Bolland	1 May 2010	4	4	100%
Alison Brittain	1 Jan 2014	4	4	100%
Miranda Curtis	3 Feb 2012	4	4	100%
Martha Lane Fox	1 Jun 2007	4	4	100%
Andy Halford	1 Jan 2013	4	4	100%
Jan du Plessis[1]	1 Nov 2008	4	3	75%
Richard Solomons[2]	13 Apr 2015	-	-	-
Robert Swannell (Chairman)	4 Oct 2010	4	4	100%

1. Jan du Plessis was a member of the Committee until 4 March 2015, when he resigned from the Board. He was unable to attend the meeting held on 8 September due to overseas business commitments.
2. Richard Solomons joined the business during the new financial period and his attendance will be included in next year's report.

Action Plan 2015/16:

- Continue to review succession plans for the Board and key roles across the business;
- Continue to identify future talent pipeline;
- Review development initiatives for directors; and
- Continue to identify opportunities for broader business engagement.

Our assessment of diversity in terms of experience and background is covered in further detail below. We also reviewed our diversity policy this year to ensure it remains fit for purpose.

BOARD DIVERSITY POLICY

Since the launch of the Board Diversity Policy in 2012, the Board has made progress in broadening the diversity of the Board and senior management. In 2014, the Board reviewed the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business. The Board agreed that the ambitions and objectives set out in the policy remain relevant targets against which to measure our progress.

For further information on employee diversity, including gender, ethnicity and age, see p23 of our Plan A Report marksandspencer.com/plana2015.

BOARD DIVERSITY: PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short to medium term.
As highlighted earlier in the report, the Board made two appointments during the year following one retirement and one resignation. The appointments of Helen Weir and Richard Solomons increased the female/male balance on the Board from 31% female membership at the start of July last year to 38% in April this year.

The Board remains committed to maintaining at least a 30% female representation on the Board, whilst ensuring that diversity in its broadest sense remains a central feature. However, the Nomination Committee will continue to recommend appointments to the Board based on merit, measured against objective criteria and the skills and experience the individual offers.

The Board remains committed to strengthening the pipeline of senior female executives within the business and has taken steps to ensure that there are no barriers to women succeeding at the highest levels within M&S.

In 2015, M&S was again listed in The Times Top 50 Employers for Women for the fifth year running.

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.
During the year, the Board continued to focus on strengthening the pipeline of executive talent in the Company. It committed to learning and building on existing programmes while introducing new initiatives to broaden and develop the strong talent which exists across the business.

Key initiatives include:

- A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.
- The Leadership Development Service has been in place for two years and continues to identify and partner key senior talent across the business, broadening their skillsets and experience to prepare them for future opportunities. This has been supported through greater boardroom exposure, non-executive and Trustee roles outside of M&S, and participation in mentoring schemes.
- Access to International Business School Training.
- Senior management mentoring and coaching schemes, including individual leadership assessments, and non-executive director sponsored lunches and breakfasts.

Consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company board experience.
During the year, the Nomination Committee discussed the Board's successional needs, and continues to work closely with executive search agency JCA in compiling long and short lists of candidates. During the search for the most recent appointments, the Board identified and interviewed a range of candidates from various backgrounds and industries, and all candidates were measured against criteria agreed at the start of the process. The Chairman also meets informally with a range of people introduced by third parties or through direct approaches. Although we do not currently openly advertise our non-executive director positions, we appreciate the benefit of this approach and will keep this under review.

Ensure long lists of potential non-executive directors include 50% female candidates.
The Board remains committed to ensuring that high performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE100 companies. Once again, the Board met its commitment, and all non-executive director long lists in 2014/15 included 50% female candidates.

Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.
The Board continues to support the nine principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity, demonstrated by remaining committed to only engaging executive search firms who are signatories to this code. During the year, we continued to work closely with JCA, and maintained our focus on the targets and ambitions around female representation on the Board. The Board confirms that JCA has no other connection with the Company.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.
The Board has made strong progress against the key policy objectives during the year, as reported above.

In addition, the business has continued to promote diversity with the introduction or continuation of key initiatives:

- The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness.
- The M&S Inspiring Women's Network, launched in 2014, continues to support the progress of women in our business, giving access to a range of role models, providing informal mentoring and networking opportunities, and creating a forum for discussion to explore and address the career challenges women face.
- Taking part in a number of pilot schemes including cross-business mentoring for senior women, run by the government-backed 30% Club, a female only development programme.
- The MBA Leadership Programme is in its fourth year, recruiting and developing talented MBA graduates from international business schools; to date intake into the programme has been over 50% women.
- Partnering with a local school to provide one-to-one mentoring support for around 50 female students between the ages of 15 and 17.
- A number of programmes to help people in our communities, including Marks & Start, Marks & Start Logistics, and Make Your Mark, are successfully helping young people, the homeless, lone parents and those with disabilities, to find work in our stores and distribution centre.

Report annually on the outcome of the Board evaluation, the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company.
We continue to regard the Board evaluation process as an important means of monitoring our progress. Full details of the 2014/15 Board evaluation and the Action Plan are on page 41. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing some of the challenges we face, such as:

- International management experience reflective of the customers and communities we serve; and
- Any main challenges women face in reaching regional management positions and above, within the business.

ACCOUNTABILITY

RISK IN ACTION

RISK AND THE ROLE OF INTERNAL AUDIT

Internal Audit & Risk comprises both the Group Risk function and Internal Audit. Group Risk facilitates and manages the risk process that is ultimately owned by the Group Board. Internal Audit, accountable to the Audit Committee, uses a risk-based approach to provide independent assurance over the adequacy and effectiveness of the control environment, including controls related to key risks on the Group Risk Profile. Management actions from all of our audits are tracked to completion and the status of these actions is reported to the Audit Committee to ensure that the risks identified are appropriately addressed. This will, in turn, further mitigate the risks included in our Group Risk Profile.

The following examples illustrate how Internal Audit supports the business through driving improvements to our control environment and adding value in core business areas.

RISK: INTERNATIONAL EXPANSION

In support of the Group's international growth plans, Internal Audit reviewed the process to identify and approve new store locations, with a focus on Asia. The audit confirmed that we have a well defined governance structure in place through the Property Board, from the review of initial new stores proposals, to the formal post-investment reviews that measure actual performance against initial estimates. The audit highlighted an opportunity to improve the quality and consistency of data supporting these initial estimates prepared by the in-country teams, including greater alignment with the process for UK stores. This would support better decision-making and enable more effective comparison of proposals across countries. The audit also recommended more robust tracking of actions agreed at the post-investment reviews through to their completion, to drive profitability.

RISK: GM CUSTOMER ENGAGEMENT

The continuous improvement of our customers' online experience is an important part of driving customer engagement. Following last year's M&S.com website launch, Internal Audit reviewed the process to maintain product content online, including narrative product descriptions, photographic images, and the navigation paths supporting customer searches. Our review confirmed that robust review mechanisms are in place to minimise the risk of errors or omissions in product information on the website. However, in instances where data is missing or incorrect, delays in resolution can impact the timeliness with which products are launched online. The audit recommended clearer definition of roles and responsibilities between the GM teams developing and buying the products, and the M&S.com team managing the website content, and a more structured "critical path" for product launches online.

RISK: IT CHANGE

In 2014/15 new agreements were implemented with a number of third-party IT service providers, covering areas such as Infrastructure and Application Support and End User Computing. Effective management of our IT service providers is a key element of managing IT change risk, ensuring, for example, that IT changes are executed in line with M&S IT policies. Internal Audit conducted a review to assess the effectiveness of IT service provider management processes. The audit provided assurance that significant focus had been placed on the successful implementation of the new agreements. At the time of the audit there was further work required to clearly define vendor management roles and responsibilities and to implement monitoring against all contractual service levels, both of which have subsequently been addressed.

RISK INTERDEPENDENCY

We recognise that there is significant interdependency between our key risks. This diagram, based on our current Group Risk Profile, highlights how changes to one risk could impact on those connected to it, and therefore on the Group Risk Profile as a whole. By understanding the relationship between our key risks, if they were to materialise, we are better placed to ensure that we are managing them appropriately and to understand the entirety of our risk exposure.

The highlighted risks illustrate potential interdependent risk scenarios:

The success of our business is highly influenced by our ability to retain quality individuals 10. The loss of key product developers would impact our ability to provide a point of difference against our competitors in terms of quality, value and innovation 3, whilst maintaining expertise in our Food technology team enables us to maintain high standards of food safety and integrity across our products and supply chain in an increasingly challenging environment 2. Our customers tell us that they trust us to do the right thing. By maintaining these high standards of food safety and integrity, we continue to stand out from our competitors 3.

Strong GM customer engagement 1 is influenced by our ability to maximise product availability and provide customers with an efficient and reliable delivery proposition 12. The robustness of the online business 7 will also impact this supply chain and logistics network, as well as having a direct influence on customer engagement through the provision of a reliable online experience.

RISK APPETITE

This year, we have placed significant focus on developing our approach to risk appetite in line with the UK Corporate Governance Code. By expressing the types and amount of risk we are willing to take or accept to achieve our plan, we aim to support consistent, risk-informed decision-making across the Group.

Our starting point has been to define draft risk appetite statements for our principal risks, and for key decisions made by the Board. These statements provide parameters within which we typically expect the business to operate, facilitating structured consideration of the risk and reward trade-off in the decisions we make and in how the Group conducts business.

We have covered a wide range of risks from GM ethical sourcing and food safety and integrity, through to investment decisions and business resilience. Given the varied nature and diversity of such risks, there is no 'one size fits all' approach to establishing risk parameters. We believe that taking the time to get this right will yield the greatest benefits to our business and as such we are currently working with management to define a draft set of risk statements which we will refine over time to ensure that they best reflect what the Group stands for.

Providing clear parameters is important; however, it is essential that we also foster an environment where innovation and entrepreneurial activities thrive. At times, there may be merit in operating outside of these risk parameters but proposed exceptions will need to be escalated to senior management for debate and approval before activities commence, ensuring that appropriate mitigating controls are in place.

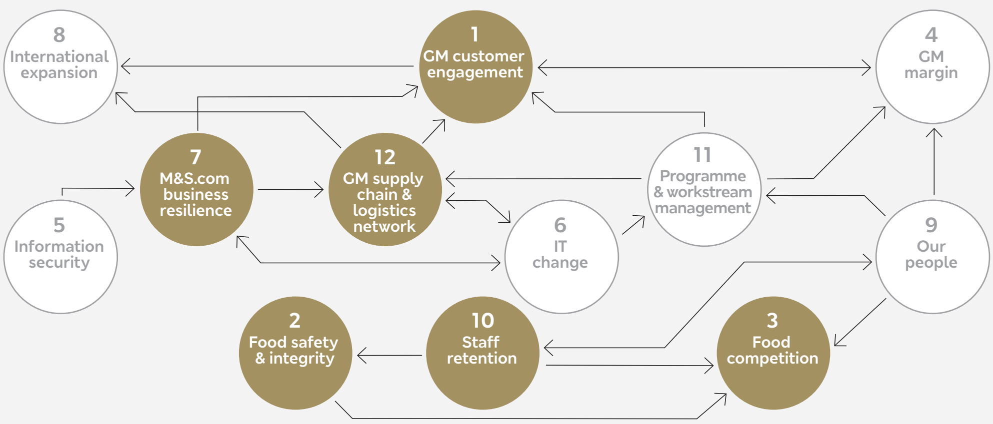
Once finalised, our risk appetite statements will be incorporated into an operating framework, integrated with our existing Group Risk process, and used to monitor business activities and decision-making. We believe we have made good progress this year and risk appetite remains a key priority for the Board in 2015/16.

VIABILITY STATEMENT

Changes to the UK Corporate Governance Code, which came into effect in October 2014, will require companies to state whether they believe they will be able to continue to operate and meet their liabilities, taking into account their current position and principal risks. Companies will need to state over what period they have made their assessment and why they consider that period to be appropriate. The assessed period must be longer than 12 months and relative to business planning processes and how business performance is measured.

On the surface this might appear to be a simple statement to make. However, the Code changes emphasise the need for an interconnected approach to assessing viability. The Board must take into account the Company's business model (and the inputs which support it) and the strategy, ensuring that these are aligned with its risk appetite, supporting risk framework and the controls and activities in place to mitigate risk. The Code requires statements to be made as a 'reasonable expectation' rather than a certainty.

Whilst the Code changes are not applicable to M&S until next year's Annual Report, elements of the Code change are aligned with the principles of integrated reporting. Both require some changes to a number of our ways of working and, as part of our commitment to producing an integrated report next year, we have already made progress. We are committed to ensuring that our response to the Code change is meaningful and adds value both within the business and to our stakeholders. The work we have in progress means that we are in a strong position to meet the requirements in next year's Annual Report.



See more in our **Risk management** section p23-25.

ACCOUNTABILITY

AUDIT COMMITTEE REPORT

The Committee has covered much ground this year with the **auditor transition, a wider and enhanced assurance scope and greater risk oversight**. We plan to build on this in the year ahead.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

The following pages aim to open up the doors to the boardroom and provide insight into the Audit Committee's activities in the year, as well as provide an update on the Company's new statutory auditor (Deloitte), their effectiveness and the non-audit fees they received. It provides the Committee's opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to accurately reflect the financial statements in the back.

This report also shares some of the insight we received from the executive updates presented to us from across the business. These continue to provide the Committee with real insight into our challenges and aspirations. These also tell us how the risks are being managed and mitigated, as well as helping the Committee members understand the progress being made towards the strategic plan. The updates provide us with an opportunity to challenge, discuss and debate with the presenters whilst sharing our experience and providing an independent perspective.

In October 2014, the UK Corporate Governance Code was updated. The Committee is looking closely at the additional requirements introduced by the new iteration of the Code to assess which of our processes need updating and to ensure that we are well positioned to report against them in future.

EFFECTIVENESS OF THE AUDIT COMMITTEE

The Board is satisfied that one member of the Committee, Andy Halford, has recent and relevant financial experience.

Independent review

The Audit Committee's performance was reviewed externally this year by Ffion Hague of Independent Board Evaluation, as part of the Board Effectiveness Review. The Committee received very positive feedback from Board members and external participants. It is seen as open, transparent and effective and Board members value the feedback to the wider Board. In particular, the Committee is seen to have driven some improvement in the business response to internal audits and the overall quality of information provided to members. The Committee made good progress against the 2014/15 Action Plan, establishing good ways of working with Deloitte and improving the risk oversight in key business areas that were critical to performance.

Audit Committee activity

- Remained focused on the audit, assurance and risk processes within the business, and maintained oversight of financial and other regulatory requirements.
- Reviewed their ways of working and assurance following appointment of Deloitte as the new Statutory Auditor.
- Updated the process for assessing the effectiveness of the external auditor.
- Reviewed the design and scope of the assurance plan, with particular focus on key strategic priorities.
- Received and discussed specific business presentations relating to risks within the Group Risk Profile.

MEMBER ATTENDANCE	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Alison Brittain	11 Mar 2014	5	5	100%
Miranda Curtis	4 Mar 2015	1	1	100%
Martha Lane Fox	1 Jun 2007	5	5	100%
Andy Halford (Chairman)	1 Jan 2013	5	5	100%
Steven Holliday[1] (resigned 8 July 2014)	15 Jul 2004	1	0	0%
Jan du Plessis[2] (resigned 4 March 2015)	1 Nov 2008	4	3	75%

1. Steven Holliday was unable to attend the meeting held on 15 May due to business commitments with National Grid.
2. Jan du Plessis was unable to attend the meeting held on 8 September due to overseas business commitments.

Action plan 2015/16:

Looking ahead, the Committee will remain focused on the audit, assurance and risk processes within the business, and maintain its oversight of financial and other regulatory requirements. The action plan for 2015/16 will focus on:

- Providing oversight of key business risks with particular focus on International retail and ethical sourcing;
- Supporting risk work achieved in 2014/15 and definitions of risk appetite across the business; and
- Continuing to support the development, design and scope of the assurance plan, with particular focus on key strategic priorities.

EXTERNAL AUDITORS

TENURE OF THE AUDITORS

At the AGM last year shareholders approved the appointment of Deloitte as the Company's new Statutory Auditor.

The proposed change in auditor was communicated to shareholders in December 2013. This extended lead time provided a smooth handover process from PwC, the previous Statutory Auditor, and allowed Deloitte to shadow PwC through areas of the 2014 year end process, giving them a good understanding of the business.

In the early part of the year, Deloitte underwent a thorough induction process to enhance their understanding of the business. This included:

- Meetings with management and executives across the business including a large number of individuals outside of the finance function (trading managers, buyers, property team, HR and others).
- A number of site visits across the UK and International operations; including 16 UK distribution centres, 27 UK stores (including audit partner attendance at a stock count), operations in nine overseas countries (China, Hong Kong, India, Turkey, Greece, Czech, France, Netherlands and Ireland).

In addition, Deloitte have participated in workshops on material and judgemental areas prior to their first half year review. The Company and Deloitte adopted a collaborative approach throughout the year, encouraging ongoing, open communication on current matters as and when they arose.

NON-AUDIT FEES

A robust auditor engagement policy is in place and adhered to. It is reviewed annually and disclosed on marksandspencer.com/thecompany.

In the interest of transparency, last year we highlighted that business forecasting and planning indicated that fees for non-audit work with Deloitte were likely to be impacted by additional items, much of which were a direct result of the transition between audit firms.

Deloitte had provided several non-audit services to the business prior to their appointment and, although many of these were complete by March 2014, some were expected to run over into the 2014/15 financial year whilst they were tendered to another firm. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure robust processes to prevent auditor independence from being compromised.

- The non-audit fees to audit fees ratio for the year was 0.49:1. Of this £0.5m related to services now transitioned to other companies (overseas payroll, accountancy and tax compliance services and two other small one-off projects).
- All non-audit work performed by Deloitte was put to the Audit Committee for consideration and approval, regardless of size.

EFFECTIVENESS OF THE EXTERNAL AUDITOR

The Committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong, and recommends the reappointment of Deloitte LLP for the 2015/16 financial year.

The assessment of the effectiveness of our external auditor is based on a framework divided into ten structured components setting out the key areas of the audit process for the Audit Committee to consider, as well as the role that management has contributed to an effective process.

The framework provides the Audit Committee with a mechanism to encourage management to improve standards in a number of key areas. These include ensuring that information is presented with a culture of 'right first time', that the quality of management papers is high, that robust internal systems and controls are maintained, that the audit process is respected and valued by the management team, and that proposed audit adjustments are examined seriously. The Committee believes that this framework provides a robust process for monitoring auditor effectiveness now, and can be measured against the findings of future external auditor effectiveness surveys.

For 2014/15 we tailored the approach to the assessment process enabling senior management to answer the detailed questions on the Company-wide audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

Questionnaires were tailored to the following target groups:

1. Chief Finance Officer and Director of Group Financial Control A full questionnaire, covering all areas of the audit process, was completed based on the individual's close knowledge of the audit process, their interaction with the audit partner and taking consideration of the questionnaire completed by the Heads of Finance for Food, GM and International.

2. Heads of Finance: Food, GM and International Shorter questionnaire, focusing on the audit team, planning, challenge and interaction with the business.

3. Audit Committee A high level set of questions with specific focus on the audit partner, planning, execution, value, communication and challenge. The Committee had access to copies of the completed finance questionnaires (sections 1 and 2 above) to assist their considerations.

WHAT WAS THE OUTCOME?

As this is Deloitte's first year with M&S, the Committee was only able to assess their work up until the end of the financial period and not the year end audit itself. However, the period assessed included the interim reporting cycle, providing Committee members with early insight into the level of challenge and scrutiny Deloitte provide. Feedback highlighted:

- A good understanding of the business and its values;
- A team that were robustly challenging, whilst supportive on technical matters; and
- A joined up approach towards the significant issues for discussion.

Last year's feedback identified:	How has this been addressed?
The Committee Chairman was felt to have greater visibility of the overall audit process as a result of his one-to-one meetings with the audit partner.	Time has been made available prior to each Committee meeting for the Chairman to update Committee members, where necessary, on his discussions.
The survey itself contained a level of detail regarding processes that the Committee may not have or need visibility of.	The content of the survey has been reviewed and updated. An overview of the new process is provided above.

ACCOUNTABILITY
AUDIT COMMITTEE REPORT CONTINUED

AUDIT COMMITTEE UPDATES

The Committee receives a detailed update from the business at each Committee meeting, with one or more areas represented. Business updates are planned on a rolling 12-month basis and reviewed at every meeting. Some of the 2014/15 updates are listed below:

ETHICAL SOURCING

- Updated our GM ethical trading approach, including M&S standards and auditing.
- Discussed the monitoring process, site rankings and escalation procedures and improvements made in this area.
- Received examples of high, medium and low risk suppliers, noting those that M&S works with.
- Updated on training and innovation, and noted the introduction of new technologies and methodologies in this area.

FOOD SUPPLIER TERMS AND CONDITIONS REPORT

- Discussed the outcome and recommendations of the internal audit into Food Supplier Rebates, including the types and mechanics of Food Supplier income and proposed improvements in the control environment.
- Updated on the areas of greater potential risk and opportunities for an associated higher level of risk-based monitoring.
- Discussed the importance of accounting standards, controls and appropriate training.

INTERNATIONAL OPERATIONS

- Updated on the risks and mitigating actions to deliver the international strategy, including effective supply of goods.
- Discussed the challenges facing the International business including the impact of the social-economic and geopolitical climates.
- Updated on the international growth strategy, including the franchise model, the international control environment and the performance of the India business model.
- Discussed the International food strategy, fire, health & safety, and improvements in business continuity.

GM SOURCING

- Updated on the improvements in GM margin and sourcing strategy, key drivers to delivering the target growth in the plan, and key areas of risk.
- Updated on the key changes to the M&S ways of working to deliver the margin initiatives, including changes in supplier models and a better buying model.
- Noted the risks and impact of external factors and mitigating actions, including currency volatility risk.
- Discussed ways of working with our GM supply base and how this has changed over time and key areas of change going forward, including change in culture.

HEDGING POLICY

- Updated on the key areas relating to transaction and translation exposure, the associated level of exposure and specific approaches to transactional hedging.
- Discussed the impact of currency on overseas franchise income.
- Updated on net asset hedging and approach, including risk appetite and associated limits.

M&S.COM AND CASTLE DONINGTON DISTRIBUTION CENTRE RESILIENCE

- Updated on Castle Donington business continuity, including contingency options and devising a plan for e-commerce fulfilment.
- Discussed the Castle Donington operating model, including planning and forecasting models and resourcing, and operating procedures.
- Updated on the M&S.com platform resilience and noted that the resilience solution for the M&S.com platform had been embedded, but would be regularly re-tested.
- Discussed the recovery testing and the process for evaluating and testing management judgement for unplanned recovery.

BUSINESS CONTINUITY

- Discussed the 2014/15 performance by key incident areas and the benefits from tracking incident data.
- Updated on progress made in the International business, including legacy joint venture countries and franchise.
- Discussed the current national threat level, level of preparedness and key areas for improvement, including working with our franchise partners.
- Discussed the strategy and focus for 2015/16 with the key areas of focus being Castle Donington and International.

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 closely with Deloitte 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, whilst being mindful of matters that may be business sensitive.

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are outlined in this section. All accounting policies can be found in note 1 on pages 94 to 97. Where further information is provided in the notes to the financial statements, we have included the note reference.

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

IMPAIRMENT OF GOODWILL, BRANDS AND TANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands and tangible fixed assets, including land and buildings and store assets. The Committee received detailed reports from management outlining the treatment of impairments where we are committed to close a store, valuation methodology, the basis for key assumptions (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. The Committee has also understood the sensitivity analysis used by management in their review of goodwill and brand impairment. In addition, the business plans detailing management's expectations of future performance of the businesses are Board approved. The Committee is satisfied that no impairment of goodwill or brand is required and appropriate impairment of tangible assets has been recognised.

See **notes 14 and 15** on page 110-111

INVENTORY VALUATION AND PROVISIONING

Inventory provisions include stock in transit, obsolete stock, net realisable value below cost and stock loss provisions. The Committee has examined in detail management papers outlining the judgements made regarding provisioning for inventory balances and is satisfied that a sufficiently robust process was followed to confirm quantities of inventory and that net realisable value of inventory exceeds its cost at year end.

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and in particular the presentation of the Non-GAAP measures 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 one-off in nature, significant, and distort the Group's underlying performance. In the current year, management has included profit on property disposal, one-off pension credits, interest income on tax repayments, restructuring costs, international store review, fair value movement of embedded derivatives, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision within this category. The Committee has concluded that this presentation is appropriate. See **note 5** on p100

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 p104

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 analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

SUPPLIER INCOME (NEW DISCLOSURE)

The Committee has considered the assessment made by management over the accounting for supplier rebate arrangements and has been actively involved in reviewing the Group's controls in place in this area. The Committee has reviewed in detail management's paper, which set out the nature and value of these arrangements and the timing of recognition in the financial statements, along with the related Internal Audit findings reported. The Committee is satisfied with management's conclusion that there is no risk of material misstatement in the current and previous period. In addition, the Committee decided to enhance the disclosures in relation to supplier income by publishing the accounting policy and disclosing the effects of supplier income on certain balance sheet accounts. See **note 17** on p112

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2014/15 Annual Report and Financial Statements is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

As the Chairman advised in his opening statement, the structure of the report has been updated this year to provide greater focus on the key strategic messages in the Strategic Report. Therefore, it was important for the Committee to ensure these changes did not dilute the level of transparency in disclosure that we know is useful for stakeholders, and that the business continued to provide a clear message that was reflective of the Company as a whole.

A broad outline of the proposed changes to the Annual Report was given to the Committee early in the planning process, along with a similarly broad indication of content. The Committee received a full draft of the report some two weeks prior to the meeting at which it would be requested to provide its final opinion. Feedback was provided by the Committee in advance of that meeting, highlighting any areas where the Committee believed further clarity was required. The draft report was then amended to incorporate this feedback prior to being tabled at the Audit Committee meeting for final comment and approval.

The Committee was provided with a list of the key messages included in the Annual Report, highlighting which were positive and which 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 in 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 the reporting on the business segments in the narrative reporting consistent with those 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 reflected in each remain consistent when read independently of each other?
- Is the Annual Report properly 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 these compare with the risks that Deloitte plan to include in their 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 2015 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

ACCOUNTABILITY
AUDIT COMMITTEE REPORT CONTINUED

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and tolerance 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 p23-25 of the Strategic Report for more information on our material risks.

See p44-45 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.

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 & Risk 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 & Risk with input from management. Recommendations from Internal Audit & Risk are communicated to the relevant business area for implementation of appropriate corrective measures, with results reported to the Committee.

2. Business Presentations Focusing primarily on the key risks identified in the Group Risk Profile, management continues to provide updates to the Committee on how these are managed in individual business areas. These are complemented by independent reviews conducted by Internal Audit & Risk.

3. Other control agencies Responsible for maintaining control over critical areas of risk, the processes and controls of these agencies are tested by Internal Audit & Risk during relevant audits. An overview of these agencies and the manner in which they provide assurance to the Committee is indicated in the table below.

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 Turnbull Guidance on Internal Control. No significant failings or weaknesses were identified during the Committee's review in respect of the year ended 28 March 2015 and up to the date of this Annual Report.

Where the Committee 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 **marksandspencer.com/thecompany**.

Andy Halford
Audit Committee Chairman

INTERNAL ASSURANCE FRAMEWORK

COMMITTEES				Existing direct line of reporting	AUDIT COMMITTEE
Fire, Health & Safety	Plan A*	Business Continuity			
ANNUAL UPDATE BY RELEVANT EXECUTIVE					
REPORTS				Formal updates	
Information Security	Whistle Blowing & Fraud	GSCOP (Grocery Supplier Code of Practice)	Bribery	Code of Ethics	
ANNUAL PAPER					
OTHER CONTROL AGENCIES				Updates as requested/ appropriate	
Food Safety & Integrity	Ethical Audits				
Trading Safely & Legally					
AUDIT TESTING BY INTERNAL AUDIT & RISK (AS APPROPRIATE)					

* Reports directly to the Group Board.

ENGAGEMENT

STAKEHOLDER ENGAGEMENT

ROBERT SWANNELL CHAIRMAN

As indicated earlier in this report, in 2014 we refreshed our core business values as part of our drive to ensure that our business is fit for the future. These values, Inspiration, Innovation, Integrity and In Touch, are not in themselves entirely new to M&S; rather, we have placed them at the heart of our business as the essential behaviours through which we aim to make everyday life better for customers, employees and investors alike. The latter of these four values, In Touch, complements our attitude towards engaging with our investors as we believe that the foundation of our strong relationship with them lies in regular, open dialogue. Ensuring that we are in touch means we are always available to discuss particular areas of the business and to address any concerns they might have. This year, the business had over 566 contacts with over 316 separately identifiable institutions via one-to-one or group meetings hosted by an executive director or our Investor Relations team. Additionally, I hosted the annual M&S Governance Event. Details for this year's event are provided in the box on the right.

We held an investor event in Paris, providing an update on our International strategy, and a seminar on the development of our multi-channel capabilities. Presentations at these events are made by directors or senior managers and offer investors more in-depth information on the progress being made towards our strategic goals. No new, material financial information is disclosed at these events and no additional statements are made regarding current trading performance. The slides from the presentations are available to view at **marksandspencer.com/thecompany**.

To understand the views and opinions of our private investors outside of the AGM, we engage with a number of leading client brokers who typically represent our private shareholder base. For an independent view, Makinson Cowell, the capital markets advisory firm, continues to provide guidance to our Investor Relations team and undertake an annual audit of our major investors' views on the Company's management and performance. The results are presented to the Board.

M&S GOVERNANCE EVENT 2015

The M&S Governance Event is a regular fixture on the calendar and is hosted by the Chairman, Robert Swannell. Board attendees for 2015 will be Vindi Banga (Senior Independent Director and Chairman of our Remuneration Committee), Andy Halford (Chairman of our Audit Committee), Martha Lane Fox (Non-Executive Director and member of our Sustainable Retailer Advisory Board) and Mike Barry (our Director of Plan A).

Invitations are sent to our 30 largest shareholders, representatives from the influential investor advisory firms and industry governance specialists. The event is an opportunity to meet and discuss the wide range of matters considered by the Board, both during the year and going forward. Presentations at the meeting will focus on the following six areas:

The Board	**Audit**	**Risk**
Remuneration	**Plan A**	**Q&As**

The presentation will be available at **marksandspencer.com/thecompany**.

AMANDA MELLOR GROUP SECRETARY

In last year's report, I spoke of the importance of maintaining our trusted relationship with our shareholders and outlined my role, as Company Secretary, in engaging with stakeholders on a variety of governance matters. These remain as intrinsically important as ever and, over the course of the year, I have again had discussions with a number of investors and representative bodies. I am also tasked with safeguarding the important relationship with our private investors, who are some of our most loyal customers, and for whom we have introduced a new loyalty scheme this year in partnership with our registrar, Equiniti. **See more on page p128.**

We must also recognise that our unique heritage positions us to engage more widely beyond the traditional stakeholder group. This is well illustrated by our acclaimed Company Archive, which was relocated in 2012 to a purpose built facility within the campus of the University of Leeds and houses a collection of over 70,000 items from the Company's past. The facility's award-winning 'Marks In Time' exhibition opens up our heritage to customers, schools and the wider community. It has received thousands of visitors, including over 8,000 school pupils aged between 5 and 18, who took part in a range of educational sessions. Demand from schools is overwhelming and is met by our Education Officer who works with Heritage Ambassadors across our stores to share the history of M&S, Plan A and the environment, with their local community. The archive's education programme has received the prestigious Sandford Award for excellence in heritage education and Visit England's VAQAS award for the quality of its visitor offer.

The relocation of the archive laid the foundation for a broader partnership with the University of Leeds, encouraging close collaboration in areas ranging from design, food technology and product innovation to business management and law. The partnership is also a fantastic medium through which to articulate our values; for example, we have worked with the University to produce a free, online educational course on innovation, which was a huge success and reached almost 15,000 people. For my part, I am proud to help strengthen this partnership as a member of the University Council and to promote the importance of ethical leadership as a visiting professor of the University's Ethics Centre.

AGM

The 2015 AGM will be held at Wembley Stadium in London on Tuesday 7 July at 11am.

The Notice of Meeting sets out the resolutions to be proposed and the schedule for the day. A copy of the Notice can be downloaded at **marksandspencer.com/thecompany**. The meeting will be webcast live and a recording made available on our website after the event.

The Board and M&S's senior management team will be available for shareholders to speak to before the meeting. Robert Swannell and the Chairs of our Committees will be available to answer shareholders' questions during the formal proceedings of the meeting.

The AGM in 2014 was well attended and all of the proposed resolutions were passed, with the percentage of the Company's share capital voted in favour of each ranging from 88.25% to 99.99%.

See **Shareholder information** on p127

REMUNERATION

REMUNERATION OVERVIEW

Our remuneration framework is designed to ensure M&S is run with the **skills and expertise necessary to deliver our long-term priorities**.

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present our Remuneration Report for 2014/15, my first as the Chairman of the Remuneration Committee. Following the new reporting regulations adopted last year, this report is split into two distinct sections. Although we are not required to include the policy report approved by shareholders last year, the Committee has decided to continue to do so in order to maintain full, transparent reporting. For easy reference, we have included a 'summary' of the remuneration policy on pages 54 to 60. Information on the policy since its approval last year is shown on pages 60 and 61.

Our remuneration framework is designed to support and drive our strategy, and ensure our business is run by high-quality leaders with the skills and expertise necessary to deliver our long-term business priorities.

The Committee made good progress against the action plan it set itself last year. As planned, the Committee reviewed and retendered the independent external advisers to the Committee following the appointment of Deloitte as the Company's auditor. After an extensive process, PwC was appointed to advise the Committee.

REMUNERATION REVIEW AND PROPOSED AMENDMENTS

This year, and with PwC's support, we undertook a thorough review of the current executive remuneration framework and targets to ensure they remained aligned with the strategic business priorities and were balanced against the Company-wide remuneration offering. The Committee was particularly keen to ensure that the incentive arrangements remained sufficiently motivating for management to deliver while encouraging the behaviours, values and ethics which underpin Fit for the Future and the way we do business at M&S.

The timing of this review was also linked to our requirement to renew our existing share plans, as outlined last year. The Committee has reviewed the Plan rules and framework, along with changes in market practice and feedback from stakeholders. Overall, the Committee concluded that while the structure of the framework remains appropriate, it is time to refresh some elements within the Performance Share Plan in order to provide an even clearer fit with the business's current strategic priorities, following four years of intensive investment and transformation. The Plan will continue to retain the metrics of EPS and ROCE and their associated weightings of 50% and 20% respectively.

The financial strategic scorecard element will retain targets for International and M&S.com sales as before as we continue to grow these areas of the business, but will now include targets for two key business priorities of GM gross margin growth and the delivery of free cash flow, as set out in the Company's key performance indicators. While these amendments are within the parameters of the remuneration policy approved by shareholders at last year's AGM, we value the views of, and input from, our shareholders and therefore consulted with them on the proposed amendments and associated targets for the 2015/16 awards. As a result, we believe the proposed changes and targets are timely and appropriate and will ensure the awards remain stretching but motivating for the senior management team.

CLAWBACK

In updating the associated plan rules, the Committee has also taken the opportunity to introduce clawback in line with updated UK corporate governance guidance. Clawback provisions will apply to any bonus awards in 2016 and beyond and under any of the Company's executive share schemes from 2015 onwards. Details of this are provided on page 60.

KEY POINTS FOR THE YEAR

Salary review

Executive director salaries were reviewed and discussed by the Committee during the year. The Committee took into account the salary review applicable for the rest of the organisation and directors' individual performance when assessing the appropriateness of any increase. The Committee was also mindful that the executive directors had requested not to receive an increase last year, despite a 2% average pay review for the business. Further, the annual salary review date has been moved from January to July to fit better with the annual performance cycle. In line with previous years, Marc Bolland has again, at his own request, not received an increase. He has not received a salary increase since his appointment in 2010. The highest increase has been awarded to Steve Rowe in recognition of his strong performance over the period. However, while there is some variation in salary increase across the executive directors, the resulting average salary increase awarded to the executive directors as a group is in line with the rest of the organisation and the market median for the same period since the last review. Further details of the directors' salary increases are shown on page 63.

Our new Chief Finance Officer, Helen Weir joined the Board on 1 April, after our year end on 28 March, and was not eligible for this salary review. We provide full details of her recruitment arrangement and future pay on page 73.

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

IN THIS SECTION

Performance-related payments
The Committee also reviewed the performance of both the business and each director against targets set at the beginning of the year for the Annual Bonus Scheme. This year, the business met its corporate Profit Before Tax (PBT) target and a bonus was paid across the organisation.

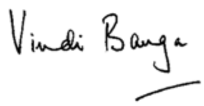
The bonus payments outlined on page 64 reflect both the delivery against corporate or business area targets and the progress made by each director against their specific individual objectives. Underlying Group PBT at £661.2m was above the minimum threshold of £650m at which level payments against financial targets were triggered for directors. Performance against the Company's overall Plan A targets was also taken into consideration by the Committee in determining the resulting outturn for each director. The Committee undertook a rigorous review of the achievement against financial and individual objectives to ensure the level of bonus payment was appropriate and fair given the overall business performance. The highest bonus payment was made to Steve Rowe, Executive Director, Food at c.60% of maximum bonus opportunity reflecting strong performance in the Food business. The other bonus payments range from 18% to around 30% of maximum.

The Performance Share Plan awards granted in 2012 were measured for the three-year period up to 28 March 2015 against challenging Earnings per Share (EPS), Return on Capital Employed (ROCE) and Revenue targets. As a result of performance against these targets, executive directors will receive only 4.7% of the original award when it vests in 2015. This level of vesting reflects delivery against ROCE targets; all other targets were not met. Further details are shown on page 66.

SHAREHOLDER CONSULTATION

We remain committed to reporting openly the details of our executive director pay arrangements. Following constructive shareholder feedback, we are providing further disclosure around our bonus targets this year. We will continue to maintain a dialogue with investors regarding our disclosures to ensure we clearly communicate our arrangements as far as possible without it impacting our commerciality.

Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.



Vindi Banga
Chairman of the Remuneration Committee

REMUNERATION COMMITTEE

The following independent non-executive directors were members of the Committee during 2014/15:

MEMBER	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Vindi Banga (Chairman since 8 July 2014)	1 September 2011	5	5	100
Robert Swannell[1]	1 March 2015	1	1	100
Miranda Curtis	1 February 2012	5	5	100
Jan du Plessis	8 September 2009	4	3	75

Steven Holliday was the Chairman of the Remuneration Committee until his retirement from the Board on 8 July 2014. Although there were no Committee meetings during this time, Steven ensured a smooth handover process and participated in investor consultations.

Andy Halford was a member of the Remuneration Committee from 1 May 2014 to 19 June 2014, attending the maximum possible one meeting during this time.

1. Robert Swannell attended Committee meetings by invitation prior to his appointment to the Committee on 1 March 2015.

REMUNERATION

REMUNERATION POLICY

This report sets out the Company's policy on remuneration for executive and non-executive directors, and was approved by shareholders at the AGM on 8 July 2014. The policy remains unchanged from that disclosed in recent financial years. It took effect from 8 July 2014 and may operate for up to three years.

The Committee has therefore built in a degree of flexibility to ensure the practical application of the policy over this period. Where such discretion is reserved, the extent to which it may be applied is described.

The Company's policy remains to attract, retain and motivate its leaders and ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of M&S, aligned with shareholder interests.

The directors' remuneration policy has been republished on pages 54 to 60 with no alterations, with the exception of the remuneration illustrations which have been updated to accurately reflect the directors' remuneration for 2015/16 (see page 61). In addition, further information regarding the implementation of this policy which does not require shareholder approval is set out on page 60.

EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

Element	Base salary	Benefits
PURPOSE AND LINK TO STRATEGY	To attract, retain and motivate high calibre executives needed to deliver our strategy and drive business performance.	To provide market competitive benefits which drive employee engagement and commitment in our business.
OPERATION	→ Payable in cash. → Reviewed annually by the Committee considering a number of factors, including: – Salary increases awarded to other employees in the wider workforce; and – Comparable salaries in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies etc.). → Salaries reflect the experience, responsibility and contribution of the individual and role within the Group. → Salaries for all employees are typically reviewed annually on a similar basis.	→ Directors are eligible to receive benefits in line with our policies which may include: – A car or cash allowance; – A driver; and – Life assurance. → Where appropriate, our Global/ Domestic Mobility Policy may apply. This may include, but not be limited to travel, relocation and tax equalisation allowances. → All employees, including directors, are also offered a number of other benefits such as employee discount and salary sacrifice schemes such as Cycle2Work. → Directors are able to participate in a Save As You Earn Scheme and/or a Share Incentive Plan and any other all-employee share schemes on the same terms as other employees.
MAXIMUM OPPORTUNITY	→ Whilst there is no set maximum, any increases are normally in line with those in the wider workforce. → Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include: – Where the role scope has changed; – Where comparable salaries in the external market have changed; or – To apply salary progression for newly appointed directors.	→ Whilst there is no set maximum, any benefits will be provided at a rate commensurate with the market. → Maximum participation in all-employee share schemes is in line with local statutory limits.
PERFORMANCE CONDITIONS	N/A	N/A

Pension benefits	Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	Performance Share Plan (PSP)
To attract and retain high calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.	To drive annual profitability, strategic change and individual performance in line with our business plan. To recognise and reward individual contributions to the way we do business. The deferral into shares provides alignment with shareholders' long-term interests following the successful delivery of short-term targets.	Measured against the key financial drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.
→ Directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or receive a cash supplement in lieu of pension contributions into this scheme. → Directors who are members of the Marks & Spencer UK Pension Scheme (a defined benefit arrangement, closed to new entrants) will accrue benefits under that scheme.	→ Directors are eligible to participate in this non-contractual, discretionary Scheme. → Payments are made subject to the satisfaction of predetermined targets set at the start of the year, as approved by the Committee. → Not less than 50% of any bonus earned is paid in deferred shares under the DSBP, with the remainder payable in cash. → Deferred shares vest after a period of three years subject to continued service, but no further performance conditions. → Malus provisions, good leaver and change of control provisions apply to the deferred shares (see page 58). → The value of any dividends during the deferred period will be payable (see the explanatory notes on page 56). → The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate and fair in the context of the director's individual performance and the Company's overall performance. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report. → All employees are eligible to participate in a bonus scheme measured against Group financial/local targets and/or individual performance. For the most senior managers, part of the bonus earned is paid in deferred shares under the DSBP.	→ The Company's principal long-term incentive scheme, first approved by shareholders in 2005. → Directors are eligible to participate in this non-contractual, discretionary Plan. → Directors may receive an annual award which vests after three years subject to predetermined performance conditions. → Malus provisions, good leaver and change of control provisions apply (see page 58). → The value of any dividends during the vesting period will be payable (see the explanatory notes on page 56). → A significant proportion of the most senior managers may be invited to participate in the PSP, on similar terms as the executive directors.
→ A maximum of 25% of salary for executive directors or 30% of salary for the CEO.	→ A maximum annual potential of up to 200% of salary.	→ The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 300% of salary.
N/A	→ Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of our business plan. → Financial performance measures comprise at least 50% of awards and may include, but not be limited to, Underlying Group Profit Before Tax (PBT). → Typically, no payment for individual objectives can be earned unless a 'threshold' level of PBT has been achieved. This threshold level is set by the Committee taking into account the previous year's performance and the business operating plan for the current year. → For threshold performance, up to 40% of maximum bonus potential may be payable for the achievement of individual objectives.	→ Performance is measured over a three-year period against a balanced scorecard of financial measures which currently include Revenue, Earnings Per Share (EPS) and Return on Capital Employed (ROCE) chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy. → The measures are currently weighted towards EPS. → The threshold level of vesting is 20% of the maximum. → For performance between threshold and maximum, awards vest on a straight-line basis.

REMUNERATION POLICY
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 2: POLICY TABLE

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 54 to 55; these may have been awarded upon recruitment or prior to their appointment as an executive director. While awards under these plans do not form part of an executive director's annual remuneration, for transparency, details of the plans are set out in the table below.

Element	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE CONDITIONS
Restricted Share Plan (RSP)	To enable the recruitment of key directors who are necessary to the delivery of business strategy.	→ Restricted awards may be granted for the recruitment of directors. → Awards vest after a restricted period, which can vary by award but is typically between one and three years. → Malus provisions, good leaver and change of control provisions apply (see page 58). → The value of any dividends during the restricted period will be payable (see explanatory notes below).	→ Whilst there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis.	→ The Committee may choose to apply no formal performance conditions save for continued service.
Executive Share Option Scheme (ESOS)	Measured against the key drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.	→ Approved by shareholders and HMRC in 2005, the Committee may choose to award share options to directors if appropriate. → Malus provisions, good leaver and change of control provisions apply (see page 58). → Options are normally exercised between the third and tenth anniversaries of grant, subject to the achievement of any performance conditions set by the Committee.	→ Awards are capped at 250% of salary in respect of any financial year of the Company but in recruitment circumstances awards may be granted up to a higher limit of 400% of salary.	→ Awards vest subject to at least three-year predetermined performance conditions.

EXPLANATORY NOTES

Laura Wade-Gery has unexercised RSP awards which were made in connection with her appointment to compensate her for incentive awards that were forfeited on cessation from her previous employer.

Steve Rowe has unexercised ESOS awards which were made prior to his appointment as executive director.

The Committee reserves the right to make any remuneration payments notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before this policy was in force or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company.

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Awards granted under the PSP, DSBP and RSP can be made in the form of conditional share awards, forfeitable shares, options or rights with the same economic effect. In addition, awards may be settled in cash. Awards may incorporate the right to receive (in cash or shares) the value of dividends, including any dividend tax credit, between grant and vesting on the shares that vest. This amount may be calculated on a cumulative basis, assuming the reinvestment of dividends into shares.

In the event of a variation of the Company's share capital or a demerger, special dividend or other event which in the Committee's opinion may affect the price of shares, the Committee may alter the terms of awards and the number of shares subject to them. The terms of awards may be amended in accordance with the relevant plan rules (which in the case of the PSP and the ESOS were approved by shareholders on 13 July 2005).

Any performance conditions applicable to PSP and ESOS awards may be amended by the Committee if an event occurs which causes it to consider that the performance condition would not achieve its original purpose and the amended performance condition is, in the opinion of the Committee, no less difficult to satisfy but for the event in question.

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

RECRUITMENT POLICY

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

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific circumstances of the individual, subject to the limit on variable remuneration set out below. The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements; these arrangements may be outside of the policy detailed on pages 54 to 55.

FIGURE 3: RECRUITMENT POLICY

Element	RECRUITMENT POLICY
Salary	→ The Committee will take into consideration a number of factors including the current pay for other executive directors, external market forces, skills and current level of pay at the previous employer in determining the pay on recruitment. → For new appointments to the Board, the Committee may set the rate of pay at the lower end of the rate for other directors with the intention of applying staged increases.
Benefits	→ The Committee will offer a package which is set in line with our policy to appropriately reflect the circumstances of the individual.
Pension benefits	→ Maximum contribution in line with our policy for executive directors.
Annual Bonus Scheme	→ Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors.
PSP	→ An award of up to 300% of salary in line with our policy for executive directors.
Buy-out awards	→ Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. → The Committee in its judgement normally intends that any such awards are made on a like-for-like basis and considers issues such as the plan type, time horizons and valuation of the forfeited awards. The Committee's intention would be to ensure that the value awarded will be no greater than the value forfeited by the individual. → Where appropriate, the Committee may choose to apply performance conditions to any of these awards.

SERVICE CONTRACTS

It is the Company's policy that all executive directors have rolling service contracts that can be terminated by the Company giving 12 months' notice and the employee giving six months' notice. The directors' service contracts are available for shareholder inspection at the Company's registered office.

TERMINATION POLICY

The Company may terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 73).

The Company can make a series of phased payments which are paid in monthly instalments and subject to mitigation. This mechanism allows for the amount of any phased payments to be reduced by the income from any alternative position secured by the former director during the phased payments period.

Service agreements may be terminated without notice and without any payments in certain circumstances, such as gross misconduct. The Company may require the individual to work during their notice period, or may choose to place the individual on garden leave. Such a decision would be made to ensure the protection of the Company's and shareholders' interests where the individual has had access to commercially sensitive information.

The table overleaf sets out key provisions for directors leaving the Company under their service contracts and the incentive plan rules.

REMUNERATION POLICY
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 4: KEY PROVISIONS UPON CONTRACT TERMINATION

Element	TERMINATION POLICY
Salary, benefits and pension benefits	Payment will be made up to the termination date in line with relevant contractual notice periods.
Annual Bonus Scheme	There is no contractual entitlement to annual bonus. Should a director be under notice or not in active service at either the relevant year end or on the date of payment, awards (including any outstanding unvested deferred bonus shares) may lapse. The Committee may use its discretion as described below to make a bonus award, which is normally prorated for time and based on performance assessed at the end of the bonus period.
Long-term incentive awards	Where a director ceases to be an officer or employee of the Group before the end of the relevant period, the treatment of outstanding awards is determined in accordance with the plan rules. In some circumstances, where a director leaves due to retirement, injury, ill-health, death or the sale of the director's employing company or business out of the Group, or any other reason at the discretion of the Committee and in accordance with the plan rules, DSBP awards normally vest in full on cessation; PSP and ESOS awards which have been held for at least 12 months normally vest when the level of performance has been assessed and agreed at the end of the three-year performance period. The Committee may determine these awards vest upon cessation as permitted in the plan rules. In either circumstance, any relevant performance conditions would still apply to the PSP and ESOS awards and, unless the Committee determines otherwise, would be time prorated.
Repatriation	Where a director has been recruited to the Company from overseas, the Company may pay for repatriation.
Legal expenses and outplacement	The Company may reimburse for reasonable legal fees in the event a director leaves by mutual consent. It may also pay for professional outplacement services in these circumstances.

The Company's policy toward exit payments allows for a variety of circumstances whereby a director may leave the business. In some cases, where deemed suitable, the Committee reserves the right to determine exit payments, where the director leaves by mutual agreement. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances. The Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

CORPORATE EVENTS

In the event of a change of control or winding-up of the Company, unvested share awards will normally vest on the date that the Board notifies participants of such an event. The number of shares which may vest under awards in these circumstances will be subject to any relevant performance conditions and, in the case of PSP awards, unless the Committee determines otherwise, time prorating.

In the event of a demerger, special dividend or other event which, in the opinion of the Committee affects the price of shares, the Committee may allow some or all of an award to vest.

MALUS PROVISIONS

All share awards granted in 2013 onwards are subject to malus provisions. These provisions allow the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award to reduce the number of shares, cancel an award or impose further conditions on an award in circumstances which the Committee considers such action to be appropriate. Such circumstances may include, but not be limited to, a material misstatement of the Company's audited results.

CONSIDERATION OF WIDER WORKFORCE PAY

The Committee monitors and reviews the effectiveness of the senior remuneration policy and has regard to its impact and compatibility with remuneration policies in the wider workforce.

The Committee is provided throughout the year with information detailing pay in the wider workforce which gives additional context for the Committee to make informed decisions. The Director of Human Resources advises the Committee of the approach which will be adopted with the forthcoming UK pay review and the Committee then considers the executive directors' pay review in line with these arrangements.

The Director of Human Resources consults on all executive director bonus objectives and advises the Committee on how, and the extent to which, these may be cascaded throughout the Company. In approving the budget for the annual bonus, the Committee reviews all bonus costs for the Company against the operating plan. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant.

The Committee also receives updates on a variety of employee engagement initiatives which form part of our normal employee engagement practices. The annual 'Your Say' employee survey asks employees about the fairness and reasonableness of employee pay and benefits. Any comments made through this survey or through our network of elected employee representatives via our Business Involvement Groups are taken into account. The Head of Reward & Global Mobility annually provides these employee representatives with an explanation of the Company's reward principles and director pay arrangements during the year, and is available to answer questions at this time.

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee is committed to an open and transparent dialogue with its shareholders on the issue of executive remuneration. Where appropriate, the Committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to the directors' remuneration policy.

The Committee seeks the views of the largest shareholders when considering making any significant changes to the remuneration policy; this may be done annually or on an ad hoc basis, dependent upon the issue. The Committee annually engages in a process of investor consultation, which is typically in written format, but may be through face-to-face meetings etc., if considered useful. The Committee Chairman is available to answer questions at the Annual General Meeting (AGM) and the answers to specific questions are posted on our website.

As part of our socially responsible reporting strategy, an annual meeting is held and the consideration of views on a variety of topics, including executive pay, is taken into account.

During the year, the Committee consulted with shareholders regarding the minor amendments made to the implementation policy as detailed on page 76.

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

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

FIGURE 5: NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

Element	Chairman's fees	Non-executive director basic fee	Additional fees	Benefits
PURPOSE AND LINK TO STRATEGY	To provide a fair fee at a level that attracts and retains a high-calibre Chairman.	To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.	To provide compensation to non-executive directors taking on additional Board responsibility.	To facilitate the execution of responsibilities and duties required by the role.
OPERATION	→ Paid in equal monthly instalments; may be made in cash and/or shares. → Fees are determined by the Remuneration Committee. → Fees reflect the time commitment, demands and responsibility of the role. → Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, our peer group of FTSE 25-75 companies, etc.	→ Fees are paid in equal monthly instalments and may be made in cash and/or shares. → Fees are determined by the Chairman and executive directors. → The fee level recognises the scope of the role and time commitment required. → Reviewed annually taking into account market practice in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies, etc.). → The maximum aggregate fees for non-executive directors, including the Chairman, is £750,000 p.a., as set out in the Company's Articles of Association.	→ Additional fees are paid for extra responsibilities undertaken by non-executive directors for the role of Board Chairman, a Committee Chairman or the Senior Independent Director role.	→ In addition to the annual fee, the Chairman is entitled to the use of a car and driver. → In line with other employees, the Chairman and non-executive directors receive employee product discount. No other benefits are provided. → The Chairman and non-executive directors do not participate in pension or performance-related schemes.

REMUNERATION POLICY
CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 6: RECRUITMENT POLICY

The table opposite sets out the recruitment policy for non-executive directors.

Element	RECRUITMENT POLICY
Fees	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. This consideration includes the time commitment and responsibility of the individual role and market practice in appropriate comparator groups.
Benefits	The Company may offer benefits to the Chairman set in line with our policy as detailed on page 59.

AGREEMENTS FOR SERVICE

All non-executive directors, including the Chairman, have an agreement for service for an initial three-year term; these are available for shareholder inspection at the Company's registered office. The Chairman has an agreement for service which requires six months' notice by either party. Non-executive directors' service agreements may be terminated by either party giving three months' notice. In line with the UK Corporate Governance Code, all non-executive directors are subject to annual re-election by shareholders at our AGM.

INFORMATION ON REMUNERATION POLICY SINCE APPROVAL

Since the approval of the remuneration policy at the AGM held on 8 July 2014, a number of changes concerning the implementation of the approved policy have been made. These amendments do not require prior shareholder approval and do not change the current approved remuneration policy.

PERFORMANCE SHARE PLAN/ EXECUTIVE SHARE OPTION SCHEME

The Company's Performance Share Plan (PSP) and Executive Share Option Scheme (ESOS) were first approved by shareholders in 2005. As such, they are due to expire in 2015 and will be updated with replacement plans if approved by shareholders at the 2015 AGM. The terms of the proposed new plans are principally in line with those of the 2005 Plans and are fully in line with the policy approved by shareholders at the 2014 AGM. Further details of the proposed replacement plans are set out in the Notice of Meeting and on page 67.

CLAWBACK PROVISIONS

M&S is committed to ensuring its remuneration arrangements motivate participants to strive for exceptional performance whilst also protecting shareholder value from the Company taking unnecessary risks. In line with updated guidance in the UK Corporate Governance Code, clawback provisions will be introduced as part of the replacement share scheme rules at the 2015 AGM. Upon introduction, these clawback provisions will apply to payments made under the 2015/16 Annual Bonus Scheme and any future bonus schemes operated by M&S. Awards made under any of the Company's other executive share schemes (including the Performance Share Plan) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur.

The specified events include gross misconduct or where a material misstatement of the Company's financial statements has occurred. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash, or reduction of awards.

All outstanding share awards made since 2013 will continue to be subject to the malus provisions which were introduced at that time and as reported on page 58 of this report. These malus provisions will be renewed as part of the replacement share plan rules.

UNVESTED AWARDS UNDER RESTRICTED SHARE PLAN AND EXECUTIVE SHARE OPTION SCHEME

As shown on page 56, Laura Wade-Gery and Steve Rowe had unexercised Restricted Share Plan and Executive Share Option Scheme awards respectively, when the remuneration policy was first implemented. In both instances, these outstanding awards have now been exercised during the year.

INFORMATION ON REMUNERATION POLICY SINCE APPROVAL CONTINUED

APPLICATION OF THE REMUNERATION POLICY

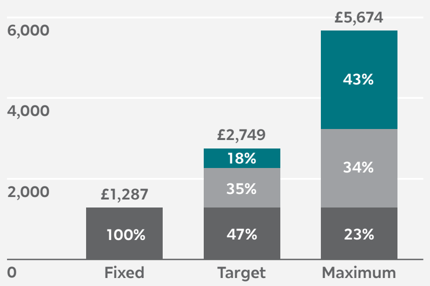
The charts below provide an illustration of what could be received by each of the executive directors in 2015/16.

These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2015/16 (for the cash element of the bonus scheme) and in the three-year period to 2017/18 (for the PSP), as well as share price performance to the date of the vesting of the share element of the bonus scheme and PSP awards in 2018.

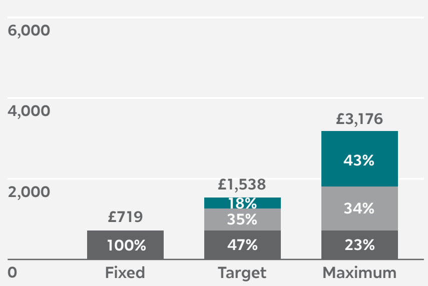
FIGURE 7: REMUNERATION ILLUSTRATIONS

DIRECTOR

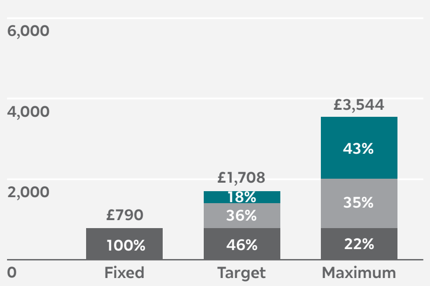
Marc Bolland
£000



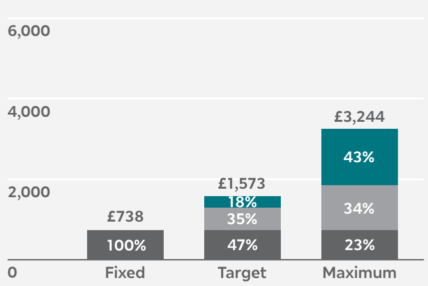
Patrick Bousquet-Chavanne
£000



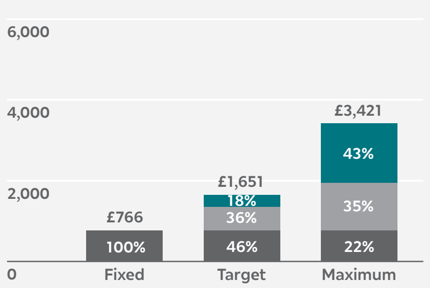
John Dixon
£000



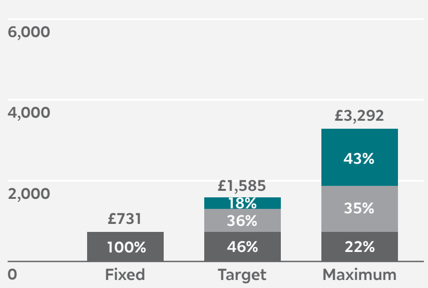
Steve Rowe
£000



Helen Weir
£000



Laura Wade-Gery
£000



KEY | **ASSUMPTIONS**

Fixed remuneration
Includes all elements of fixed remuneration:

- Base salary (effective 1 July 2015, as shown in the table on page 63);
- Pension benefits (using the salary supplement policy on pages 54 to 55); and
- Benefits (using the value for 2014/15 included in the single figure table on page 62. For Helen Weir, the average value of benefits of the other executive directors has been used for the purpose of this calculation.

Annual Bonus Scheme (ABS)
Represents the potential value of the annual bonus for 2015/16. Half of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.

PSP
PSP represents the potential value of the PSP to be awarded in 2015, which would vest in 2018 subject to the performance against the targets disclosed on page 67. No share price growth is assumed.

BASIS OF CALCULATIONS

Fixed Fixed remuneration only. No vesting under the Annual Bonus Scheme and PSP.

Target Includes the following assumptions for the vesting of the incentive components of the package:
- Annual Bonus Scheme: 50% of maximum; and
- PSP: 20% of maximum.

Maximum Includes the following assumptions for the vesting of the incentive components of the package:
- Annual Bonus Scheme: 100% of maximum; and
- PSP: 100% of maximum.

REMUNERATION

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain strongly challenging in the context of the business strategy, current external guidelines and a range of internal factors including the remuneration policy and pay arrangements throughout the rest of the organisation. The table below shows the performance measures used in the 2014/15 incentive schemes and how these align with the key performance indicators detailed on pages 14-15. As shown, there is a strong linkage between the key performance indicators which are integrated in the directors' incentive schemes. This ensures that directors are clearly aligned and motivated to deliver the strategy.

Looking ahead, for 2015/16, the executive directors' incentive arrangements will include objectives against free cash flow, GM UK LFL sales, GM gross margin, M&S.com sales growth and International sales and operating profit. Further details are set out on pages 65 and 67.

FIGURE 8: STRATEGIC ALIGNMENT OF PAY

See KPIs on p14-15

FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Grow group revenue	Group revenue	PSP
Increase earnings & returns	Underlying Group PBT	Annual Bonus Scheme
	ROCE	PSP
	EPS	PSP

NON-FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Improving product sustainability	Products with Plan A qualities	Annual Bonus Scheme

STRATEGIC OBJECTIVES	KPI	INCENTIVE SCHEME
Driving growth	International and M&S.com revenue	PSP
Improve profitability	International operating profit and GM/Food gross margin	Annual Bonus Scheme

FIGURE 9: TOTAL SINGLE FIGURE REMUNERATION (audited)

See Policy table on p54-55

	Year	Salary £000	Benefits[3] £000	Total Bonus[4] £000	Total PSP vested[5] £000	Pension benefits[6] £000	Total £000
Marc Bolland	2014/15	975	19	596	193	293	**2,076**
	2013/14	975	41	0	259	293	1,568
Patrick Bousquet-Chavanne[1]	2014/15	525	36	222	59	131	**973**
	2013/14	380	29	0	–	95	504
John Dixon	2014/15	600	25	217	111	150	**1,103**
	2013/14	600	46	0	143	150	939
Steve Rowe	2014/15	525	42	653	60	131	**1,411**
	2013/14	525	53	0	77	131	786
Alan Stewart[2]	2014/15	162	6	0	0	40	**208**
	2013/14	579	34	0	146	145	904
Laura Wade-Gery	2014/15	552	21	219	107	138	**1,037**
	2013/14	552	26	0	167	138	883

1. The amounts shown for 2013/14 reflect that Patrick Bousquet-Chavanne joined the Board on 10 July 2013.
2. The amounts shown for 2014/15 reflect that Alan Stewart resigned from the Board on 10 July 2014.
3. Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director and as described on page 63.
4. Half of any award will be deferred into Company shares for a period of three years. Further details of the 2014/15 Annual Bonus Scheme are shown on pages 64 and 65.
5. The value of awards vesting in 2013/14 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting. The value of awards vesting in 2014/15 has been estimated based on the three-month average share price from 2 January 2015 – 27 March 2015 as these awards do not vest until after the end of the financial year. This value also includes the anticipated value of dividend equivalents which will be payable in July 2015 (and January 2016 for Patrick Bousquet-Chavanne). These estimated figures will be restated in next year's report.
6. Pension benefits comprise the value of cash provided in lieu of participation in the Your M&S Pension Saving Plan.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

The following sections set out additional disclosure regarding each of the components set out in the previous 'single figure' table.

SALARY (audited)

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 and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

No increases were awarded during the year. The Committee also moved the annual pay review date from January to July to better align pay to year end performance and hence these changes are being made after 18 months.

With effect from 1 July 2015, the following salary increases will be made to the executive directors, except for Marc Bolland.

Marc Bolland has, at his own request, not received a salary increase since his appointment in 2010. He has again proposed not to receive any increase in July 2015. The agreed increases take account of the significant performance of Steve Rowe in ensuring the continued success of the Food business and Patrick Bousquet-Chavanne's excellent progress with marketing and embedding the new global M&S brand. Neither director has received a salary increase since their respective appointments to the Board; these increases reflect both this fact in addition to their significant contributions to the increased performance of M&S.

The average increase made to the executive directors is 3.0% (excluding Helen Weir) which is in line with the average increase awarded to the wider UK workforce over the same 18-month period.

The table below details the executive directors' salaries as at 28 March 2015 and those which will take effect from 1 July 2015.

FIGURE 10: EXECUTIVE DIRECTORS' SALARIES

	Current annual salary £000	Annual salary as of 1st July 2015 £000	Change in salary % increase
Marc Bolland	975	975	0
Patrick Bousquet-Chavanne	525	546	4
John Dixon	600	612	2
Steve Rowe	525	557	6
Laura Wade-Gery	552	569	3
Helen Weir[1]	590	590	–

1. Helen Weir's current annual salary is from her date of appointment on 1 April 2015.

BENEFITS (audited)

Each executive director receives a car or cash allowance and is offered the benefit of a driver. The Company also provides each director with life assurance. Executive directors receive employee product discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work in line with all other employees.

PENSION BENEFITS (audited)

With the exception of the Chief Executive Officer (CEO), executive directors receive a 25% salary supplement in lieu of membership of the Your M&S Pension Saving Plan. The CEO receives a supplement of 30% of salary.

John Dixon and Steve Rowe are deferred members of the Marks & Spencer UK Pension Scheme. Details of the pension accrued by them during the year ended 28 March 2015 are shown below.

FIGURE 11: PENSION BENEFITS

	Normal retirement age	Accrued pension entitlement as at year end[1] £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
John Dixon	60	138	0	1	0	3,204
Steve Rowe	60	147	0	2	0	3,442

1. The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if they left the Company on 28 March 2015. The Listing Rules require this to be disclosed excluding inflation.
All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer values of the accrued entitlement represent the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits. They do not represent sums payable to the director and therefore cannot be added meaningfully to annual remuneration.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME FOR 2014/15 (audited)

For 2014/15, directors had the opportunity to earn an award of up to 200% of salary, with half of any award being payable in deferred shares. Performance measures used to determine the entitlement to any payment were set against challenging profitability targets and individual objectives. Profitability targets formed 60% of any bonus award with the remaining 40% payable for the achievement of stretching measures relevant to each director's individual business accountabilities. For those executive directors with business unit responsibility, profitability measures were equally split between Group PBT and profit measures for their business unit. As a result of his additional International responsibilities, from July 2014, Patrick Bousquet-Chavanne's corporate element was calibrated to include International operating profit from this time. For Marc Bolland, profitability was wholly measured against Group achievement. Each director also had three individual objectives, together accounting for 40% of the total bonus. These objectives were set against their key areas of focus and accountability which reflect the primary drivers of short and medium-term strategic success of the Company. See **Figure 12.**

Plan A (our environmental and ethical plan) is an integral driver of the way we do business; success against Plan A targets underpinned the entire 2014/15 bonus scheme. The Committee assessed performance for each executive director against all corporate and individual measures. The Committee was also satisfied that each director continued to ensure that Plan A remained a major focus of the ways of working at M&S and that the subsequent performance supported this.

See **Plan A Report** for more detail.

M&S is committed to transparent remuneration reporting within the context of operating in a highly competitive market. As disclosed in the 2013/14 Report, and following feedback from shareholders after the publication of last year's report, the Committee has reviewed its disclosure regarding annual bonus targets. The Committee will continue to assess the extent to which specific targets are commercially sensitive, determining to disclose wherever possible.

Figure 13 below illustrates each director's achievement against corporate profitability and individual targets for the 2014/15 Scheme. As described in last year's report, in order to ensure the affordability of the Scheme, no bonus payment may be made without first achieving a threshold level of PBT. Underlying PBT outturn for the financial year was £661.2m which was above the target set to trigger payments under both elements of the Scheme. As a result of performance, directors' payments were between 18% and 62% of maximum bonus opportunity. Business unit profitability targets, not being disclosed elsewhere in the Annual Report, are deemed too commercially sensitive to disclose. An indication of achievement against the respective targets is shown instead in Figure 13 below.

FIGURE 12: EXAMPLES OF INDIVIDUAL OBJECTIVES 2014/15

Marc Bolland	Organisational development	M&S.com performance
Patrick Bousquet-Chavanne	New platform publishing house	International Lingerie & Beauty stores
John Dixon	GM sales	GM gross margin
Steve Rowe	Food sales	Food proposition development
Laura Wade-Gery	M&S.com market share	New distribution centre service delivery

FIGURE 13: ANNUAL BONUS SCHEME 2014/15

	PROFITABILITY TARGETS								INDIVIDUAL OBJECTIVES			TOTAL PAYMENT	
	GROUP PBT					BUSINESS UNIT PROFIT							
	Target & performance			Achievement		Performance	Achievement		Performance	Achievement			
DIRECTOR	Min	Max	Actual	% bonus	% salary		% bonus	% salary		% bonus	% salary	% salary	£000
Marc Bolland	£650m	£732m	**£661m**	12.4%	24.8%	–	–	–	Threshold > Target	18.2%	36.3%	**61.1%**	**596**
Patrick Bousquet-Chavanne	£650m	£732m	**£661m**	7.7%	15.4%	Below Threshold	0.0%	0.0%	Threshold > Target	13.4%	26.9%	**42.3%**	**222**
John Dixon	£650m	£732m	**£661m**	6.2%	12.4%	Threshold > Target	1.9%	3.8%	Threshold > Target	10.0%	20.0%	**36.2%**	**217**
Steve Rowe	£650m	£732m	**£661m**	6.2%	12.4%	Stretch or above	30.0%	60.0%	Target > Stretch	26.0%	52.0%	**124.4%**	**653**
Laura Wade-Gery	£650m	£732m	**£661m**	6.2%	12.4%	Below Threshold	0.0%	0.0%	Threshold > Target	13.6%	27.3%	**39.7%**	**219**

Plan A underpin targeted objectives

Performance assessment key ⊗ Below Threshold ⊜ Threshold > Target ✓ Target > Stretch ⊕ Stretch or above

ANNUAL BONUS SCHEME FOR 2015/16

The Annual Bonus Scheme has been structured to drive profitability and individual performance with performance being measured against Underlying Group Profit Before Tax (PBT), business area profit and individual objectives. During the year the Remuneration Committee undertook a thorough review of the bonus scheme. It concluded that a similar approach would continue to remain appropriate with only minor changes to the 2015/16 Scheme being required to ensure that the Scheme continues to drive behaviours and performance needed in line with the priorities for the future success of the business.

Maximum bonus opportunity will remain unchanged at 200% of salary. Up to 60% of an award is payable for achieving stretching one-year corporate financial targets and up to 40% of an award is measured against individual performance.

The achievement of profitability targets remains essential to M&S's success and so 30% of any bonus award will be dependent upon achievement of Group PBT targets. The remaining 30% of the corporate element of the Scheme will be set against free cash flow targets for the CEO and CFO and against business unit profitability targets for the remaining executive directors. Changes made to the Scheme for 2015/16 provide for even greater alignment between the remuneration framework and the wider strategic priorities of M&S. The inclusion of free cash flow for the CEO and CFO recognises the increased importance of cash generation in the business post the period of heavy transformative capital investment.

Individual performance will continue to be measured independently of any financial targets. Individual objectives will be based on three strategic priorities specific to each director's business area. These measures are set against quantifiable targets which the Committee deems to be important in the delivery of short and medium-term goals which will also provide a robust foundation for the long-term sustainable success of the business. In setting the individual objectives for the forthcoming year, the Committee has been mindful of ensuring an overarching balance with financial targets as well as customer and employee-focused metrics.

No individual objective element of the bonus can be earned unless a 'threshold' level of PBT has been achieved, subject to the Committee's overall assessment of the Company's performance during the period. This maintains the important principle that below a defined level of financial performance, no bonus will be earned.

The table below shows further details of the structure of this Scheme and provides examples of the individual objectives which each director will be measured against.

As with last year's Scheme, the Committee will judge overall performance against our ecological, ethical and behavioural achievements to ensure consistency with M&S's values. Success towards Plan A targets and the M&S values which all employees, including executive directors, are required to uphold will underpin the entire Scheme. Achievement against these will be assessed by the Committee at the end of the financial year. The Committee, in its absolute discretion may use its judgement to adjust overall payments accordingly. See **Figure 14.**

DEFERRED SHARE BONUS PLAN (audited)

Currently 50% of any bonus award is compulsorily deferred into nil-cost options/conditional shares. These deferred awards vest after three years subject to continued employment as well as malus and, for awards made from 2015/16 onwards, clawback provisions. As no bonus was payable last year, no deferred shares were awarded during 2014/15.

FIGURE 14: ANNUAL BONUS SCHEME TARGETS 2015/16

	PROFITABILITY TARGETS			INDIVIDUAL OBJECTIVES		
	GROUP PBT	FREE CASH FLOW[1]	BUSINESS UNIT PROFIT			
DIRECTOR	% bonus	% bonus	% bonus	% bonus	Examples of measures	
Marc Bolland	30%	30%	–	40%	GM gross margin	People
Patrick Bousquet-Chavanne	30%	–	30%	40%	Customer engagement strategy	International LFL sales
John Dixon	30%	–	30%	40%	GM UK LFL sales	GM4 programme
Steve Rowe	30%	–	30%	40%	Food UK sales	Quality and innovation of Food proposition
Laura Wade-Gery	30%	–	30%	40%	New distribution centre stability	Customer journey
Helen Weir	30%	30%	–	40%	Operating costs	End-to-end supply chain

Plan A and cultural values underpin

1. Pre dividend and post returns.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

PERFORMANCE SHARE PLAN

The Performance Share Plan (PSP) is the primary long-term incentive for executive directors and senior managers.

The Committee believes that long-term share awards help retain and reward executives for the delivery of long-term business goals.

Following the remuneration review undertaken during the year, the Committee determined that the current Plan supports the delivery of the long-term business strategy. Minor amendments to the performance measures and targets however were felt necessary to better align with the delivery of the operating plan.

These amendments will apply for awards made in 2015/16.

As the current Plan was approved by shareholders ten years ago, approval for a replacement Plan is being sought at the 2015 AGM. The key rules of the Plan are set out in the separate Notice of Meeting with further details provided on page 67 of this report. Proposed changes under the replacement PSP are in line with the remuneration policy approved by shareholders on 8 July 2014 with the addition of clawback provisions as outlined on page 60, the introduction of which does not require a change to the remuneration policy.

PSP AWARDS MADE IN 2014/15 (audited)

In June 2014, executive directors were awarded nil-cost options/conditional shares of 250% of salary. These awards vest subject to performance measured against EPS, ROCE and Revenue, each measured independently. Performance is measured over the three-year period to the end of the 2016/17 financial year. To the extent to which performance is met, awards will vest on 23 June 2017. Further details of PSP awards made in 2014/15 are detailed below.

See **Figure 15.**

FIGURE 15: PSP AWARDS MADE IN 2014/15

	Basis of award	Face value of award[1] £000	End of performance period[2]
Marc Bolland	250% of salary	2,437	01/04/2017
Patrick Bousquet-Chavanne	250% of salary	1,312	01/04/2017
John Dixon	250% of salary	1,500	01/04/2017
Steve Rowe	250% of salary	1,312	01/04/2017
Laura Wade-Gery	250% of salary	1,380	01/04/2017

1. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as being £4.37, being the average share price between 16 June 2014 and 20 June 2014. Further details of these awards are shown in the table on pages 70 and 71.
2. For threshold performance, 20% of the shares awarded will vest.

FIGURE 16: PSP AWARDS VESTING IN 2014/15 (audited)

For directors in receipt of PSP awards granted in 2012, the awards will vest on 1 June 2015, (5 December 2015 for Patrick Bousquet-Chavanne) based on three-year performance over the period to 28 March 2015. Performance has been assessed and it has been determined that 4.7% of the award will vest.

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

	Performance target					
			Revenue (£ 2014/15)			
	Cumulative EPS[2]	ROCE (%)	UK[3]	Multi-channel[4]	International[5]	
	50% of award	20% of award	10% of award	10% of award	10% of award	**Total vesting[6]**
Threshold performance targets[1]	110p	15.0%	£8,900m	£800m	£1,300m	
Maximum performance targets[1]	130p	18.5%	£9,600m	£1,000m	£1,700m	
Actual performance achieved	99.7p	15.2%	£8,470m	£776m	£1,065m	
Percentage of maximum achieved	0.0%	4.7%	0.0%	0.0%	0.0%	**4.7%**

1. 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.
2. Actual performance achieved has been re-stated to Pre-IAS 19 values, to allow a like-for-like measurement against targets.
3. Excluding Multi-channel.
4. Net of VAT/gross of returns.
5. Excluding Multi-channel/including Republic of Ireland.
6. Details of the number of shares awarded to each director in 2012 are shown in the table on pages 70 and 71. As described above, 4.7% of these awards will vest. The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 62.

PERFORMANCE SHARE PLAN CONTINUED

PSP AWARDS TO BE MADE IN 2015/16

Subject to shareholder approval of the replacement Plan at the forthcoming AGM, awards of nil-cost options/conditional shares will be made in July 2015.

As described earlier, following a thorough review of the directors' remuneration arrangements during the year, the Committee concluded that no significant changes to the current Plan were required. Awards will continue to be assessed against a number of measures and the maximum value of awards at the time of grant will remain at 300% of salary.

The Committee will continue to reference awards at 250% of salary and it is intended that executive directors will receive awards in 2015/16 of 250% of salary.

Performance measures have historically been set as those which appropriately reflect the key drivers of the strategic plan which takes into account shareholder value as well as bottom-line and top-line growth.

During its review, the Committee determined that EPS and ROCE performance measures continue to appropriately reflect the key drivers of shareholder value for M&S and as such no changes to the measures and weightings have been proposed; 70% of awards made in 2015/16 will continue to be measured against stretching EPS and ROCE targets.

The remaining 30% of awards will be set against a financial strategic scorecard of measures designed to drive growth in key areas for the business. Measurement of performance against International and M&S.com sales will be retained as before, as M&S continues to grow these areas of the business. This focus will continue to support the delivery of the strategy to be a leading international, multi-channel retailer. Sales growth targets for awards to be made in 2015/16 have been calibrated to be as challenging as the equivalent revenue targets for 2014/15.

During the review process, the Committee determined that the inclusion of two additional, equally weighted performance measures would further enhance the alignment between the PSP and the business's current strategic priorities. As such, three-year cumulative free cash flow and UK GM gross margin targets are being introduced in the 2015/16 Plan. These measures reflect the increased importance of cash generation and the desire to return cash to shareholders in addition to the absolute importance of long-term improvements in GM for the sustainable success of the Company. The four targets of International and M&S.com sales, UK GM gross margin and three-year cumulative free cash flow are consistent with the top four strategic priorities communicated to shareholders for the coming year.

As with all other PSP measures, targets for cash flow and gross margin have been set such that they are stretching yet achievable for the delivery of consistent, ambitious long-term performance.

Measures and targets for the 2015/16 PSP awards are disclosed in the table below. At this time, targets relating to UK GM gross margin are deemed by the Board to be too commercially sensitive to disclose. All targets, including GM gross margin will be fully retrospectively disclosed in the report relating to the end of the relevant three-year performance period.

At the end of the performance period, Committee judgement will be applied in determining overall vesting on the four measures comprising the strategic financial scorecard element of the PSP. The Committee, in using its judgement, will take into account the extent of outperformance or underperformance of the targets, their relative importance in the circumstances, and any other matters it sees fit.

FIGURE 17: PERFORMANCE TARGETS 2015/16

				Financial strategic scorecard			
	% vesting[1]	Annualised EPS growth (%)	ROCE (%)	International sales growth[2] (%)	M&S.com sales growth[3] (%)	UK GM gross margin	Cumulative free cash flow[4]
	% of award	50% of award	20% of award	7.5% of award	7.5% of award	7.5% of award	7.5% of award
Threshold performance	20%	5.0%	15.0%	5.0%	11.0%	–	£1,350m
Maximum performance	100%	12.0%	16.5%	15.0%	18.0%	–	£1,650m

1. Vesting is a straight line between 'threshold' and 'maximum' performance.
2. Excluding M&S.com/including Republic of Ireland.
3. Net of VAT and post store returns.
4. Pre dividends and returns.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 18: PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS (audited)

The details of outstanding PSP awards are set out in the table on pages 70 and 71.

These awards vest subject to the extent that the following three-year performance conditions are met.

		Performance target				
				Revenue (£)[5]		
	% vesting[1]	Annualised EPS growth (%)	ROCE (%)	UK[2]	Multi-channel[3]	International[4]
	% of award	50% of award	20% of award	10% of award	10% of award	10% of award
2013/14 Award						
Threshold performance	20%	5.0%	15.0%	£8,900m	£900m	£1,400m
Maximum performance	100%	12.0%	18.5%	£9,600m	£1,100m	£1,800m
2014/15 Award						
Threshold performance	20%	5.0%	15.0%	£8,900m	£1,100m	£1,400m
Maximum performance	100%	12.0%	16.5%	£9,600m	£1,300m	£1,800m

1. Vesting is a straight line between 'threshold' and 'maximum' performance.
2. Excluding Multi-channel.
3. Net of VAT/gross of returns.
4. Excluding Multi-channel/including Republic of Ireland.
5. Measured at the end of the 2015/16 for 2013/14 award and at the end of 2016/17 for 2014/15 award.

SHARESAVE (Save As You Earn) (audited)

As outlined in the remuneration policy on pages 54 to 55, executive directors may participate in ShareSave, the Company's Save As You Earn scheme, on the same basis as all other eligible employees. Marc Bolland, Patrick Bousquet-Chavanne, John Dixon and Steve Rowe all participate in existing schemes, saving the maximum of £250 per month. Further details of the Scheme are set out in note 13 to the financial statements on pages 108 to 109.

FIGURE 19: DIRECTORS' SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 28 March 2015 or date of retirement by each executive director serving on the Board during the year.

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 19 May 2015. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

		Unvested			
		With performance conditions	Without performance conditions		
	Shares owned outright[2]	Performance Share Plan	Deferred Share Bonus Plan	Restricted Share Plan	Vested but unexercised[3]
Marc Bolland	611,436	1,865,329	196,790	0	0
Patrick Bousquet-Chavanne	2,000	747,499	26,195	174,258	0
John Dixon	328,196	1,118,672	124,704	0	0
Steve Rowe	165,447	833,598	83,210	0	0
Alan Stewart[1]	51,622	29,461	0	0	39,789
Laura Wade-Gery	172,955	1,047,603	91,126	0	0

1. Shareholding at 10 July 2014, the date Alan Stewart resigned from the Board. Please refer to footnote 3 on page 71 for further information on Alan Stewart's shareholdings.
2. Includes shares held by connected persons.
3. Comprises all unexercised awards under these Plans.

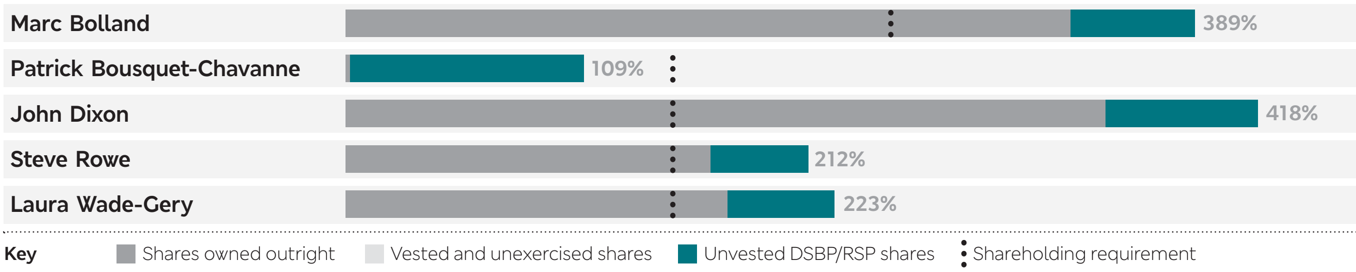
EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

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 date of appointment. Shareholding targets were increased last year to 250% of salary for the CEO and 150% of salary for other executive directors. Similar guidelines of 100% of salary also apply to directors below Board level.

The chart below shows the extent to which each director has met their target shareholding as at 28 March 2015.

For the purposes of the requirements, the net number of unvested shares awards not subject to performance conditions is included and is reflected in the chart below. The Committee is satisfied that the current level of shareholding requirements is sufficiently robust, providing an appropriate level of investment in M&S for each director. The Committee will continue to keep this issue under review and will amend accordingly if necessary.



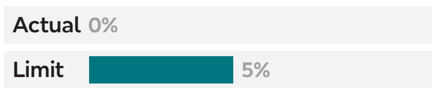
SHARE CAPITAL & DILUTION

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 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 28 March 2015 was as follows:

FIGURE 21: ALL SHARE PLANS

FIGURE 22: EXECUTIVE SHARE PLANS



REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited)

	Date of grant	Maximum receivable at 30 March 2014 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 28 March 2015 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Marc Bolland										
Performance Share Plan[1]	25/07/11	687,200	–	52,227	634,973	–	0.0	354.7	469.9	–
	18/06/12	749,769	–	–	–	749,769	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	557,780	–	–	–	557,780	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	–	557,780	–	–	557,780	0.0	437.0	–	23/06/17 – 22/06/24
Deferred Share Bonus Plan	09/06/11	162,263	–	162,263	–	–	0.0	378.4	469.9	–
	18/06/12	101,968	–	–	–	101,968	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	94,822	–	–	–	94,822	0.0	437.0	–	24/06/16 – 23/06/23
SAYE	25/11/10	2,821	–	2,821	–	–	319.0	397.6	439.5	–
	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		**2,358,845**	**557,780**	**217,311**	**634,973**	**2,064,341**				
Patrick Bousquet-Chavanne[2]										
Performance Share Plan[1]	05/12/12	230,735	–	–	–	230,735		389.4	–	05/12/15
	24/06/13	216,421	–	–	–	216,421		437.0	–	24/06/16
	23/06/14	–	300,343	–	–	300,343	–	437.0	–	24/06/17
Deferred Share Bonus Plan	24/06/13	26,195	–	–	–	26,195		437.0	–	24/06/16
Restricted Share Plan	13/09/12	174,258	–	–	–	174,258		368.0	–	13/09/15
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		**649,831**	**300,343**	**–**	**–**	**950,174**				
John Dixon										
Performance Share Plan[1]	25/07/11	380,603	–	28,925	351,678	–	0.0	354.7	438.5	–
	18/06/12	432,174	–	–	–	432,174	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	343,249	–	–	–	343,249	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	–	343,249	–	–	343,249	0.0	437.0	–	23/06/17 – 22/06/24
Deferred Share Bonus Plan	09/06/11	98,039	–	98,039	–	–	0.0	378.4	438.5	–
	18/06/12	62,233	–	–	–	62,233	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	62,471	–	–	–	62,471	0.0	437.0	–	24/06/16 – 23/06/23
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		**1,380,991**	**343,249**	**126,964**	**351,678**	**1,245,598**				

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

	Date of grant	Maximum receivable at 30 March 2014 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 28 March 2015 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Steve Rowe										
Performance Share Plan[1]	25/07/11	205,243	–	15,598	189,645	–	0.0	354.7	424.4	–
	18/06/12	232,912	–	–	–	232,912	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	300,343	–	–	–	300,343	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	–	300,343	–	–	300,343	0.0	437.0	–	23/06/17 – 22/06/24
Deferred Share Bonus Plan	09/06/11	41,844	–	41,844	–	–	0.0	378.4	453.2	–
	18/06/12	32,753	–	–	–	32,753	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	50,457	–	–	–	50,457	0.0	437.0	–	24/06/16 – 23/06/23
Executive Share Option Scheme	20/07/04	31,699	–	31,699	–	–	347.0	347.0	453.2	–
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		**897,473**	**300,343**	**89,141**	**189,645**	**919,030**				
Alan Stewart[3]										
Performance Share Plan[1]	25/07/11	387,651	–	–	358,190	29,461	0.0	354.7	–	25/07/14 – 22/09/14
	18/06/12	436,019	–	–	436,019	–	0.0	325.1	–	–
	24/06/13	331,235	–	–	331,235	–	0.0	437.0	–	–
	23/06/14	–	331,235	–	331,235	–	-	437.0	–	–
Deferred Share Bonus Plan	09/06/11	39,789	–	–	–	39,789	0.0	378.4	–	09/06/14 – 22/09/14
	18/06/12	53,194	–	–	53,194	–	0.0	325.1	–	–
	24/06/13	56,310	–	–	56,310	–	0.0	437.0	–	–
SAYE	24/11/11	3,488	–	–	3,488	–	258.0	322.4	–	–
Total		**1,307,686**	**331,235**	**–**	**1,569,671**	**69,250**				
Laura Wade-Gery[4]										
Performance Share Plan[1]	25/07/11	444,037	–	33,746	410,291	–	0.0	354.7	471.0	–
	18/06/12	416,025	–	–	–	416,025	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	315,789	–	–	–	315,789	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	–	315,789	–	–	315,789	0.0	437.0	–	23/06/17 – 22/06/24
Deferred Share Bonus Plan	18/06/12	37,442	–	–	–	37,442	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	53,684	–	–	–	53,684	0.0	437.0	–	24/06/16 – 23/06/23
Restricted Share Plan[4]	25/07/11	126,225	–	126,225	–	–	0.0	354.7	471.0	–
	25/07/11	77,677	–	77,677	–	–	0.0	354.7	471.0	–
Total		**1,470,879**	**315,789**	**237,648**	**410,291**	**1,138,729**				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2011 award vested in July 2014 at 7.6%. 4.7% of the 2012 award will vest in June 2015 (December 2015 for Patrick Bousquet-Chavanne) as set out on page 66.
2. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.
3. Alan Stewart resigned from the Board on 10 July 2014 and left the Company on 22 September 2014. Details of his leaving arrangements are set out on page 73. Awards made in 2012, 2013 and 2014 and his SAYE award all lapsed on leaving the Company. For transparency, these are shown in the 'lapsed during the year' column. PSP and DSBP awards made in 2011 vested and were exercisable until he left the Company. These were exercised after he resigned from the Board (but before he left the Company) and so do not appear in the 'exercised during the year' column.
4. Laura Wade-Gery's RSP award was made in connection to her appointment to executive director to compensate her for incentive awards that were forfeited on cessation from her previous employer.

The aggregate gains of directors arising in the year from the exercise of options granted under the PSP, DSBP, RSP, ESOS and SAYE totalled £2,976,739.

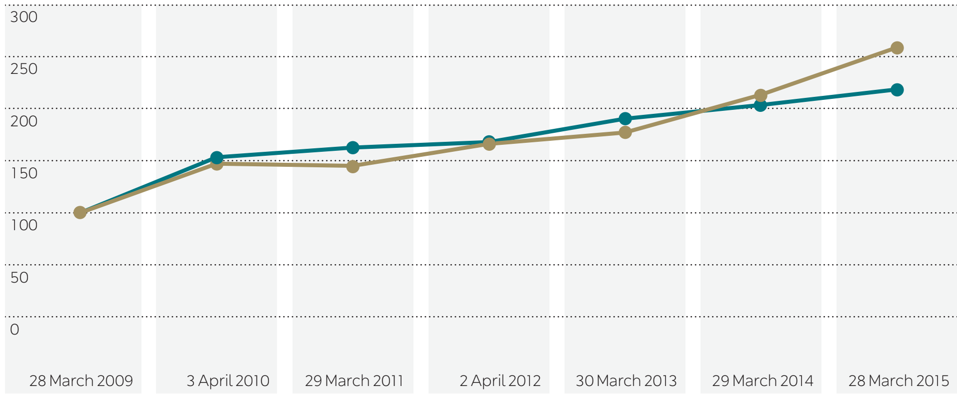
The market price of the shares at the end of the financial year was 530.0p; the highest and lowest share price during the financial year were 542.0p and 383.9p respectively.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 24: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past six 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. As required by the new regulations, the table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last six financial years.



Marks and Spencer Group plc
FTSE 100 Index
Source: Thomson Reuters

	CEO[1]	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
CEO single figure of remuneration (£000)	Marc Bolland	–	5,998	3,324	2,142	1,568	2,076
	Stuart Rose	4,294	269	–	–	–	–
Annual bonus payment (% of maximum)	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%	30.55%
	Stuart Rose	97.00%	57.40%	–	–	–	–
PSP vesting (% of maximum)	Marc Bolland	–	–	31.96%	0.00%	7.60%	4.70%
	Stuart Rose	0.00%	0.00%	–	–	–	–

1. 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. Sir Stuart Rose undertook the role of CEO from 31 May 2004 to 30 April 2010.

FIGURE 25: PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table opposite 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 employees. This group has been chosen as the majority of our workforce is UK-based. As can be seen, average FTE salaries for UK employees increased by 2%, in excess of that provided to the CEO.

	% change 2013/14 – 2014/15		
	Base salary	Benefits	Annual bonus[1]
CEO	0.0%	-46.3%	–
UK employees (average per FTE)	2.0%	0.1%	–

1. As no bonus was paid to either the CEO or UK employees in 2013/14 a year-on-year comparison is not possible. The CEO received a bonus of £596,000 for 2014/15 which is detailed in full in the single figure table on page 62. A bonus was payable to all eligible UK employees for 2014/15.

FIGURE 26: RELATIVE IMPORTANCE OF SPEND ON PAY

In line with the new regulations, 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.

The figures are as set out on pages 90, 103 and 104 in the financial statements to the accounts. Total employee pay is the total pay for all Group employees. Underlying Group Profit Before Tax has been used as a comparison as this is the key financial metric which the Board consider when assessing Company performance.

	2013/14 £m	**2014/15 £m**	% change
Total employee pay	1,410.9	**1406.2**	-0.3
Dividends	273.6	**280.7**	2.6
Underlying Group Profit Before Tax	622.9	**661.2**	6.1

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 27: SERVICE AGREEMENTS

As detailed on page 57 of the remuneration policy, all executive 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
Marc Bolland	01/05/2010	12 months/6 months
Patrick Bousquet-Chavanne	10/07/2013	12 months/6 months
John Dixon	09/09/2009	12 months/6 months
Steve Rowe	01/10/2012	12 months/6 months
Laura Wade-Gery	04/07/2011	12 months/6 months

EXECUTIVE CHANGES TO THE BOARD DURING 2014/15

Directors appointed to the Board
There were no directors joining the Board during the year.

Directors retiring from the Board
Alan Stewart Chief Finance Officer, resigned from the Board on 10 July 2014 and left the Company after a period of garden leave on 22 September 2014. In line with his contractual arrangements, Alan received no further payments. Any awards which had not vested prior to the date he left the business lapsed at this time.

Payments to past directors (audited)
As reported last year, Steven Sharp retired from the Board on 9 July 2013 and had two outstanding awards under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 7.6% of his 2011 award (35,085 shares) vested in May 2014. Steven has one outstanding award. After the completion of the performance period, it has been determined that 4.7% of the original 2012 award (24,396 shares) will vest in May 2015.

Payments for the loss of office (audited)
There were no payments for loss of office made to directors during the year.

Changes to the Board in 2015/16
Helen Weir joined the Board on 1 April 2015 as Chief Finance Officer. Her remuneration is in line with the approved recruitment policy detailed on page 57 and approved in July 2014. On appointment, Helen's basic annual salary is £590,000. Helen will receive benefits in line with those provided to the other executive directors. In the first year, she will receive a payment totalling £188,500 to compensate for the annual differential in contractual pension that she will forfeit to join M&S. This payment will be made in 12 equal instalments, payable monthly. No share awards have been granted to Helen in relation to her appointment although she is eligible for a PSP grant in July 2015 in accordance with the annual remuneration policy.

FIGURE 28: 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 table opposite sets out the details for these fees earned up to 28 March 2015. For Marc Bolland, fees for Manpower Inc. relate to the period to 11 February 2015, the date at which he retired from Manpower Inc. Board. Marc Bolland joined the Board of The Coca-Cola Company on 18 February 2015. Fees are paid quarterly in cash and shares and so the fees shown in the table represent those earned in respect of the period 18 February 2015 to 28 March 2015. These were paid on 1 April 2015.

Director	Company	Fee[4] £000
Marc Bolland	Manpower Inc.[1]	109
	The Coca-Cola Company[2]	42
Patrick Bousquet-Chavanne	Brown-Forman[3]	171

1. Fees up until 11 February 2015 when Marc Bolland retired from the Manpower Inc. Board. Fees were paid in cash and stock units in US dollars.
2. Marc Bolland joined the Board of The Coca-Cola Company on 18 February 2015. Fees are paid in cash and stock units in US dollars and are for the period from his appointment to 28 March 2015.
3. Patrick Bousquet-Chavanne's fees are paid in cash and stock units in US dollars.
4. For the purposes of this table, cash payments have been converted to UK sterling using the rolling average £:$ exchange rates for the respective periods. Stock units have been converted to UK sterling using the appropriate £:$ spot rate at the end of the relevant period.

REMUNERATION REPORT
CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 29: NON-EXECUTIVE DIRECTORS TOTAL SINGLE FIGURE REMUNERATION (audited)

As detailed in the remuneration policy on page 59, non-executive directors receive fees reflective of the time commitment, demands and responsibilities of the role.

The table opposite details the fees paid to the non-executive directors for 2014/15 and 2013/14.

There was no increase to the fees during the year.

	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Robert Swannell	2014/15	70	380	18	**468**
	2013/14	70	380	21	471
Vindi Banga[1]	2014/15	70	12	0	**82**
	2013/14	70	0	0	70
Alison Brittain[2]	2014/15	70	0	0	**70**
	2013/14	18	0	0	18
Miranda Curtis	2014/15	70	0	0	**70**
	2013/14	70	0	0	70
Martha Lane Fox	2014/15	70	0	0	**70**
	2013/14	70	0	0	70
Andy Halford[3]	2014/15	70	15	0	**85**
	2013/14	70	11	0	81
Steven Holliday[4]	2014/15	19	4	0	**23**
	2013/14	70	15	0	85
Jan du Plessis[5]	2014/15	64	28	0	**92**
	2013/14	70	30	0	100

1. The amounts shown reflect that Vindi Banga was appointed as Remuneration Committee Chair on 8 July 2014 and Senior Independent Director from 4 March 2015.
2. The amounts shown for 2013/14 reflect that Alison Brittain joined the Board on 1 January 2014.
3. The amounts shown for 2013/14 reflect that Andy Halford was appointed as Audit Committee Chair on 1 July 2013.
4. The amounts shown for 2014/15 reflect that Steven Holliday retired from the Board on 8 July 2014.
5. The amounts shown for 2014/15 reflect that Jan du Plessis retired from the Board on 4 March 2015.

FIGURE 30: NON-EXECUTIVE DIRECTORS SHAREHOLDINGS (audited)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. The 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.

Figure 30 opposite details the shareholding of the non-executive directors who served on the Board during the year as at 28 March 2015 (or upon their date of retiring from the Board).

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 19 May 2015.

	Number of shares held[2]
Robert Swannell	120,000
Vindi Banga	2,000
Alison Brittain	2,596
Miranda Curtis	5,500
Martha Lane Fox	20,100
Andy Halford	21,000
Steven Holliday[1]	2,500
Jan du Plessis[1]	20,000

1. Shareholding as at the date of retirement from the Board.
2. Includes shares held by connected persons.

FIGURE 31: 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.

	Date of appointment	Notice period/unexpired term
Robert Swannell	23/08/2010	6 months/6 months
Vindi Banga	01/09/2011	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Miranda Curtis	01/02/2012	3 months/3 months
Martha Lane Fox	01/06/2007	3 months/3 months
Andy Halford	01/01/2013	3 months/3 months

NON-EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

NON-EXECUTIVE DIRECTORS' CHANGES TO THE BOARD DURING 2014/15

Directors appointed to the Board
No directors were appointed to the Board during the year.

Directors retiring from the Board
Steven Holliday Chairman of the Remuneration Committee, retired from the Board on 8 July 2014. There were no payments for loss of office payable to Steven.

Jan du Plessis Senior Independent Director, retired from the Board on 4 March 2015. There were no payments for loss of office payable to Jan.

Directors changing roles within the Board
Vindi Banga became Chairman of the Remuneration Committee on 8 July 2014, upon Steven Holliday's retirement from the Board. From this date, Vindi received additional fees in accordance with the responsibility of this role. In addition, Vindi undertook the role of Senior Independent Director upon Jan du Plessis' retirement from the Board. Vindi received additional fees in accordance with the responsibility of this role, as described in the remuneration policy on page 59. From his appointment as Senior Independent Director, he no longer received additional fees for the Remuneration Committee chairmanship role.

Changes to the Board in 2015/16
Richard Solomons joined the Board on 13 April 2015 as a non-executive director. Richard is a member of the Nomination Committee. In accordance with the non-executive director fees policy, Richard receives an annual fee of £70,000.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

The role of the Remuneration Committee is to make recommendations regarding the senior remuneration strategy and framework to the Board to ensure the executive directors and senior management are appropriately rewarded for their contribution to the Company's performance, taking into account the financial and commercial position of the Company.

KEY RESPONSIBILITIES

- Setting a senior strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results.
- Reviewing the effectiveness of the senior remuneration policy with regard to its impact.
- Considering the appropriateness of the senior remuneration policy when reviewed against the policy and arrangements throughout the rest of the organisation.
- Determining the terms of employment and remuneration for executive directors and senior managers including recruitment and termination arrangements.
- Approving the design, targets and payments for all annual incentive schemes that include executive directors and senior managers.
- Agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share incentive plan.

In line with its remit, the Committee considered a number of key matters during the year.

REMUNERATION COMMITTEE AGENDA FOR 2014/15

Regular items

- Approval of the Directors' Remuneration Report for 2013/14 and review of the AGM voting outcome for the report.
- Annual review of all executive directors' and senior managers' base salaries and benefits in line with Company policy and approval of any salary increase.
- Review of achievement of Annual Bonus Scheme profit against target.
- Review of achievement of executive directors' individual objectives for 2014/15.
- Review of the design and targets for the 2015/16 Annual Bonus Scheme including the approval of individual objectives for directors.
- Review and approval of all awards made under the PSP taking into account the total value of all awards made under this plan.
- Half year and year end review of all share plan performance against targets.
- Approval of the vesting level of the 2012/13 PSP awards.
- Consideration of the performance measures and targets to be applied to the 2015/16 PSP awards.
- Clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors.
- Review of director shareholding guidelines and achievement of these for each executive director.
- Significant consideration of institutional investors' current guidelines on executive compensation.
- Consideration of remuneration arrangements for the wider workforce.
- Assessment of the external environment surrounding the Company's current remuneration arrangements.
- Consideration of external market developments and best practice in remuneration.
- Review of Committee performance in 2014/15.
- Review of Committee terms of reference.

Other items

- Discussion of the application of the new reporting regulations to ensure transparent and clear disclosure to shareholders.
- Review of, and agreement to new share plan rules in anticipation of the expiration of current Plan rules.
- Review of, and agreement to, remuneration packages for new senior managers.
- Induction of new Remuneration Committee Chairman.

Note: The full terms of reference for the Committee can be found on the Company's website at marksandspencer.com/thecompany

REMUNERATION REPORT
CONTINUED

REMUNERATION COMMITTEE CONTINUED

REMUNERATION COMMITTEE ACTION PLAN 2015/16

- Ensuring the continued strategic alignment of the directors' incentive arrangement with business strategy.
- Debating the appropriateness of the senior remuneration framework in the context of the rest of the organisation and the external environment.
- Ensuring that the remuneration policy continues to be appropriate to attract and retain exceptional senior leaders as required.
- Assessing and mitigating against potential risk in the senior remuneration framework.

COMMITTEE ADVISERS

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by Deloitte and PwC during the year. Both Deloitte and PwC are founding members of the Remuneration Consultants Group and voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at **remunerationconsultantsgroup.com**. Further, the Committee reviews the advice it receives and determines whether it is appropriately independent.[1]

PwC were 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 £119,800 for Remuneration Committee matters. Deloitte's fees were similarly charged on an hourly basis. Their fees for Remuneration Committee matters for the period to 28 March 2015 were £28,500. 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 Secretary, Director of Human Resources and Head of Reward & Global Mobility 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 and Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER 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 Reward & Global Mobility, the Committee gives employees, through employee representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors. During the year, the Head of Reward & Global Mobility met with employee representatives to discuss 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. Upon reporting back on the discussions and outcome of this meeting, the Committee is satisfied that the pay arrangements for 2014/15 and 2015/16 remain appropriate for M&S.

SHAREHOLDER CONSULTATION

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee held a Governance Event in June 2014 to review and debate remuneration with shareholders and representative bodies. In addition, Vindi Banga met with a number of investors as part of the handover process and ahead of consulting with the Company's largest shareholders on proposals for the 2015/16 remuneration arrangements for executive directors.

SHAREHOLDER SUPPORT FOR THE 2013/14 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 8 July 2014, 99.18% of shareholders voted in favour of approving the Directors' Remuneration Report for 2013/14 with 98.27% of shareholders approving the remuneration policy. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework.

The table below shows full details of the voting outcomes for the 2014/15 Directors' Remuneration Report and Remuneration Policy.

FIGURE 32: VOTING OUTCOMES FOR 2013/14 REMUNERATION REPORT

	Votes for	% votes for	Votes against	% votes against	Votes withheld
Remuneration report	1,022,785,815	99.18	8,489,388	0.82	8,102,103
Remuneration policy	1,012,469,256	98.27	17,840,854	1.73	9,040,797

APPROVED BY THE BOARD

Vindi Banga Chairman of the Remuneration Committee
London, 19 May 2015

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) (Amendments) Regulations 2013 ('the Regulations'). Where required, data has been audited by Deloitte and this is indicated appropriately.

1. On the appointment of Deloitte as external auditors, a transition plan was put in place while a new Committee advisor was selected. This ensured that the remuneration advice provided by Deloitte was consistent with ethical auditing guidelines and that their independence as auditors was not compromised.

GOVERNANCE

PENSIONS GOVERNANCE

The Group operates a defined benefit pension scheme (the 'Scheme') for employees with an appointment date prior to 1 April 2002.

The results of the triennial actuarial valuation of the Scheme as at 31 March 2012 revealed a deficit of £290m. This represents a substantial reduction in deficit from £1.3bn as at 31 March 2009. The next valuation is due as at 31 March 2015. Funding progress is closely monitored and the investment derisking journey has continued since the last valuation.

The assets of the pension scheme, which are held under trust separately from those of the Group, are managed by the Board of the Pension Trust ('Trustee Board'). The Trustee Board comprises four company nominated directors, including the Chairman, Graham Oakley; three member nominated directors and two independent directors. All directors are appointed for a five-year term and may stand for a second term. The Trustee Board operates three main committees: Management and Governance, Investment, and Actuarial Valuation, which has been convened earlier this year in preparation for the 2015 valuation.

The Trustee Board has a business plan against which progress is measured on an ongoing basis in a similar approach to the Group Board. There is also an annual Board Effectiveness Review and both the Trustee Board and the Investment Committee hold annual strategy days which help drive the long-term agenda and the business plan priorities.

Each Trustee Board director has an individual training plan, which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements and tailored to address any skill gaps and specific committee roles. The majority of the Trustee Board members hold the Pensions Management Institute Award in Trusteeship.

All advisers, investment managers and suppliers are appointed through a rigorous tender process. They are monitored via quarterly reports and periodic meetings and there is also a rolling programme of both informal and formal adviser reviews.

In addition to six monthly reports from EY as covenant adviser, the Trustee Board also receives presentations from the Chief Finance Officer after the Year and Half Year results.

The Scheme is a signatory to the UN Principles for Responsible Investment and the Trustee has partnered with a specialist engagement service, Hermes Equity Ownership Services (EOS), to exercise its global equity voting rights in accordance with a detailed Trustee policy, which addresses a range of governance, social and environmental issues. EOS has also enhanced the Trustee's stewardship and governance oversight of investee companies by engaging with companies, on a global basis, where management is considered not to be acting in the best long-term interests of investors. The results of these voting and engagement activities are published quarterly on the M&S Pension Scheme's website. The Scheme is also a signatory to the Financial Reporting Council's UK Stewardship Code.

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'). With our rich heritage, M&S is one of the most recognisable brands in the UK retail sector and is regularly voted as one of its most trusted. Our business is driven by a desire to inspire and innovate; to act with integrity and to stay in touch with our customers, shareholders and employees alike. These are our corporate values and they underpin everything we do. They are what make the M&S difference across the 59 territories in which we operate.

The Directors' Report (also the Management Report) for the year ended 28 March 2015 comprises pages 26 to 82 and page 127 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 25, as the Board considers them to be of strategic importance. Specifically, these are:

→ **Future business developments (throughout the Strategic report)**

→ **Research and development p21**

→ **Risk management on p23-25**

Details of branches operated by the Company can be found on pages 28 and 29 of the Directors' Report.

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 that report shall be subject to the limitations and restrictions provided by such law. For information on our approach to social, environmental and ethical matters please refer to our Plan A Report, available to view online at **marksandspencer.com/plana2015**. Other information to be disclosed in the Directors' Report is given in this section.

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	54-55 and 66-67

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are given on pages 34 and 35 and are incorporated into this report by reference. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 68 and 74. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 70 to 71. Further information regarding employee share option schemes is given in note 8 to the financial statements.

Alan Stewart stepped down from the Board as Chief Finance Officer on 10 July 2014 and left the Company on 23 September 2014. Helen Weir was appointed Chief Finance Officer on 1 April 2015. Vindi Banga, who joined the Board on 1 September 2011, was appointed Chairman of the Remuneration Committee following the retirement of Steven Holliday at the AGM on 8 July 2014. Vindi was also appointed Senior Independent Director following the retirement of Jan du Plessis on 4 March 2015. Richard Solomons joined the Board as a non-executive director on 13 April 2015 and was appointed a member of the Nomination Committee with immediate effect. Miranda Curtis, who joined the Board on 1 February 2012, was appointed a member of the Audit Committee on 4 March 2015. Robert Swannell, who joined the Board as Chairman on 4 October 2010, was appointed as a member of the Remuneration Committee on 4 March 2015.

The appointment and replacement of directors is governed by the Company's 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.

APPOINTMENT AND RETIREMENT OF DIRECTORS

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 and shall then be eligible for election. The Articles also require that at each AGM at least one-third of the current directors should retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any AGM retire from office and stand for re-election. However, in line with the UK Corporate Governance Code 2012, all directors will stand for annual election at the 2015 AGM.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or 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 gives appropriate cover for any 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 28 March 2015 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.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £661.2m (last year £662.9m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.4p per share (last year 6.2p per share)	£104.5m
Proposed final dividend of 11.6p per share (last year 10.8p per share)	£191.2m
Total ordinary dividend of 18.0p per share (last year 17.0p per share)	£296.7m

The final ordinary dividend will be paid on 10 July 2015 to shareholders whose names are on the Register of Members at the close of business on 29 May 2015.

SHARE CAPITAL

The Company's issued ordinary share capital as at 28 March 2015 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 15,566,772 ordinary shares in the Company were issued as follows:

→ 918,578 shares under the terms of the 2002 Executive Share Option Scheme at prices between 347p and 352p.

→ 14,602,805 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 203p and 405p.

→ 45,389 shares under the terms of the ROI Employees' Save As You Earn Share Option Scheme at prices between 258p and 405p.

Details of movements in the Company's issued share capital can be found on page 119 in note 24 to the financial statements.

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 (as defined in the Articles) may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders, at the 2014 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 have been bought back under this authority during the year ended 28 March 2015. This standard authority is renewable annually; the directors will seek to renew this authority at the 2015 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 2014 AGM to allot relevant securities up to a nominal amount of £136,089,559. This authority will apply until the conclusion of the 2015 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 £137,372,598.67 and (ii) comprising equity securities up to a nominal amount of £274,745,197.33 (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 2016 or, if earlier, on 27 September 2016.

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 £20,605,889.80. 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 164 million ordinary shares and sets the minimum and maximum prices which will be paid.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 28 March 2015, the following information has been received, in accordance with DTR5, 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	Nature of holding
Blackrock, Inc	81,834,738	5	Indirect (4.97%) & CFD (0.04%)
The Capital Group Companies, Inc	66,681,922	4.049	Indirect Interest
The Wellcome Trust	47,464,282	3.01	Direct Interest

Notifications were also received from William Adderley and Majedie Asset Management Limited during the year to disclose that they no longer held a notifiable interest.

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 issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m; Medium Term Notes issued by the Company on 12 December 2012 to various institutions ('MTN') 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 $500m 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 $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 £1.325bn Credit Agreement 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; and
- 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 reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement).

  Where a third-party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. 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 gains certain termination rights (exercisable at its election) in respect of 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.

EMPLOYEE INVOLVEMENT

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Chief Executive and members of the Board at key points in the year to all head office and distribution centre employees and store management. Additionally, many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication are supplemented by our employee publications including 'Your M&S' magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store, distribution centre and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes.

The 20th meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2015. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes representatives from France, The Netherlands, Czech Republic, Slovakia, Greece, Bulgaria, Slovenia, Romania, Croatia, Hungary, Lithuania, Latvia, Estonia, Poland, the Republic of Ireland and the UK. The EWC has the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This includes the Directors of International and Multi-channel and the Director of Plan A, who all have an impact across the European Community.

Directors and senior management regularly attend the national Business Involvement Group (BIG) meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement through a scheme called The BIG Idea. On a quarterly basis the business poses a question to gather ideas and initiatives on a number of areas including how we can better serve our customers. Several thousand ideas are put forward each time and the winning employee receives an award and the chance to see how this is implemented by the Company.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,000 employees currently participate in Sharesave, the Company's all employee Save As you Earn Scheme. Full details of all schemes are given on pages 70 to 71.

We have a well established interactive wellbeing website designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise to help in overcoming issues such as stress, financial challenges, achieving a positive work-life balance and problems with sleeping. Using this service, employees can access our personal support teams, such as counselling, as well as take part in a calendar of wellbeing events and initiatives.

Employees are able to interact with one another, post information about clubs and groups in their area and can gain access to information about corporate projects, which link to their personal health, via our employee social media platform, Yammer.

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated trustees have been elected to the Pension Trust board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and have a fully interactive website for members of the defined contribution M&S Pension Savings Plan.

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. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital 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. We are an organisation which uses everyone's talents and abilities and where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 88 years old and joined the business at age 80. In April 2015 the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

EMPLOYEES WITH DISABILITIES

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our 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. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We 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 our distribution centre at Castle Donington in 2012/13, where we work with Remploy to support people with disabilities and health conditions into work.

ESSENTIAL CONTRACTS OR ARRANGEMENTS

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse and logistic operators and providers of services relating to the Company's e-commerce platform.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and GSCOP, 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.

M&S submitted its report to the Audit Committee on 14 May 2015 covering the period from 1 April 2014 to 31 March 2015. In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Four allegations regarding potential breaches of GSCOP were made by suppliers during the relevant period, but all complaints have been withdrawn/resolved.

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2014/15

The disclosures required by law relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and adjustments, as well as performance against 2006/07 voluntary baseline, see our 2015 Plan A Report.

	2014/15 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	167	168	-1
Indirect emissions from energy (scope 2)	367*	340	+8*
Total statutory emissions (scope 1+2)	**534**	**508**	**+5**
Transport, energy, waste and business travel (scope 3)	58	59	-2
Total gross/location-based emissions	**592**	**567**	**+5**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**30**	**30**	**L**
Green tariffs and carbon offsets	592	567	+4.4
Total net/marketplace emissions	**0**	**0**	**–**

Calculated based on operational control in accordance with 2014 DECC/DEFRA using Guidelines WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance.

*Increase caused by higher UK grid electricity carbon intensity.

OTHER DISCLOSURES
CONTINUED

M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

- The terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S incorporate GSCOP;
- New suppliers are issued with information as required by the Order;
- M&S has a Code Compliance Officer as required under the Order, supported by our in-house legal department; and
- Employee training on GSCOP is provided, including annual refresher programmes and new starter training.

POLITICAL DONATIONS

No political donations were made during the year ended 28 March 2015. 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 1 to 22 as well as the Group's principal risks and uncertainties as set out on pages 23 to 25. 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.

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2015 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 7 July 2015 at 11am. The Notice of Meeting is given, together with explanatory notes, in a booklet which accompanies this report.

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 performance, business model and strategy. This cannot be achieved by merely reviewing the final document at the end of the preparation process. The Board ensured that its requirements were clearly communicated from the outset to each of the departments involved in the production of the Annual Report.

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee's opinion on whether the report is fair, balanced and understandable is on page 49.

The directors are also responsible for preparing the Annual Report, the Remuneration Report 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 (IFRSs) 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 IFRSs (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 directors, whose names and functions are listed on pages 34 and 35 of the Annual Report, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Strategic Report and the Directors' Report contained in this report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- The Annual Report, taken as a whole, is fair, balanced and understandable , and provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITORS

Each director confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director 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 auditors are aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 19 May 2015 and signed on its behalf by

Amanda Mellor
Group Secretary
London, 19 May 2015

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MARKS AND SPENCER GROUP PLC

OPINION ON FINANCIAL STATEMENTS OF MARKS AND SPENCER GROUP PLC

In our opinion:

The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 28 March 2015 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.

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.

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.

The financial statements 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 reconciliation of net cash flow to movement in net debt note, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRS 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.

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement contained within the 'Other disclosures' section on page 82 that the Group is a going concern. We confirm that:

- We have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- We have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The key risks we identified are:

1. Presentation of non-GAAP measures
2. Impairment of store assets
3. Inventory valuation and provisions
4. Revenue recognition – gift cards, loyalty schemes, returns and franchise arrangements
5. Supplier rebates
6. Retirement benefits

The assessed risks of material misstatement are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee has requested that, while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant findings in respect of these assessed risks of material misstatement.

The description of risks below should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 48 and 49.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described below, and we do not express an opinion on these individual matters.

See tables on p84-87 for more detail.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

1 PRESENTATION OF NON-GAAP MEASURES

Risk description

The presentation of income and costs within non-GAAP measures (to derive 'underlying profit before tax') under IFRS is judgemental, with IFRS only requiring the separate presentation of material items. Judgement is required in determining the classification of items as non-underlying.

In calculating the reported non-GAAP measures, there are two risks which may result in the underlying profit measure being misstated and therefore not being reliable to users of the financial statements:

- Items may be included in the non-underlying adjustments which are underlying or recurring items, distorting the reported underlying earnings.
- Items may be omitted from the non-underlying adjustments which are material and one-off in nature.

Explanations of each adjustment to derive underlying profit from the reported profit before tax are set out in notes 1 and 5 to the financial statements.

How the scope of our audit responded to the risk

We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within non-underlying profits, including assessing the consistency of items included year-on-year and ensuring adherence to IFRS requirements and latest Financial Reporting Council ('FRC') guidance. We also agreed these items to supporting evidence.

We assessed all items, either highlighted by management or identified through the course of our audit, which were regarded as one-off but included within underlying earnings to ensure that these are not material either individually or in aggregate. For all adjustments recorded in calculating underlying profits, we discussed the appropriateness of the item with the Audit Committee and any disclosure considerations.

Findings We are satisfied that the items excluded from underlying earnings and the related disclosure of these items in the financial statements is appropriate.

2 IMPAIRMENT OF STORE ASSETS

Risk description

As described in the Accounting Policies in note 1 and in note 15 to the financial statements, the Group held £5,031.1m of property, plant and equipment at 28 March 2015. There is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations which rely on the directors' assumptions and estimates of future trading performance.

The key assumptions applied by the directors in the impairment reviews are:

- Country-specific discount rates.
- Future revenue growth.
- Trading margin.
- Store costs, including rent, staff payroll costs and general operating costs.

The directors consider that each retail store constitutes its own cash generating unit ('CGU'), with the exception of the outlet stores which are used to clear old season general merchandise stock at a discount, and certain strategic stores. The outlet stores are considered to represent one CGU in aggregate and strategic stores are evaluated as part of a country-wide impairment review.

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 initial years of trading to enable the store to establish itself in the market.

How the scope of our audit responded to the risk

We considered the appropriateness of the methodology applied by the directors in calculating the impairment charges, and the judgements applied in determining the CGUs of the business.

We assessed the impairment models and calculations by:

- Checking the mechanical accuracy of the impairment models.
- Assessing the discount rates applied to the impairment reviews for each country and comparing the rates to our internal benchmark data.
- Comparing forecast growth rates to economic data.
- Evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, and meeting with senior trading managers from key categories and our retail industry knowledge.

We assessed the appropriateness of the shelter period for each store opened within that time frame, and compared the original investment case for the store against its current trading performance. Where stores were trading significantly below the original case, we considered the evidence available to support future improvements in performance, specifically by assessing the trading plans and actions being taken on an individual store basis.

Findings We concluded that the assumptions applied in the impairment models were appropriate, including those made around shelter periods and no additional impairments were identified from the work performed above.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

3 INVENTORY VALUATION AND PROVISIONS

Risk description

At 28 March 2015, the Group held inventories of £797.8m. 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, the directors apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of old season inventory, net realisable value below cost based upon plans for inventory to go into sale and stock loss based upon the run rate from recent inventory counts.

How the scope of our audit responded to the risk

We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by:

- Checking the effectiveness of key inventory controls operating across the Group, including those at 15 distribution centres and 26 retail stores.
- Attending inventory counts at 15 distribution centres and 16 stores.
- Checking for a sample of individual products that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated.
- Comparing the net realisable value, obtained through a detailed review of sales subsequent to the year end using audit analytics, to the cost price of inventories to check for completeness of the associated provision.
- Performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn or stock ageing.
- Meeting with buyers to validate the assumptions applied by management compared to the current purchasing strategy and ranging plans.
- Reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year in relation to stock loss.

We evaluated consumer trends identified through benchmarking and external market data to challenge the assumptions underlying sales forecasts by category to assess the completeness of provisions for obsolescence.

Findings The results of our testing were satisfactory and we concur that the level of inventory provisions is appropriate.

4 REVENUE RECOGNITION – GIFT CARDS, LOYALTY SCHEMES, RETURNS AND FRANCHISE ARRANGEMENTS

Risk description

As described in the Accounting Policies in note 1 to the financial statements, the Group's revenue recognition policies require the directors to make a number of assumptions in determining the reported revenue for the period. The key assumptions are:

- Gift cards, vouchers and loyalty schemes – the directors apply an expected redemption rate to the total value of gift cards, vouchers and loyalty points in issue based on historic trends.
- Returns – customers are entitled to return products up to 35 days after purchase, giving rise to a risk that sales recognised during the period will be reversed in the next financial period. The directors apply judgement in determining the provision required for returns based on the prior five weeks' sales and recent product return rates. Returns from online sales are commonly at a higher level than traditional store retailing, resulting in this judgement becoming more significant in determining the level of provision required.

The Group reported revenues in the period from the sale of food and general merchandise to international franchise partners and the sale of food to UK franchise partners.

The complexity of pricing structures across franchise relationships, and the Group's expansion into new franchise agreements, create a risk that revenue may be misstated due to the specific terms of business agreed with each franchise partner. In addition, as explained on page 29 of the Strategic Report, international franchise markets have been particularly challenging due to the economic and political environments in the Middle East, Russia and Ukraine, giving rise to a further risk that franchise receivables may be irrecoverable.

Continues on p86

INDEPENDENT AUDITOR'S REPORT
CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

4 REVENUE RECOGNITION – GIFT CARDS, LOYALTY SCHEMES, RETURNS AND FRANCHISE ARRANGEMENTS CONTINUED

How the scope of our audit responded to the risk

We considered each revenue-impacting provision individually, and assessed the appropriateness of the assumptions and judgements applied.

For the key assumptions used in the gift card, voucher and loyalty scheme provisions, we assessed the historic rates of redemption and compared these to the directors' judgements.

We assessed the appropriateness of the methodology applied in calculating the returns provision, and compared the calculated provision to the actual level of returns recorded subsequent to the period end.

We reviewed a sample of franchise agreements, including new agreements during the period. Our review specifically focused on:

- Assessing the pricing structure and determining whether revenue has been recognised in line with the terms of the agreement including the consideration of any rights to return old inventories.
- Considering the payment terms and comparing them to the payment patterns experienced with the franchise partner.

We independently assessed the recoverability of franchise receivables more than 30 days past due under the franchise agreement, and all receivables from franchises in the Middle East, Russia and Ukraine due to the risks identified above. Our assessment included reviewing historic payment patterns for selected franchises, checking cash received subsequent to the reporting date, considering correspondence received from franchise partners by the Group, and challenging management on the judgements applied in calculating any provision for doubtful debts. For the most significant franchises, we obtained external confirmations of key agreement terms, and the balance due for payment as at 28 March 2015.

Findings We are satisfied that the key assumptions applied in calculating the gift card, voucher and loyalty scheme provisions are appropriate. The run-rate applied to calculate the provision for refunds is appropriate and testing performed in relation to recognition of revenues from franchise partners or the recoverability of any amounts outstanding at the year end proved satisfactory.

5 SUPPLIER REBATES

Risk description

As described in the Accounting Policies in note 1 to the financial statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers, primarily comprising contributions in relation to promotions in the Food business, strategic volume moves and some annual volume-based rebates. The majority of these contributions tend to be small in unit value but high in volume and span relatively short periods of time, although these can be across the financial year end. There are a small number of larger arrangements, which relate to multi-year periods.

Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.

How the scope of our audit responded to the risk

We tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample to individual supplier agreements. We circularised a sample of suppliers to test whether the arrangements recorded were complete and interviewed a sample of buyers to supplement our understanding of the contractual arrangements.

We tested the completeness and accuracy of the systematic inputs to the calculations for recording supplier rebates and discounts by agreement to supporting evidence, including volume data and promotion dates.

We performed revenue and margin analysis to understand detailed trends by product category in order to identify apparent anomalies which may indicate potential rebate income errors. Such anomalies were investigated to assess whether they were indicative of a mis-application of contractual terms or other calculation errors.

We also tested a sample of invoices and debit notes raised post year end to test the completeness and accuracy of accrued supplier income at 28 March 2015. In addition we tested the recoverability of the amounts due at the year end.

Findings The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an accurate understanding of the types of rebate income received and the impact on the statement of financial position as at 28 March 2015.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

6 RETIREMENT BENEFITS

Risk description

As described in the Accounting Policies in note 1 and in notes 11 and 12 to the financial statements, the Group has a defined benefit pension plan for its UK employees, which was closed to new entrants with effect from 1 April 2002, and a funded defined benefit pension scheme in the Republic of Ireland, where no new benefits have accrued since 31 October 2013.

At 28 March 2015, the Group recorded a net retirement benefit asset of £449.0m, being the net of scheme assets of £8,596.5m and scheme liabilities of £8,147.5m. The Group's net retirement benefit asset has shown significant volatility, as the valuation is sensitive to changes in key assumptions such as the discount rate and inflation estimates. The setting of assumptions is complex and an area of significant judgement.

How the scope of our audit responded to the risk

We evaluated the directors' assessment of the assumptions made in the valuation of the scheme assets and liabilities, and evaluated the information contained within the actuarial valuation reports for each scheme.

We tested the membership census data used in the valuation of the schemes and, with support from our own actuarial specialists, we considered the valuation process applied by the Group's actuaries, the scope of the valuation performed and the key assumptions applied, and evaluated their expertise. We benchmarked and performed a sensitivity analysis on the key variables in the valuation model, including:

- Salary increases.
- Inflation rates.
- Mortality rates.
- Discount rates.

We obtained asset confirmations or carried out other audit procedures to test the completeness and accuracy of the scheme assets.

Findings From the work performed above we are satisfied that all assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate.

IN THE PREVIOUS YEAR'S AUDIT REPORT, THE FOLLOWING RISKS WERE ALSO INCLUDED:

Impairment of goodwill and brands; and

Management override of controls.

These have not been included as key risks in the current year.

Our application of materiality

We determined materiality for the Group to be £32.0m.

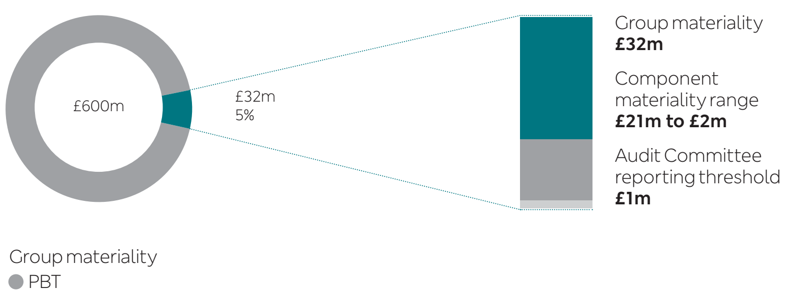
We reported all audit differences in excess of £1.0m.

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.

We determined materiality for the Group to be £32.0m, which is approximately 5% of pre-tax profit and below 1% of equity. The materiality used by the predecessor auditor in 2014 was £31.0m, which represented 5% of pre-tax profit adjusted for non-GAAP performance measures.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2014: the predecessor auditor reported on all differences identified above £1.5m) 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.

Materiality



OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT
CONTINUED

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Scope of 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. The Group has retail operations in 59 countries, of which 17 are wholly-owned businesses, two are joint ventures, and 40 operate under franchise agreements (in addition to two wholly-owned businesses which also operate franchise agreements in those territories).

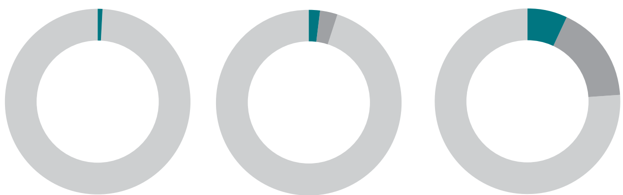
Based on that assessment, we focused our Group audit scope primarily on the audit work at eight wholly-owned locations: United Kingdom, Republic of Ireland, Czech Republic, Greece, Turkey, India, China and Hong Kong. All of these were subject to a full audit. These locations represent the principal business units and account for 99% of the Group's revenue and 95% of the Group's profit before tax and 76% of the Group's net assets. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Whilst we audit the revenues received by the Group from franchise operations, which account for 3% of the Group's revenue, we do not audit the underlying franchise operations.

Audit components

We performed a full scope audit on components representing 99% of the Group's revenue and 95% of the Group's profit before tax and 76% of the Group's net assets.

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.

Full scope audit components



	REVENUE	PROFIT BEFORE TAX	NET ASSETS
Analytical procedures	1%	2%	7%
Specific audit procedures	0%	3%	17%
Full audit	99%	95%	76%

We visited all significant components during the year

The most significant component of the Group is its retail business in the United Kingdom, which accounts for 89% of the Group's revenue, 91% of the Group's operating profit and 50% of the Group's net assets. 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 16 distribution centre and 27 retail store visits in the UK to understand the current trading performance and, at certain locations, perform tests of internal controls and validate levels of inventory held.

Since this was our first year as the Group's auditor, we visited each of the eight significant locations outlined above at least once. Each component was visited during our transition, planning and risk assessment process, in order for a senior member of the Group audit team to obtain a thorough understanding of the operations, risks and control environments of each component. For more significant or complex components, we conducted a second visit during the audit to review the component auditor's working papers and attend key meetings with component management.

Going forward, we will follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations where the Group audit scope was focused at least once every two years, and the most significant of them at least once a year.

In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

In addition to our visits in these locations, senior members of each component audit team attended a two-day training programme hosted by the Group audit team covering topics which included understanding the business and its core strategy, a discussion of the significant risks and workshops on our planned audit approach.

OPINION 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.
- → 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.

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.
- 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.
- 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 arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements.
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit.
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed.
- The reasonableness of significant accounting estimates made by the directors.
- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 May 2015

CONSOLIDATED INCOME STATEMENT

		52 weeks ended 28 March 2015			52 weeks ended 29 March 2014		
	Notes	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	2, 3	**10,311.4**	**–**	**10,311.4**	10,309.7	–	10,309.7
Operating profit	2, 3, 5	**762.5**	**(61.2)**	**701.3**	741.9	(47.4)	694.5
Finance income	5, 6	**15.5**	**–**	**15.5**	20.1	4.9	25.0
Finance costs	6	**(116.8)**	**–**	**(116.8)**	(139.1)	–	(139.1)
Profit before tax	4, 5	**661.2**	**(61.2)**	**600.0**	622.9	(42.5)	580.4
Income tax expense	7	**(124.8)**	**6.5**	**(118.3)**	(117.1)	42.7	(74.4)
Profit for the year		**536.4**	**(54.7)**	**481.7**	505.8	0.2	506.0
Attributable to:							
Owners of the parent		**541.2**	**(54.7)**	**486.5**	520.0	4.8	524.8
Non-controlling interests		**(4.8)**	**–**	**(4.8)**	(14.2)	(4.6)	(18.8)
		536.4	**(54.7)**	**481.7**	505.8	0.2	506.0
Basic earnings per share	8	**33.1p**	**(3.4p)**	**29.7p**	32.2p	0.3p	32.5p
Diluted earnings per share	8	**32.9p**	**(3.4p)**	**29.5p**	31.9p	0.3p	32.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Profit for the year		**481.7**	506.0
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Remeasurements of retirement benefit schemes	11	**193.7**	(85.3)
Tax (charge)/credit on retirement benefit schemes		**(40.2)**	31.8
		153.5	(53.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**(7.5)**	(22.3)
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		**221.2**	(109.9)
– reclassified and reported in net profit		**(60.0)**	36.4
– amount recognised in inventories		**(21.6)**	18.7
Tax (charge)/credit on cash flow hedges and net investment hedges		**(21.2)**	12.2
		110.9	(64.9)
Other comprehensive income/(expense) for the year, net of tax		**264.4**	(118.4)
Total comprehensive income for the year		**746.1**	387.6
Attributable to:			
Owners of the parent		**750.9**	406.4
Non-controlling interests		**(4.8)**	(18.8)
		746.1	387.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 28 March 2015 £m	As at 29 March 2014 £m
Assets			
Non-current assets			
Intangible assets	14	**858.2**	808.4
Property, plant and equipment	15	**5,031.1**	5,139.9
Investment property		**15.6**	15.7
Investment in joint ventures		**12.2**	12.7
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**460.7**	200.7
Trade and other receivables	17	**283.3**	313.5
Derivative financial instruments	21	**75.8**	40.6
Deferred tax assets		**1.2**	–
		6,741.1	6,534.5
Current assets			
Inventories		**797.8**	845.5
Other financial assets	16	**11.6**	17.7
Trade and other receivables	17	**321.8**	309.5
Derivative financial instruments	21	**117.9**	13.7
Cash and cash equivalents	18	**205.9**	182.1
		1,455.0	1,368.5
Total assets		**8,196.1**	7,903.0
Liabilities			
Current liabilities			
Trade and other payables	19	**1,642.4**	1,692.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**279.4**	448.7
Derivative financial instruments	21	**7.7**	51.5
Provisions	22	**46.2**	44.8
Current tax liabilities		**64.0**	39.6
		2,111.6	2,349.3
Non-current liabilities			
Retirement benefit deficit	11	**11.7**	11.7
Trade and other payables	19	**319.7**	334.0
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**441.0**	496.8
Borrowings and other financial liabilities	20	**1,745.9**	1,655.1
Derivative financial instruments	21	**20.0**	75.4
Provisions	22	**32.1**	31.4
Deferred tax liabilities	23	**315.3**	242.6
		2,885.7	2,847.0
Total liabilities		**4,997.3**	5,196.3
Net assets		**3,198.8**	2,706.7
Equity			
Issued share capital	24	**412.0**	408.1
Share premium account		**392.4**	355.5
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**64.3**	(41.8)
Other reserve		**(6,542.2)**	(6,542.2)
Retained earnings		**6,670.5**	6,325.1
Total shareholders' equity		**3,199.6**	2,707.3
Non-controlling interests in equity		**(0.8)**	(0.6)
Total equity		**3,198.8**	2,706.7

The financial statements were approved by the Board and authorised for issue on 19 May 2015. The financial statements also comprise the notes on pages 94 to 125.

Marc Bolland Chief Executive Officer

Helen Weir Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve[1] £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
As at 31 March 2013	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5
Profit/(loss) for the year	–	–	–	–	–	524.8	524.8	(18.8)	506.0
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(0.7)	–	(21.6)	(22.3)	–	(22.3)
Remeasurements of retirement benefit schemes	–	–	–	–	–	(85.3)	(85.3)	–	(85.3)
Tax credit on retirement benefit schemes	–	–	–	–	–	31.8	31.8	–	31.8
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	–	–	–	(117.6)	–	7.7	(109.9)	–	(109.9)
– reclassified and reported in net profit[3]	–	–	–	36.4	–	–	36.4	–	36.4
– amount recognised in inventories	–	–	–	18.7	–	–	18.7	–	18.7
Tax on cash flow hedges and net investment hedges	–	–	–	12.2	–	–	12.2	–	12.2
Other comprehensive expense	–	–	–	(51.0)	–	(67.4)	(118.4)	–	(118.4)
Total comprehensive (expense)/income	–	–	–	(51.0)	–	457.4	406.4	(18.8)	387.6
Transactions with owners:									
Dividends	–	–	–	–	–	(273.6)	(273.6)	–	(273.6)
Transactions with non-controlling shareholders	–	–	–	–	–	(39.3)	(39.3)	37.2	(2.1)
Shares issued on exercise of employee share options	4.6	40.4	–	–	–	–	45.0	–	45.0
Credit for share-based payments	–	–	–	–	–	21.3	21.3	–	21.3
Deferred tax on share schemes	–	–	–	–	–	9.0	9.0	–	9.0
As at 29 March 2014	408.1	355.5	2,202.6	(41.8)	(6,542.2)	6,325.1	2,707.3	(0.6)	2,706.7
As at 30 March 2014	**408.1**	**355.5**	**2,202.6**	**(41.8)**	**(6,542.2)**	**6,325.1**	**2,707.3**	**(0.6)**	**2,706.7**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**486.5**	**486.5**	**(4.8)**	**481.7**
Other comprehensive (expense)/income:									
Foreign currency translation	**–**	**–**	**–**	**(2.0)**	**–**	**(5.5)**	**(7.5)**	**–**	**(7.5)**
Remeasurements of retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**193.7**	**193.7**	**–**	**193.7**
Tax charge on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(40.2)**	**(40.2)**	**–**	**(40.2)**
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	**–**	**–**	**–**	**210.9**	**–**	**10.3**	**221.2**	**–**	**221.2**
– reclassified and reported in net profit[3]	**–**	**–**	**–**	**(60.0)**	**–**	**–**	**(60.0)**	**–**	**(60.0)**
– amount recognised in inventories	**–**	**–**	**–**	**(21.6)**	**–**	**–**	**(21.6)**	**–**	**(21.6)**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**(21.2)**	**–**	**–**	**(21.2)**	**–**	**(21.2)**
Other comprehensive income	**–**	**–**	**–**	**106.1**	**–**	**158.3**	**264.4**	**–**	**264.4**
Total comprehensive (expense)/income	**–**	**–**	**–**	**106.1**	**–**	**644.8**	**750.9**	**(4.8)**	**746.1**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(280.7)**	**(280.7)**	**–**	**(280.7)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4.6**	**4.6**
Shares issued on exercise of employee share options	**3.9**	**36.9**	**–**	**–**	**–**	**–**	**40.8**	**–**	**40.8**
Purchase of own shares held by employee trusts	**–**	**–**	**–**	**–**	**–**	**(24.2)**	**(24.2)**	**–**	**(24.2)**
Release of share-based payments	**–**	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**	**–**	**(1.1)**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**6.6**	**6.6**	**–**	**6.6**
As at 28 March 2015	**412.0**	**392.4**	**2,202.6**	**64.3**	**(6,542.2)**	**6,670.5**	**3,199.6**	**(0.8)**	**3,198.8**

1. 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.
2. The 'Retained earnings reserve' includes a cumulative £12.6m loss (last year £7.1m loss) in the currency reserve.
3. Amounts reclassified and reported in profit have been recorded in cost of sales (£4.4m, last year £10.0m) and finance costs (£55.6m, last year (£46.4m)).

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,349.1**	1,175.5
Income tax paid		**(71.1)**	(45.9)
Net cash inflow from operating activities		**1,278.0**	1,129.6
Cash flows from investing activities			
Proceeds on property disposals		**35.4**	25.0
Purchase of property, plant and equipment		**(521.8)**	(440.1)
Purchase of intangible assets		**(178.0)**	(201.5)
Reduction/(purchase) of current financial assets		**6.0**	(1.7)
Interest received		**9.3**	3.4
Net cash used in investing activities		**(649.1)**	(614.9)
Cash flows from financing activities			
Interest paid[1]		**(115.3)**	(132.7)
Cash (outflow)/inflow from borrowings		**(165.7)**	167.5
(Repayment)/drawdown of syndicated loan notes		**(10.2)**	154.1
Redemption of medium-term notes		**–**	(400.0)
Decrease in obligations under finance leases		**(4.8)**	(7.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(54.4)**	(50.3)
Equity dividends paid		**(280.7)**	(273.6)
Shares issued on exercise of employee share options		**40.8**	44.2
Purchase of own shares by employee trust		**(24.2)**	–
Net cash used in financing activities		**(614.5)**	(498.1)
Net cash inflow from activities		**14.4**	16.6
Effects of exchange rate changes		**(2.3)**	(1.6)
Opening net cash		**175.7**	160.7
Closing net cash	27	**187.8**	175.7

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(2,463.6)**	(2,614.3)
Net cash inflow from activities		**14.4**	16.6
(Decrease)/increase in current financial assets		**(6.0)**	1.7
Decrease in debt financing		**235.1**	136.0
Exchange and other non-cash movements		**(3.1)**	(3.6)
Movement in net debt		**240.4**	150.7
Closing net debt	27	**(2,223.2)**	(2,463.6)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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 as set out on pages 1 to 31 as well as the Group's principal risks and uncertainties as set out on pages 24 to 25. 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 Group continues to adopt the going concern basis in preparing its financial statements.

The following IFRS, IFRS IC interpretations and amendments are effective for the first time in this financial year:

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' and the amendments to IAS 27 (2011) 'Separate Financial Statements' and IAS 28 (2011) 'Investments in Associates and Joint Ventures'. These have not had a material impact on the Group.

There are no IFRS, IFRS IC interpretations or amendments that have been issued but are not yet effective that would be expected to have a material impact on the Group.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 for the requirement to prepare and deliver financial statements in accordance with the Companies Act.

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, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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 year 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 Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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
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 and the significant risks and rewards of ownership have been transferred to the buyer.

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 the 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 recognition policies are:

A. Promotional contributions: 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 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 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 right to offset these balances. As such the outstanding supplier income within trade and other payables at year end is immaterial.

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.

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.

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Pensions continued
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 the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Intangible assets
A. Goodwill Goodwill arising on consolidation represents the excess of the consideration transferred 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 is recognised immediately in 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. Indefinite life intangibles are tested for impairment annually or as triggering events occur. Any impairment in value is recognised immediately in 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 three and ten years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised immediately in 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, by equal annual instalments 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 remaining period of the lease.
- → Fixtures, fittings and equipment – three to 25 years according to the estimated 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 immediately in 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.

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 dealt with through 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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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 also recognised in other comprehensive income or directly in equity.

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. As such, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments, and are classified as either 'available-for-sale' or 'fair value through profit or loss'. Available-for-sale financial assets 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 or loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in profit or loss for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in 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 comprehensive income is included in the profit or loss for the period. 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.

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 and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F. Trade and other payables Trade and other 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 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 inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is performed 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 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 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 comprehensive income are recognised in the income statement in the same period in which the hedged items affect profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Derivative financial instruments and hedging activities continued

B. Fair value hedges The 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 profit or loss. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss.

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 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, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. 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 and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

A. Impairment of goodwill and brands The Group is required to test annually or as triggering events occur, whether the goodwill or brands have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 14 for further details.

B. Impairment of property, plant and equipment and computer software Property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See notes 14 and 15 for further details.

C. Depreciation of property, plant and equipment and amortisation of computer software Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 14 and 15 for further details.

D. Post-retirement benefits The determination of the pension cost and 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, 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. See note 11 for further details of assumptions and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

E. Refunds, gift cards and loyalty schemes Accruals for sales returns, deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated on the basis of historical returns and redemptions. These are recorded so as to allocate them to the same period as that in which original revenue is recorded. These balances are reviewed regularly and updated to reflect management's latest best estimates. However, actual returns and redemptions could vary from those estimates.

F. Inventory valuation Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis which requires the estimation of the eventual sales price of goods to customers in the future.

Non-underlying items

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- Profits and losses on the disposal of properties or impairments of properties where commitment to close has been demonstrated.
- One-off pension credits arising on changes to the defined benefit schemes' rules and practices.
- Interest relating to significant and one-off repayments from tax litigation claims.
- Restructuring costs.
- Significant and one-off impairment charges and provisions that distort underlying trading.
- Fair value movement in financial instruments.
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business.
- Adjustment in income from HSBC in relation to M&S Bank due to a non-recurring 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.
- Ex-gratia payment received from HSBC in relation to the mis-selling of financial products.

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 executive directors. The executive directors review 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 executive directors.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor 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 subcategory and gross profit within the UK segment by subcategory.

The following is an analysis of the Group's revenue and results by reportable segment:

	2015			2014		
	Management £m	**Adjustment[1] £m**	**Statutory £m**	Management £m	Adjustment[1] £m	Statutory £m
General Merchandise revenue	**3,987.4**	**1.0**	**3,988.4**	4,094.5	(2.0)	4,092.5
Food revenue	**5,234.7**	**–**	**5,234.7**	5,063.2	–	5,063.2
UK revenue	**9,222.1**	**1.0**	**9,223.1**	9,157.7	(2.0)	9,155.7
Franchised	**341.3**	**–**	**341.3**	404.0	–	404.0
Owned	**747.0**	**–**	**747.0**	750.0	–	750.0
International revenue	**1,088.3**	**–**	**1,088.3**	1,154.0	–	1,154.0
Group revenue	**10,310.4**	**1.0**	**10,311.4**	10,311.7	(2.0)	10,309.7
General Merchandise gross profit	**2,098.9**			2,074.9		
Food gross profit	**1,718.5**			1,646.7		
UK gross profit	**3,817.4**	**(293.4)**	**3,524.0**	3,721.6	(345.3)	3,376.3
UK operating costs	**(3,207.4)**	**277.6**	**(2,929.8)**	(3,159.6)	377.2	(2,782.4)
M&S Bank	**60.2**	**(13.8)**	**46.4**	57.2	(50.8)	6.4
UK operating profit	**670.2**	**(29.6)**	**640.6**	619.2	(18.9)	600.3
International operating profit	**92.3**	**(31.6)**	**60.7**	122.7	(28.5)	94.2
Group operating profit	**762.5**	**(61.2)**	**701.3**	741.9	(47.4)	694.5
Finance income	**15.5**	**–**	**15.5**	20.1	4.9	25.0
Finance costs	**(116.8)**	**–**	**(116.8)**	(139.1)	–	(139.1)
Profit before tax	**661.2**	**(61.2)**	**600.0**	622.9	(42.5)	580.4

1. Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes (£1.3m credit, last year £2.0m charge) and an adjustment for agency transactions presented gross in the management accounts (£0.3m charge, last year £nil). Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5). Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £293.4m (last year £345.3m).

Other segmental information

	2015			2014		
	UK £m	**International £m**	**Total £m**	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**544.4**	**33.4**	**577.8**	688.6	65.1	753.7
Depreciation and amortisation	**490.8**	**32.0**	**522.8**	434.9	34.4	469.3
Impairment and asset write-offs	**36.0**	**35.3**	**71.3**	21.3	13.9	35.2
Total assets	**7,763.2**	**432.9**	**8,196.1**	7,411.4	491.6	7,903.0
Non-current assets	**6,424.0**	**317.1**	**6,741.1**	6,157.6	376.9	6,534.5

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

3 EXPENSE ANALYSIS

	2015 Total £m	2014 Total £m
Revenue	**10,311.4**	10,309.7
Cost of sales	**(6,325.9)**	(6,439.0)
Gross profit	**3,985.5**	3,870.7
Selling and administrative expenses	**(3,304.8)**	(3,224.3)
Other operating income	**81.8**	95.5
Underlying operating profit	**762.5**	741.9
Non-underlying items (see note 5)	**(61.2)**	(47.4)
Operating profit	**701.3**	694.5

The selling and administrative expenses are further analysed below:

	2015 Total £m	2014 Total £m
Employee costs[1]	**1,360.7**	1,410.9
Occupancy costs	**709.0**	690.7
Repairs, renewals and maintenance of property	**104.9**	102.1
Depreciation, amortisation and asset write-offs	**550.1**	477.8
Other costs	**580.1**	542.8
Selling and administrative expenses	**3,304.8**	3,224.3

1. There are an additional £45.5m of employee costs recorded within cost of sales within the current year. These costs are included within note 10A.

4 PROFIT BEFORE TAXATION

The following items have been included in arriving at profit before taxation:

	2015 £m	2014 £m
Net foreign exchange gains	**(12.7)**	(5.1)
Cost of inventories recognised as an expense	**5,746.2**	5,803.5
Depreciation of property, plant, and equipment		
– owned assets	**396.8**	372.5
– under finance leases	**3.3**	7.2
Amortisation of intangible assets	**122.7**	89.6
Loss/(profit) on property disposals	**2.3**	(82.2)
Operating lease rentals payable		
– property	**318.8**	312.5
– fixtures, fitting and equipment	**2.8**	2.9

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 (last year PricewaterhouseCoopers LLP) as follows:

	2015 £m	2014 £m
Annual audit of the Company and the consolidated financial statements	**0.7**	0.6
Audit of subsidiary companies	**0.6**	0.9
Audit-related assurance services	**0.2**	0.2
Total audit and audit-related assurance services fees	**1.5**	1.7
Tax compliance services	**0.1**	0.3
Tax advisory services	**–**	0.4
Other services	**0.4**	0.4
Total non-audit fees	**0.5**	1.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

5 NON-UNDERLYING ITEMS

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significant and distort the Group's underlying performance. These adjustments include:

→ 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 fees received from M&S Bank although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2012 M&S Bank has recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability (under the Relationship Agreement) in both the current and prior years. The total charge to date for the deduction in the Group's fee income is £139.2m. The deduction in the period is £53.7m. This has been treated as a non-underlying adjustment to reported profit before tax, in line with previous periods.

On 26 September 2014 the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historical mis-selling charges). This resulted in an ex-gratia payment of £40.0m by HSBC which was recognised as a non-underlying credit in the period (net of £0.1m legal fees), consistent with the deduction to the Group's fee income. On the same basis as previous periods, any future increase in the liability recognised by M&S Bank will result in a further reduction in the Group's fee income.

→ Restructuring costs relating to the Group's strategy to transition to a one tier distribution network and the closure costs of the legacy logistics sites (current period cost of £10.2m). To date, £72.7m has been expensed in relation to this programme. Restructuring costs have been incurred in Ireland in previous periods following a thorough commercial review of the Ireland business. In the current period, resolution has been reached on a number of employee matters in Ireland resulting in the recognition of a net credit of £5.6m.

→ IAS 39 fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%.

→ A small number of stores have been closed or are committed to close at year end resulting in a charge of £6.9m in the year from loss on disposals (£2.3m) and asset impairments (£4.6m). The profit on property disposal in the prior year relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years.

→ International store review in the current year relates to the impairment of assets (£34.9m) and onerous lease provisions (£2.3m) in underperforming stores in Western Europe, Ireland and China. The prior year charge relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in underperforming International stores in non-strategic locations in China and the Czech Group.

→ Pension credit recognised in the prior year as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post-retirement pension increases were removed and prior year pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m).

→ Strategic programme costs relating to the strategy announcements made in November 2010, including the costs associated with the initial Focus on the UK plans. These included asset write-offs and accelerated depreciation. These costs were not considered normal operating costs of the business. We do not anticipate incurring any further cost in relation to this programme.

→ Interest income (and related fees incurred) in the prior year on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries.

The adjustments made to reported profit before tax to arrive at underlying profit are:

	Notes	**2015 £m**	2014 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	2	**(13.8)**	(50.8)
Restructuring costs	15, 22	**(4.6)**	(77.3)
IAS 39 fair value movement of embedded derivative	21	**1.3**	(3.5)
(Loss)/profit on disposal and impairment once commitment to closure	4	**(6.9)**	82.2
International store review	15, 22	**(37.2)**	(21.9)
UK and Ireland one-off pension credits	11	**–**	27.5
Strategic programme costs		**–**	(2.0)
Fees incurred on tax repayment		**–**	(1.6)
Adjustment to operating profit		**(61.2)**	(47.4)
Interest income on tax repayment	6	**–**	4.9
Adjustment to profit before tax		**(61.2)**	(42.5)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

6 FINANCE INCOME/COSTS

	2015 £m	2014 £m
Bank and other interest receivable	**5.0**	8.4
Pension net finance income (see note 11)	**10.5**	11.7
Underlying finance income	**15.5**	20.1
Interest income on tax repayment (see note 7)	**–**	4.9
Finance income	**15.5**	25.0
Interest on bank borrowings	**(3.3)**	(3.3)
Interest payable on syndicated bank facility	**(6.4)**	(5.0)
Interest payable on medium-term notes	**(88.1)**	(110.5)
Interest payable on finance leases	**(2.0)**	(2.3)
Unwind of discount on financial instruments	**(0.6)**	(0.2)
Unwind of discount on provisions	**(0.3)**	–
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(16.1)**	(17.8)
Finance costs	**(116.8)**	(139.1)
Net finance costs	**(101.3)**	(114.1)

7 INCOME TAX EXPENSE

A. Taxation charge

	2015 £m	2014 £m
Current tax		
UK corporation tax on profits for the year at 21% (last year 23%)		
– current year	**106.5**	97.1
– adjustments in respect of prior years	**(7.5)**	(55.8)
UK current tax	**99.0**	41.3
Overseas current taxation		
– current year	**12.3**	14.5
– adjustments in respect of prior years	**(3.0)**	(2.7)
Total current taxation	**108.3**	53.1
Deferred tax		
– origination and reversal of temporary differences	**5.8**	17.7
– adjustments in respect of prior years	**4.5**	26.2
– changes in tax rate	**(0.3)**	(22.6)
Total deferred tax (see note 23)	**10.0**	21.3
Total income tax expense	**118.3**	74.4

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 19.7% (last year 12.8%) and is reconciled below:

	2015 £m	2014 £m
Profit before tax	**600.0**	580.4
Notional taxation at the standard UK corporation tax rate of 21% (last year 23%)	**126.0**	133.5
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**5.3**	4.3
Other income and expenses that are not taxable or allowable for tax purposes	**(9.9)**	(5.4)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(0.3)**	(22.5)
Overseas profits taxed at rates different to those of the UK	**(7.9)**	(3.7)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**4.8**	8.7
Adjustments to current and deferred tax charges in respect of prior periods	**(6.1)**	(6.4)
Adjustments to underlying profit:		
– International store review charges where no tax relief is available	**7.7**	4.9
– property disposal gain covered by other losses arising in the year	**(1.3)**	(13.0)
– deferred tax rate change benefit	**0.1**	–
– overseas rate differences	**(0.1)**	–
Non-underlying adjustment to current and deferred tax charges in respect of prior periods	**–**	(26.0)
Total income tax expense	**118.3**	74.4

After excluding non-underlying items the underlying effective tax rate was 18.9% (last year 18.8%).

The non-underlying adjustment to the tax charge in respect of prior periods arose from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m) and release of provisions following settlement of disputes with the tax authorities (£7.5m).

C. Current tax reconciliation

The current tax reconciliation shows 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.

	2015 £m	2014 £m
Profit before taxation	**600.0**	580.4
Notional taxation at standard UK corporation tax rate of 21% (last year 23%)	**126.0**	133.5
Disallowable accounting depreciation and other similar items	**86.1**	85.8
Deductible capital allowances	**(76.9)**	(81.2)
Allowable deductions for employee share schemes	**(10.2)**	(8.9)
Allowable deductions for employee pension schemes	**(15.6)**	(13.9)
Overseas profits taxed at rates different to those of the UK	**(5.7)**	(3.7)
Overseas tax losses where there is no immediate relief	**4.8**	8.7
Other income and expenses that are not taxable or allowable	**1.9**	(1.4)
Adjustments to underlying profit:		
– International store review charges where no tax relief is available	**7.7**	4.9
– property disposal loss relievable in the future/(gain covered by other losses arising in the year)	**0.5**	(13.0)
– UK property and investment deduction where no tax relief is available	**0.6**	–
– embedded derivative	**(0.3)**	0.8
– overseas rate differences	**(0.1)**	–
Current year current tax charge	**118.8**	111.6
Represented by:		
UK current year current tax	**106.5**	97.1
Overseas current year current tax	**12.3**	14.5
	118.8	111.6
UK adjustments in respect of prior years	**(7.5)**	(55.8)
Overseas adjustments in respect of prior years	**(3.0)**	(2.7)
Total current taxation (note 7A)	**108.3**	53.1

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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 underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, significant and are not considered normal operating costs of the underlying business (see note 5). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

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 classes 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 underlying earnings per share are set out below:

	2015 £m	2014 £m
Profit attributable to equity shareholders of the Company	**486.5**	524.8
Add/(less) (net of tax):		
– Net M&S Bank charges incurred in relation to the insurance mis-selling provision	**10.9**	39.1
– Restructuring costs	**3.9**	62.5
– IAS 39 fair value movement of embedded derivative	**(1.0)**	2.8
– Loss/(profit) on disposal and impairment once commitment to closure	**4.3**	(76.3)
– International store review	**36.6**	17.3
– UK and Ireland one-off pension credits	**–**	(23.3)
– Fees incurred on tax repayment	**–**	(2.5)
– Strategic programme costs	**–**	1.6
– Non-underlying adjustment to tax charge in respect of prior periods	**–**	(26.0)
Underlying profit attributable to equity shareholders of the Company	**541.2**	520.0

	2015 Million	2014 Million
Weighted average number of ordinary shares in issue	**1,635.6**	1,615.0
Potentially dilutive share options under Group's share option schemes	**11.3**	14.1
Weighted average number of diluted ordinary shares	**1,646.9**	1,629.1

	2015 Pence	2014 Pence
Basic earnings per share	**29.7**	32.5
Diluted earnings per share	**29.5**	32.2
Underlying basic earnings per share	**33.1**	32.2
Underlying diluted earnings per share	**32.9**	31.9

9 DIVIDENDS

	2015 per share	2014 per share	2015 £m	2014 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**176.2**	173.6
Paid interim dividend	**6.4p**	6.2p	**104.5**	100.0
	17.2p	17.0p	**280.7**	273.6

The directors have proposed a final dividend in respect of the year ended 28 March 2015 of 11.6p per share amounting to a dividend of £191.1m. It will be paid on 10 July 2015 to shareholders on the Register of Members as at close of business on 29 May 2015, subject to approval of shareholders at the Annual General Meeting, to be held on 7 July 2015. In line with the requirements of IAS 10 'Events after the reporting period', this dividend has not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 28 May 2015. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 19 June 2015.

The Group has a progressive dividend policy with dividends covered broadly twice by earnings, as explained in the Financial review on page 16.

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10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2015 Total £m	2014 Total £m
Wages and salaries	**1,224.3**	1,197.5
Social security costs	**80.9**	85.9
Other pension costs	**85.4**	92.4
Share-based payments (see note 13)	**(1.1)**	21.3
Employee welfare and other personnel costs	**49.7**	49.5
Capitalised staffing costs	**(33.0)**	(35.7)
Total aggregate remuneration	**1,406.2**	1,410.9

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2015	2014
UK stores		
– management and supervisory categories	**5,516**	5,533
– other	**64,182**	67,678
UK head office		
– management and supervisory categories	**3,055**	3,176
– other	**866**	724
UK operations		
– management and supervisory categories	**225**	92
– other	**835**	660
Overseas	**8,390**	7,950
Total average number of employees	**83,069**	85,813

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 59,096 (last year 61,176).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below:

	2015 £000	2014 £000
Aggregate emoluments	**7,567**	6,395

The emoluments include payments to directors who retired from the Board in 2014/15 of £362,000 (last year £430,000).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit arrangement which was closed to new entrants with effect from 1 April 2002) and Your M&S Pension Saving Plan (a defined contribution arrangement which has been open to new members with effect from 1 April 2003).

The defined contribution 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 investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. 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.

The defined benefit arrangement operates on a final salary basis and at the year end had some 12,000 active members (last year 13,000), 54,000 deferred members (last year 55,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution arrangement had some 38,000 active members (last year 38,000) and some 6,000 deferred members (last year 5,000). The scheme is governed by a Trustee board which is independent of the Group.

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. This scheme closed to future accrual from 31 October 2013. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

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11 RETIREMENT BENEFITS CONTINUED

Within the total Group retirement benefit cost of £74.9m (last year £53.5m), £33.7m (last year £27.0m) relates to the UK defined benefit scheme, £36.4m (last year £39.2m) to the UK defined contribution scheme and £4.8m (last year £12.7m) to other retirement benefit schemes.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result, a funding plan of £112m cash contributions was agreed with the Trustees. The Group contributed payments of £28m to the UK defined benefit scheme in March 2014 and March 2015 in the current financial year, and expects to contribute an additional £28m each year until March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets. Future contributions to meet the cost of accruing benefits to the UK scheme are made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation.

By funding its defined benefit 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 unanticipated advances in medical 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 has an obligation to the UK defined benefit scheme via the interest in the Scottish Limited Partnership (refer to note 12), through which the Group is exposed to additional risks. 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, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2015 £m	2014 £m
Total market value of assets	**8,596.5**	6,729.4
Present value of scheme liabilities	**(8,135.8)**	(6,528.7)
Net funded pension plan asset	**460.7**	200.7
Unfunded retirement benefits	**(0.7)**	(0.7)
Post-retirement healthcare	**(11.0)**	(11.0)
Net retirement benefit asset	**449.0**	189.0
Analysed in the statement of financial position as:		
Retirement benefit asset	**460.7**	200.7
Retirement benefit deficit	**(11.7)**	(11.7)
	449.0	189.0

The asset recognised for the UK Defined Benefit Scheme is based on the assumption that the full surplus will ultimately be available to the Group as a future refund of surplus.

B. Financial assumptions

The financial assumptions for the UK 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:

	2015 %	2014 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**1.9–3.0**	2.2–3.3
Discount rate	**3.10**	4.45
Inflation rate	**3.1**	3.4
Long-term healthcare cost increases	**7.1**	7.4

The inflation rate of 3.1% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.1% (last year 2.4%) has been used.

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11 RETIREMENT BENEFITS CONTINUED

C. Demographic assumptions

Apart from post-retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2012. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2012 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA lite tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2015	2014
Current pensioners (at age 65)	– males	**22.7**	22.4
	– females	**24.4**	24.1
Future pensioners (at age 65)	– males	**22.4**	21.8
	– females	**25.1**	24.6
Deferred pensioners (at age 65)	– males	**23.2**	22.6
	– females	**26.0**	25.4

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the pension scheme surplus:

	2015 £m	2014 £m
(Decrease)/increase in scheme surplus caused by an increase in the discount rate of 0.25% (last year 0.5%)	**(70.0)**	50.0
Increase/(decrease) in scheme surplus caused by an increase in the inflation rate of 0.25%	**30.0**	(50.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**330.0**	230.0

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.

E. Analysis of assets

The investment strategy of the UK defined benefit pension scheme is driven by its liability profile, in particular 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 90% of interest rate movements and 85% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

The fair value of the plan assets at the end of the reporting period for each category are as follows:

	2015 £m	2014 £m
Debt investments		
– government	**4,180.0**	2,319.0
– corporate bonds	**1,211.0**	1,255.7
– asset backed securities and structured debt	**363.9**	232.0
Scottish Limited Partnership interest (see note 12)	**531.3**	574.7
Equity investments – quoted	**1,131.8**	998.1
Equity investments – unquoted	**178.0**	110.1
Property	**327.1**	278.6
Derivatives		
– interest and inflation rate swap contracts	**(127.5)**	51.3
– foreign exchange contracts and other derivatives	**190.9**	123.3
Hedge and reinsurance funds	**313.6**	329.8
Cash and cash equivalents	**306.2**	444.1
Other	**(9.8)**	12.7
	8,596.5	6,729.4

The fair values of the above equity and debt investments are determined 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 market 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 scheme indirectly held 199,032 (last year 199,523) ordinary shares in the Company through its investment in UK Equity Index Funds.

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11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of retirement benefit plans are as follows:

	2015 £m	2014 £m
Current service cost	**82.4**	88.7
Administration costs	**2.0**	3.0
Past service costs – curtailment charge	**1.0**	1.0
UK and Ireland one-off pension credits	**–**	(27.5)
Net interest income	**(10.5)**	(11.7)
Total	**74.9**	53.5
Remeasurement on the net defined benefit surplus:		
– actual return on scheme assets excluding amounts included in net interest income	**1,722.4**	(322.0)
– actuarial gain/(loss) – experience	**33.7**	(17.4)
– actuarial loss – demographic assumptions	**(83.9)**	–
– actuarial (loss)/gain – financial assumptions	**(1,478.5)**	254.1
Components of defined benefit cost recognised in other comprehensive income	**193.7**	(85.3)
Total	**268.6**	(31.8)

G. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2015 £m	2014 £m
Fair value of scheme assets at start of year	**6,729.4**	6,930.0
Interest income based on discount rate	**293.0**	294.0
Actual return on scheme assets excluding amounts included in net interest income[1]	**1,722.4**	(322.0)
Employer contributions	**143.0**	92.1
Benefits paid	**(276.5)**	(261.2)
Administration costs	**(2.0)**	(3.0)
Exchange movement	**(12.8)**	(0.5)
Fair value of scheme assets at end of year	**8,596.5**	6,729.4

1. The actual return on scheme assets was a gain of £2,015.4m (last year loss of £27.9m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2015 £m	2014 £m
Present value of obligation at start of year	**6,540.4**	6,694.0
Current service cost	**82.4**	88.7
Curtailment charge	**1.0**	1.0
One-off UK and Ireland pension credit (note 5)	**–**	(27.5)
Interest cost	**282.5**	282.3
Benefits paid	**(276.5)**	(261.2)
Actuarial (gain)/loss – experience	**(33.7)**	17.4
Actuarial loss – demographic assumptions	**83.9**	–
Actuarial loss/(gain) – financial assumptions	**1,478.5**	(254.1)
Exchange movement	**(11.0)**	(0.2)
Present value of obligation at end of year	**8,147.5**	6,540.4
Analysed as:		
Present value of pension scheme liabilities	**8,135.8**	6,528.7
Unfunded pension plans	**0.7**	0.7
Post-retirement healthcare	**11.0**	11.0
Present value of obligation at end of year	**8,147.5**	6,540.4

The average duration of the defined benefit obligation at 28 March 2015 is 18 years (last year 18 years).

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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). As such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

The Partnership liability to the Marks & Spencer UK pension scheme of £512.9m (last year £568.7m) is valued at the net present value of the future expected distributions from the Partnership.

During the year to 28 March 2015 an interest charge of £16.1m (last year £17.8m) was recognised in the income statement representing the unwinding of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Partnership is included within the UK pension scheme assets, valued at £531.3m (last year £574.7m), refer to note 11E.

13 SHARE-BASED PAYMENTS

This year a net credit of £1.1m was recognised for share-based payments (last year charge of £21.3m). The total balance comprises a credit of £15.0m (last year charge of £4.1m) relating to Performance Share Plans offset by a charge of £9.0m (last year charge of £9.6m) relating to the Save As You Earn Share Scheme. The remaining £4.9m charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration Report on pages 52 to 76.

A. Save As You Earn scheme

Sharesave, the Company's Save As You Earn scheme, was approved by shareholders at the 2007 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 Save As You Earn (SAYE) savings contract. 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.

	2015		2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**34,423,922**	**311.6p**	45,273,287	265.2p
Granted	**14,389,736**	**369.0p**	9,992,932	405.0p
Exercised	**(14,602,805)**	**256.8p**	(16,921,571)	237.7p
Forfeited	**(4,485,417)**	**371.5p**	(3,058,210)	300.6p
Expired	**(194,913)**	**302.8p**	(862,516)	450.2p
Outstanding at end of year	**29,530,523**	**357.6p**	34,423,922	311.6p
Exercisable at end of year	**1,352,847**	**268.7p**	1,879,073	253.3p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 471.8p (last year 448.1p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2015 3-year plan	2014 3-year plan
Grant date	**Nov 14**	Nov 13
Share price at grant date	**460p**	506p
Exercise price	**369p**	405p
Option life in years	**3 years**	3 years
Risk-free rate	**0.9%**	0.8%
Expected volatility	**23.6%**	24.2%
Expected dividend yield	**3.9%**	3.4%
Fair value of option	**91p**	105p

Volatility has been estimated by taking the historical 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.

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13 SHARE-BASED PAYMENTS CONTINUED

Outstanding options granted under the UK Employees SAYE scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2015**	2014	**2015**	2014	Option price
January 2009	**–**	1,241,356	**–**	0.3	203p
January 2010	**–**	497	**–**	–	292p
January 2011	**–**	791,518	**–**	0.3	319p
January 2012	**1,335,181**	14,423,919	**0.3**	1.3	258p
January 2013	**7,499,742**	8,353,334	**1.3**	2.3	312p
January 2014	**6,652,869**	9,613,298	**2.3**	3.3	405p
January 2015	**14,042,731**	–	**3.3**	–	369p
	29,530,523	34,423,922	**2.4**	2.0	358p

B. Performance Share Plan*
The Performance Share Plan is the primary long-term incentive plan for approximately 150 of the most senior managers and was first approved by shareholders at the 2005 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 a balanced scorecard of financial measures which currently include Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Revenue. 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 on pages 66 to 68. Awards under this scheme have been made in each year since 2005.

During the year, 7,338,609 shares (last year 7,113,690) were awarded under the Plan. The weighted average fair value of the shares awarded was 439.3p (last year 440.7p). As at 28 March 2015, 18,805,388 shares (last year 21,170,536) were outstanding under the scheme.

As set out on page 66 of this Annual Report, the Company's existing Performance Share Plan expires in 2015. The Company is therefore seeking shareholder approval in 2015 for a replacement Plan, the rules and operation of which are substantially the same as the current Plan. Further details of the replacement Performance Share Plan can be found in the Notice of Meeting 2015.

C. Deferred Share Bonus Plan*
The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 550 of the most senior managers. As part of the scheme, 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, and the value of any dividends earned during the deferred period will also be paid on vesting.

During the year, 20,882 shares (last year 1,658,133) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 437.0p (last year 437.0p). As at 28 March 2015, 2,487,477 shares (last year 5,024,149) were outstanding under the scheme.

D. Restricted Share Plan*
The Restricted Share Plan 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 during the restricted period will also be paid at the time of vesting.

During the year, 1,001,076 shares (last year 798,196) have been awarded under the Plan. The weighted average fair value of the shares awarded was 450.5p (last year 479.2p). As at 28 March 2015, 1,963,139 shares (last year 2,271,826) were outstanding under the scheme.

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 ten-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 allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 121,086 (last year 62,734) options were granted, at a fair value of 90.8p (last year 105.1p). As at 28 March 2015, 288,162 options (last year 251,545) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust
The Marks and Spencer Employee Benefit Trust (the Trust) holds 3,912,120 (last year 2,595,343) shares with a book value of £19.1m (last year £8.6m) and a market value of £20.7m (last year £11.8m). 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 schemes. Dividends are waived on all of these plans.

* Nil cost options. 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.

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14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 30 March 2013					
Cost or valuation	127.0	112.4	613.4	183.2	1,036.0
Accumulated amortisation and impairment	(34.4)	(45.2)	(261.4)	–	(341.0)
Net book value	92.6	67.2	352.0	183.2	695.0
Year ended 29 March 2014					
Opening net book value	92.6	67.2	352.0	183.2	695.0
Additions	3.3	–	128.0	72.6	203.9
Transfers	–	–	137.4	(137.4)	–
Amortisation charge	–	(5.3)	(84.3)	–	(89.6)
Exchange difference	(0.7)	–	(0.2)	–	(0.9)
Closing net book value	95.2	61.9	532.9	118.4	808.4
At 29 March 2014					
Cost or valuation	129.6	112.4	878.6	118.4	1,239.0
Accumulated amortisation and impairment	(34.4)	(50.5)	(345.7)	–	(430.6)
Net book value	95.2	61.9	532.9	118.4	808.4
Year ended 28 March 2015					
Opening net book value	**95.2**	**61.9**	**532.9**	**118.4**	**808.4**
Additions	**–**	**0.1**	**79.4**	**98.5**	**178.0**
Transfers	**–**	**–**	**130.1**	**(130.1)**	**–**
Disposals	**–**	**–**	**(1.4)**	**–**	**(1.4)**
Asset write-offs	**–**	**–**	**(2.4)**	**(1.2)**	**(3.6)**
Amortisation charge	**–**	**(5.3)**	**(117.4)**	**–**	**(122.7)**
Exchange difference	**0.1**	**–**	**(0.4)**	**(0.2)**	**(0.5)**
Closing net book value	**95.3**	**56.7**	**620.8**	**85.4**	**858.2**
At 28 March 2015					
Cost or valuation	**129.7**	**112.5**	**1,087.7**	**86.6**	**1,416.5**
Accumulated amortisation and impairment	**(34.4)**	**(55.8)**	**(466.9)**	**(1.2)**	**(558.3)**
Net book value	**95.3**	**56.7**	**620.8**	**85.4**	**858.2**

Goodwill and indefinite life intangibles relate to the following business units:

	per una £m	**Marks and Spencer Czech Republic a.s. £m**	**Supreme Trademarks Private Limited (India) £m**	**Marks and Spencer (Hungary) KFT £m**	**Total goodwill £m**	**M&S Mode indefinite life intangible £m**
Net book value at 29 March 2014	69.5	15.5	6.9	3.3	95.2	32.4
Exchange difference	–	(0.1)	0.2	–	0.1	–
Net book value at 28 March 2015	**69.5**	**15.4**	**7.1**	**3.3**	**95.3**	**32.4**

Impairment testing

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses for each location.

Brands include the per una brand cost of £80.0m (net book value £24.2m) and the M&S Mode brand cost of £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight-line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business.

The value in use calculations use cash flows based on detailed financial budgets prepared by management covering a three-year period. These budgets have regard to historical performance and knowledge of the current market, together with management's views on the future achievable growth and the impact of committed initiatives. The cash flows which derive from the budgets include ongoing capital expenditure required to maintain the store network. Cash flows beyond this three-year period are extrapolated using a long-term growth rate.

The key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate. The long-term growth rate has been determined with reference to forecast GDP growth for the territories in which these businesses operate. Management believes this is the most appropriate indicator of long-term growth rates that is available. The long-term growth rate used is purely for the impairment testing of goodwill and brands under IAS 36 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. These growth rates do not exceed the long-term average growth rate for the Groups' retail businesses. The pre-tax discount rate is based on 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.

NOTES TO THE FINANCIAL STATEMENTS
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14 INTANGIBLE ASSETS CONTINUED

Impairment testing continued

The values attributed to the key assumptions are as follows:

	Long-term growth rate		Pre-tax discount rate	
	2015 %	2014 %	**2015 %**	2014 %
per una	**2.0**	2.0	**8.6**	11.0
Marks and Spencer Czech Republic a.s.	**1.9**	2.5	**10.1**	13.1
Supreme Trademarks Private Limited (India)	**6.8**	6.0	**15.4**	18.3
Marks and Spencer (Hungary) KFT	**1.4**	1.5	**11.0**	17.0

The M&S Mode brands are tested based on the regions operating in the European business which are covered under the brand rights acquired. The discount rates used to calculate value in use range from 9.3% to 27.9% (last year 13.1% to 28.9%). Cash flows beyond the three-year period have been extrapolated at long-term growth rates ranging from 1.0% to 4.0% (last year 1.0% to 2.5%).

Sensitivity analysis

Whilst management believes the assumptions are realistic it is possible that an impairment would be identified if any of the above key assumptions were changed significantly. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. Management have concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amount of goodwill or brands to exceed the value in use.

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 30 March 2013				
Cost	2,817.1	6,198.1	312.4	9,327.6
Accumulated depreciation and asset write-offs	(305.5)	(3,988.4)	–	(4,293.9)
Net book value	2,511.6	2,209.7	312.4	5,033.7
Year ended 29 March 2014				
Opening net book value	2,511.6	2,209.7	312.4	5,033.7
Additions	34.6	362.7	155.8	553.1
Transfers	41.7	169.1	(210.8)	–
Disposals	(15.2)	(5.3)	–	(20.5)
Asset impairments	(11.6)	(13.6)	–	(25.2)
Asset write-offs	(2.7)	(1.3)	(6.0)	(10.0)
Depreciation charge	(15.0)	(364.7)	–	(379.7)
Exchange difference	(3.7)	(6.6)	(1.2)	(11.5)
Closing net book value	2,539.7	2,350.0	250.2	5,139.9
At 29 March 2014				
Cost	2,871.7	6,686.8	256.2	9,814.7
Accumulated depreciation, impairments and asset write-offs	(332.0)	(4,336.8)	(6.0)	(4,674.8)
Net book value	2,539.7	2,350.0	250.2	5,139.9
Year ended 28 March 2015				
Opening net book value	**2,539.7**	**2,350.0**	**250.2**	**5,139.9**
Additions	**19.0**	**213.0**	**167.8**	**399.8**
Transfers	**14.5**	**268.4**	**(282.9)**	**–**
Disposals	**(12.5)**	**(0.2)**	**–**	**(12.7)**
Asset impairments	**(13.3)**	**(35.4)**	**–**	**(48.7)**
Asset write-offs	**(1.0)**	**(6.6)**	**(11.4)**	**(19.0)**
Depreciation charge	**(14.8)**	**(385.1)**	**(0.2)**	**(400.1)**
Exchange difference	**(16.3)**	**(10.0)**	**(1.8)**	**(28.1)**
Closing net book value	**2,515.3**	**2,394.1**	**121.7**	**5,031.1**
At 28 March 2015				
Cost	**2,855.1**	**7,066.4**	**133.3**	**10,054.8**
Accumulated depreciation, impairments and asset write-offs	**(339.8)**	**(4,672.3)**	**(11.6)**	**(5,023.7)**
Net book value	**2,515.3**	**2,394.1**	**121.7**	**5,031.1**

The net book value above includes land and buildings of £42.7m (last year £43.7m) and equipment of £1.1m (last year £4.2m) 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 new finance leases.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

16 OTHER FINANCIAL ASSETS

	2015 £m	2014 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**11.6**	12.4
Unlisted investments	**–**	5.3
	11.6	17.7

1. Includes £1.2m (last year £1.5m) of money market deposits held by Marks and Spencer plc in an escrow account.

Non-current unlisted investments are carried as available-for-sale assets. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2015 £m	2014 £m
Non-current		
Other receivables	**56.8**	82.8
Prepayments and accrued income	**226.5**	230.7
	283.3	313.5
Current		
Trade receivables	**128.6**	127.5
Less: Provision for impairment of receivables	**(4.9)**	(0.7)
Trade receivables – net	**123.7**	126.8
Other receivables	**53.3**	53.9
Prepayments and accrued income	**144.8**	128.8
	321.8	309.5

Trade and other receivables that were past due but not impaired amounted to £1.4m (last year £6.4m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £13.5m (last year £9.3m) of accrued supplier income relating to rebates which 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. The amount is immaterial. The impact on inventory is also 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 £205.9m (last year £182.1m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.48% (last year 0.41%). These deposits have an average maturity of 42 days (last year eight days).

19 TRADE AND OTHER PAYABLES

	2015 £m	2014 £m
Current		
Trade and other payables[1]	**967.6**	929.1
Social security and other taxes	**57.7**	58.4
Accruals and deferred income[1,2]	**617.1**	705.3
	1,642.4	1,692.8
Non-current		
Other payables	**319.7**	334.0

1. The prior year balances have been re-presented to correctly classify accruals balances that were previously held in trade and other payables.
2. During the year £22.2m was reclassified from accruals and deferred income to provisions.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2015 £m	2014 £m
Current		
Bank loans and overdrafts[1]	**278.9**	445.5
Finance lease liabilities	**0.5**	3.2
	279.4	448.7
Non-current		
Bank loans	**0.1**	0.2
6.250% US$500m medium-term notes 2017[3]	**341.9**	306.3
6.125% £400m medium-term notes 2019[2]	**428.8**	422.3
6.125% £300m medium-term notes 2021[2]	**302.5**	302.1
4.75% £400m medium-term notes 2025[2]	**420.2**	392.3
7.125% US$300m medium-term notes 2037[3]	**204.3**	182.9
Finance lease liabilities	**48.1**	49.0
	1,745.9	1,655.1
Total	**2,025.3**	2,103.8

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (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.

Finance leases
The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain properties and equipment under finance leases. The average lease term for equipment is six years (last year five years) and 124 years (last year 125 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.

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 £1.325bn set to mature on 28 September 2018. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation, rents payable and exceptional items : to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £100m (last year £80m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £225m (last year £234m) was drawn under the committed facilities and £nil (last year £23m) 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 £1.1bn (last year £1.1bn) was in issuance as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

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 £m	Partnership liability to the Marks & Spencer UK Pension £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total £m
Timing of cash flows									
Within one year	(211.6)	(233.9)	(93.5)	(5.5)	(71.9)	(616.4)	1,849.9	(1,879.6)	(29.7)
Between one and two years	(0.2)	–	(93.5)	(2.9)	(71.9)	(168.5)	207.4	(203.8)	3.6
Between two and five years	–	–	(562.6)	(6.9)	(215.6)	(785.1)	383.4	(414.4)	(31.0)
More than five years	–	–	(1,737.4)	(185.6)	(287.3)	(2,210.3)	425.5	(478.9)	(53.4)
	(211.8)	(233.9)	(2,487.0)	(200.9)	(646.7)	(3,780.3)	2,866.2	(2,976.7)	(110.5)
Effect of discounting and foreign exchange	–	–	881.1	148.7	78.0	1,107.8			
At 29 March 2014	(211.8)	(233.9)	(1,605.9)	(52.2)	(568.7)	(2,672.5)			
Timing of cash flows									
Within one year	**(54.0)**	**(224.9)**	**(97.2)**	**(2.5)**	**(71.9)**	**(450.5)**	**2,214.0**	**(2,092.4)**	**121.6**
Between one and two years	**(0.1)**	**–**	**(97.2)**	**(2.4)**	**(71.9)**	**(171.6)**	**238.3**	**(224.5)**	**13.8**
Between two and five years	**–**	**–**	**(985.2)**	**(7.2)**	**(215.6)**	**(1,208.0)**	**414.0**	**(390.0)**	**24.0**
More than five years	**–**	**–**	**(1,310.3)**	**(180.5)**	**(215.6)**	**(1,706.4)**	**459.6**	**(440.8)**	**18.8**
	(54.1)	**(224.9)**	**(2,489.9)**	**(192.6)**	**(575.0)**	**(3,536.5)**	**3,325.9**	**(3,147.7)**	**178.2**
Effect of discounting and foreign exchange	**–**	**–**	**792.2**	**144.0**	**62.1**	**998.3**			
At 28 March 2015	**(54.1)**	**(224.9)**	**(1,697.7)**	**(48.6)**	**(512.9)**	**(2,538.2)**			

1. Derivative assets and derivative liabilities amounts represent the fair value as at the balance sheet date of the foreign exchange forward contracts and the forecasted interest payments on the swap contracts together with the final exchange of notional at the end of the contracts. Such cash flows were translated into sterling using spot rates as of the balance sheet date for the cross-currency interest rate swaps.

The present value of finance lease liabilities is as follows:

	2015 £m	2014 £m
Within one year	**(0.5)**	(3.2)
Later than one year and not later than five years	**(1.0)**	(1.2)
Later than five years	**(47.1)**	(47.8)
Total	**(48.6)**	(52.2)

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by 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(A-)/Moody's (A3). Credit ratings quoted on the following page are in line with Standard & Poor's equivalent. In the event of a downgrade by one rating agency and not 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 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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(b) Counterparty risk continued

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[3]								
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+[4] £m	Total £m
Short-term investments[1]	–	–	–	12.0	12.0	37.8	–	–	61.8
Derivative assets[2]	–	–	–	7.6	0.5	11.7	5.5	6.6	31.9
At 29 March 2014	–	–	–	19.6	12.5	49.5	5.5	6.6	93.7

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	**–**	**–**	**–**	**3.5**	**39.9**	**57.4**	**–**	**–**	**100.8**
Derivative assets[2]	**–**	**–**	**–**	**21.5**	**21.8**	**52.1**	**46.9**	**–**	**142.3**
At 28 March 2015	**–**	**–**	**–**	**25.0**	**61.7**	**109.5**	**46.9**	**–**	**243.1**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks & Spencer General Insurance.
2. Excludes the embedded derivative within the lease host contract.
3. 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.
4. Exposure to a counterparty approved as an exception to Treasury policy.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £129m (last year £128m), other receivables £110m (last year £136m), cash and cash equivalents £206m (last year £182m) and derivatives £194m (last year £54m).

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out for longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,591m (last year £1,600m) with a weighted average maturity date of seven months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 28 March 2015 will be released to the income statement at various dates over the following 16 months (last year 16 months) from the balance sheet date.

The Group also holds a number of cross-currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €144m of currency debt (last year €162m of derivatives) and HK$1,398m (last year HK$698m) of derivatives were hedging overseas net assets.

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 results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £412m (last year £417m).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(c) Foreign currency risk continued

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 (which has no currency or interest rate exposure) is set out below:

	2015			2014		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,315.4**	**568.2**	**1,883.6**	1,226.5	708.6	1,935.1
Euro	**5.8**	**105.6**	**111.4**	6.6	139.3	145.9
Other	**–**	**30.3**	**30.3**	–	22.8	22.8
	1,321.2	**704.1**	**2,025.3**	1,233.1	870.7	2,103.8

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and six months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.3% (last year 5.3%) and the weighted average time for which the rate is fixed is eight years (last year nine years).

(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 £1,321.2m (last year £1,233.1m) representing the public bond issues and finance leases, amounting to 66% (last year 59%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2015 %	2014 %
Committed and uncommitted borrowings	**0.9**	1.0
Medium-term notes	**5.3**	5.3
Finance leases	**4.1**	4.3

Derivative financial instruments

		2015		2014	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	– cash flow hedges	**114.8**	**(7.2)**	12.1	(50.9)
	– held for trading	**3.1**	**(0.4)**	1.6	(0.6)
	– net investment hedges	**–**	**(0.1)**	–	–
		117.9	**(7.7)**	13.7	(51.5)
Non-current					
Cross-currency swaps	– cash flow hedges	**6.3**	**(19.9)**	–	(62.3)
Forward foreign exchange contracts	– cash flow hedges	**7.3**	**(0.1)**	0.3	(0.9)
Interest rate swaps	– fair value hedge	**38.5**	**–**	17.9	(12.2)
Embedded derivative (see note 5)		**23.7**	**–**	22.4	–
		75.8	**(20.0)**	40.6	(75.4)

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 £0.3m (last year £0.5m) as the loss on the hedged item was £33.5m (last year £33.7m gain) and the gain on the hedging instrument was £33.8m (last year £34.2m loss). The Group also holds a number of cross-currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

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 rates and a 20% +/- (last year 20%) weakening in sterling against the relevant currency represents a reasonable 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 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 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 and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 29 March 2014				
Impact on income statement: gain/(loss)	4.2	(16.1)	–	–
Impact on other comprehensive income: (loss)/gain	(17.9)	11.6	124.9	(141.3)
At 28 March 2015				
Impact on income statement: gain/(loss)	**9.2**	**(12.5)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(15.2)**	**8.1**	**169.8**	**(113.2)**

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 statement of financial position are set out below. For trade and other receivables and trade and other payables, amounts not offset in the statement of financial position but which could be offset under certain circumstances are also set out.

	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 28 March 2015					
Trade and other receivables	**37.0**	**(37.0)**	**–**	**–**	**–**
Derivative financial assets	**170.0**	**–**	**170.0**	**(27.7)**	**142.3**
Cash and cash equivalents	**45.0**	**(42.1)**	**2.9**	**–**	**2.9**
	252.0	**(79.1)**	**172.9**	**(27.7)**	**145.2**
Trade and other payables	**(295.0)**	**37.0**	**(258.0)**	**–**	**(258.0)**
Derivative financial liabilities	**(27.7)**	**–**	**(27.7)**	**27.7**	**–**
Bank loans and overdrafts	**(60.3)**	**42.1**	**(18.2)**	**–**	**(18.2)**
	(383.0)	**79.1**	**(303.9)**	**27.7**	**(276.2)**

	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 29 March 2014					
Trade and other receivables	33.5	(24.2)	9.3	(9.3)	–
Derivative financial assets	31.9	–	31.9	(31.9)	–
Cash and cash equivalents	45.2	(39.0)	6.2	–	6.2
	110.6	(63.2)	47.4	(41.2)	6.2
Trade and other payables	(233.2)	24.2	(209.0)	9.3	(199.7)
Derivative financial liabilities	(126.9)	–	(126.9)	31.9	(95.0)
Bank loans and overdrafts	(45.1)	39.0	(6.1)	–	(6.1)
	(405.2)	63.2	(342.0)	41.2	(300.8)

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 statement of financial position 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 include 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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The fair value of the embedded derivative is calculated using an option valuation model based on the present value of a 35-year lease with annual lease payments increasing by Retail Price Index (RPI), capped and floored at 1.5% and 2.5% respectively and then discounted back to the valuation date. The valuation is sensitive to changes in RPI.

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2015				2014			
	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 and loss								
– trading derivatives	–	**3.1**	–	**3.1**	–	1.6	–	1.6
Derivatives used for hedging	–	**166.9**	–	**166.9**	–	30.3	–	30.3
Embedded derivatives (see note 5)	–	–	**23.7**	**23.7**	–	–	22.4	22.4
Short-term investments	–	**11.6**	–	**11.6**	–	12.4	–	12.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– trading derivatives	–	**(0.4)**	–	**(0.4)**	–	(0.6)	–	(0.6)
Derivatives used for hedging	–	**(27.3)**	–	**(27.3)**	–	(126.3)	–	(126.3)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements in the current or prior reporting period. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table represents the changes in Level 3 instruments:

	2015 £m	2014 £m
Opening balance	**22.4**	25.9
Gains and losses recognised in the income statement	**1.3**	(3.5)
Closing balance	**23.7**	22.4

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £1.3m gain (last year £3.5m loss) is treated as adjustment to reported profit (see note 5).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme, 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 fixed rate bond debt was £1,697.7m (last year £1,605.9m), the fair value of this debt was £1,883.6m (last year £1,780.3m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £512.9m (last year £568.7m) and the fair value of this liability is £501.3m (last year £555.7m).

Capital policy

The Group's objectives when managing capital 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, to operate within a net debt/EBITDA ratio of 2.0x-1.5x 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 (see note 27) 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 eight years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number 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	2015 Total £m	2014 Total £m
At start of year	**25.1**	**46.3**	**4.8**	**76.2**	35.2
Provided in the year	**15.2**	**13.7**	**4.8**	**33.7**	71.8
Released in the year	**(3.6)**	**(15.6)**	**(0.1)**	**(19.3)**	(4.3)
Utilised during the year	**(15.7)**	**(15.1)**	**(2.0)**	**(32.8)**	(25.6)
Exchange differences	**(0.6)**	**(1.4)**	**–**	**(2.0)**	(0.9)
Discount rate unwind	**0.3**	**–**	**–**	**0.3**	–
Reclassification from trade and other payables	**22.2**	**–**	**–**	**22.2**	–
At end of year	**42.9**	**27.9**	**7.5**	**78.3**	76.2
Analysed as:					
Current				**46.2**	44.8
Non-current				**32.1**	31.4

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK, China and the Czech Group (see note 5). These provisions are expected to be utilised over the period to the end of each specific lease. Restructuring provisions relate to the estimated costs of several strategic programmes including the closure of four stores in Ireland in the prior year and the current restructure of the logistics network (see note 5). These provisions are expected to be utilised within seven years.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using a tax rate of 20% (last year 20%) for UK differences and local tax rates for overseas differences.

The movements in deferred tax assets and liabilities (after offsetting 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 31 March 2013	(52.5)	(90.6)	(96.6)	6.5	(233.2)	(7.4)	(240.6)
Credited/(charged) to the income statement	3.2	(9.3)	(0.8)	(12.5)	(19.4)	(1.9)	(21.3)
Credited/(charged) to equity/other comprehensive income	–	–	0.1	20.9	21.0	(1.7)	19.3
At 29 March 2014	(49.3)	(99.9)	(97.3)	14.9	(231.6)	(11.0)	(242.6)
At 30 March 2014	**(49.3)**	**(99.9)**	**(97.3)**	**14.9**	**(231.6)**	**(11.0)**	**(242.6)**
Credited/(charged) to the income statement	**2.3**	**(6.1)**	**(2.3)**	**(4.3)**	**(10.4)**	**0.4**	**(10.0)**
(Charged)/credited to equity/other comprehensive income	**–**	**–**	**(55.2)**	**(13.7)**	**(68.9)**	**7.4**	**(61.5)**
At 28 March 2015	**(47.0)**	**(106.0)**	**(154.8)**	**(3.1)**	**(310.9)**	**(3.2)**	**(314.1)**

Other short-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 tax value of £48.4m (last year £46.5m). Due to uncertainty over their future use, no benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £43.5m (last year £38.7m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures, unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. No deferred tax liability has been recognised in respect of undistributed earnings of £17.5m with a tax value of £4.4m (last year £13.0m with a tax value of £3.3m) on the basis the distribution can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

24 ORDINARY SHARE CAPITAL

	2015 Shares	2015 £m	2014 Shares	2014 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,632,247,974**	**408.1**	1,613,888,192	403.5
Shares issued on exercise of share options	**15,566,772**	**3.9**	18,359,782	4.6
At end of year	**1,647,814,746**	**412.0**	1,632,247,974	408.1

Issue of new shares

15,567,772 (last year 18,359,782) ordinary shares having a nominal value of £3.9m (last year £4.6m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £40.8m (last year £45.0m).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2015 £m	2014 £m
Commitments in respect of properties in the course of construction	**102.9**	86.1
Commitments in respect of computer software under development	**25.5**	–
	128.4	86.1

B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase 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.

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.

	2015 £m	2014 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
– Within one year	**291.6**	296.9
– Later than one year and not later than five years	**1,074.1**	1,034.1
– Later than five years and not later than ten years	**1,091.0**	1,020.1
– Later than ten years and not later than 15 years	**549.3**	672.0
– Later than 15 years and not later than 20 years	**348.8**	358.3
– Later than 20 years and not later than 25 years	**242.2**	236.3
– Later than 25 years	**1,074.3**	1,064.1
Total	**4,671.3**	4,681.8

The total non-cancellable future sublease payments to be received are £41.2m (last year £44.9m).

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2015 £m	2014 £m
Profit on ordinary activities after taxation	**481.7**	506.0
Income tax expense	**118.3**	74.4
Finance costs	**116.8**	139.1
Finance income	**(15.5)**	(25.0)
Operating profit	**701.3**	694.5
Decrease/(increase) in inventories	**45.7**	(86.4)
Increase in receivables	**(13.0)**	(45.8)
Increase in payables	**87.6**	107.7
Non-underlying operating cash inflows/(outflows)	**28.6**	(17.4)
Depreciation, amortisation and write-offs	**550.1**	504.7
Share-based payments	**(1.1)**	21.3
Pension costs charged against operating profit	**85.4**	92.4
Cash contributions to pension schemes	**(143.0)**	(92.1)
Non-underlying non-cash items	**(53.7)**	(50.8)
Non-underlying operating profit items	**61.2**	47.4
Cash generated from operations	**1,349.1**	1,175.5

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 30 March 2014 £m	Cash flow £m	Exchange and other non-cash movements £m	**At 28 March 2015 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(445.7)	164.2	2.5	**(279.0)**
Less: amounts treated as financing (see below)	439.3	(175.9)	(2.5)	**260.9**
	(6.4)	(11.7)	–	**(18.1)**
Cash and cash equivalents (see note 18)	182.1	26.1	(2.3)	**205.9**
Net cash per statement of cash flows	175.7	14.4	(2.3)	**187.8**
Current financial assets (see note 16)	17.7	(6.0)	(0.1)	**11.6**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(439.3)	175.9	2.5	**(260.9)**
Medium-term notes (see note 20)	(1,609.8)	–	(2.0)	**(1,611.8)**
Finance lease liabilities (see note 20)	(52.2)	4.8	(1.2)	**(48.6)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(555.7)	54.4	–	**(501.3)**
Debt financing	(2,657.0)	235.1	(0.7)	**(2,422.6)**
Net debt	(2,463.6)	243.5	(3.1)	**(2,223.2)**

B. Reconciliation of net debt to statement of financial position

	2015 £m	2014 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**205.9**	182.1
Current financial assets (see note 16)	**11.6**	17.7
Bank loans and overdrafts (see note 20)	**(279.0)**	(445.7)
Medium-term notes – net of hedging derivatives	**(1,652.0)**	(1,649.0)
Finance lease liabilities (see note 20)	**(48.6)**	(52.2)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	**(512.9)**	(568.7)
	(2,275.0)	(2,515.8)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**51.8**	52.2
Total net debt	**(2,223.2)**	(2,463.6)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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 is repayable on five business days' notice and was renewed on 1 January 2015. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture
A loan facility was provided to the joint venture on 11 August 2008. At 28 March 2015, £24.0m (last year £24.0m) was drawn down on this facility. Interest was charged on the loan at 2.7% above three-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.9m (last year £4.6m) of rental charges were incurred. There was no outstanding balance at 28 March 2015.

D. Marks & Spencer Pension Scheme
Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

E. Key management compensation

	2015 £m	2014 £m
Salaries and short-term benefits	**7.5**	7.3
Share-based payments	**0.8**	3.2
Total	**8.3**	10.5

Key management comprises the Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration Report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions
Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions related to the receipt of services and amounted to £2.5m during the year (last year £1.8m) with an outstanding trade payable of £0.2m at 28 March 2015 (last year £0.4m).

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 28 March 2015 £m	As at 29 March 2014 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C5	**9,226.4**	9,217.4
Total assets		**9,226.4**	9,217.4
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,429.5**	2,471.8
Total liabilities		**2,429.5**	2,471.8
Net assets		**6,796.9**	6,745.6
Equity			
Ordinary share capital		**412.0**	408.1
Share premium account		**392.4**	355.5
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,392.6**	2,382.1
Total equity		**6,796.9**	6,745.6

The financial statements were approved by the Board and authorised for issue on 19 May 2015. The financial statements also comprise the notes on pages 124 and 125.

Marc Bolland Chief Executive Officer

Helen Weir 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 31 March 2013	403.5	315.1	2,202.6	1,397.3	2,372.5	6,691.0
Profit for the year	–	–	–	–	273.6	273.6
Dividends	–	–	–	–	(273.6)	(273.6)
Capital contribution for share-based payments	–	–	–	–	9.6	9.6
Shares issued on exercise of employee share options	4.6	40.4	–	–	–	45.0
At 29 March 2014	408.1	355.5	2,202.6	1,397.3	2,382.1	6,745.6
At 30 March 2014	**408.1**	**355.5**	**2,202.6**	**1,397.3**	**2,382.1**	**6,745.6**
Profit for the year	**–**	**–**	**–**	**–**	**282.2**	**282.2**
Dividends	**–**	**–**	**–**	**–**	**(280.7)**	**(280.7)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**9.0**	**9.0**
Shares issued on exercise of employee share options	**3.9**	**36.9**	**–**	**–**	**–**	**40.8**
At 28 March 2015	**412.0**	**392.4**	**2,202.6**	**1,397.3**	**2,392.6**	**6,796.9**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Cash flow from investing activities		
Dividends received	**282.2**	273.6
Net cash generated from investing activities	**282.2**	273.6
Cash flows from financing activities		
Shares issued on exercise of employee share options	**40.8**	45.0
Repayment of intercompany loan	**(42.3)**	(45.0)
Equity dividends paid	**(280.7)**	(273.6)
Net cash used in financing activities	**(282.2)**	(273.6)
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

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.

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.

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.

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 £960,000 (last year £986,000). The Company did not operate any pension schemes during the current or preceding year.

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

	2015 per share	2014 per share	2015 £m	2014 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**176.2**	173.6
Paid interim dividend	**6.4p**	6.2p	**104.5**	100.0
	17.2p	17.0p	**280.7**	273.6

In addition, the directors have proposed a final dividend in respect of the year ended 28 March 2015 of 11.6p per share amounting to a dividend of £191.1m. It will be paid on 10 July 2015 to shareholders who are on the Register of Members on 29 May 2015. In line with the requirements of IAS 10 'Events after the Reporting Period', this dividend has not been recognised within these results.

C5 INVESTMENTS

A. Investments in subsidiary undertakings

	2015 £m	2014 £m
Beginning of the year	**9,217.4**	9,207.8
Additional investment in subsidiary undertakings relating to share-based payments	**9.0**	9.6
End of year	**9,226.4**	9,217.4

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc. The directors believe that the carrying value of the investments is supported by their underlying net assets.

B. Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer plc	Retailing	United Kingdom	100%	–
Marks and Spencer International Holdings Limited	Holding company	United Kingdom	–	100%
Marks and Spencer (Nederland) BV	Holding company	The Netherlands	–	100%
Marks and Spencer Marinopoulos BV	Holding company	The Netherlands	–	100%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	United Kingdom	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	80%
M.S. General Insurance L.P.	Financial services	Guernsey	–	100%
per una Group Limited	Procurement	United Kingdom	–	100%
Marks and Spencer Scottish Limited Partnership	Property investment	United Kingdom	–	–[1]

1. Marks and Spencer plc is the general partner.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £282.2m (last year £273.6m) and decreased its loan from Marks and Spencer plc by £42.3m (last year £45.0m). The outstanding balance was £2,429.5m (last year £2,471.8m) and is non-interest bearing. There were no other related party transactions.

C7 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 28 March 2015.

Name	Reference
Marks & Spencer (Initial LP) Limited	SC315365
Ruby Properties (Hardwick) Limited	04716018
Ruby Properties (Long Eaton) Limited	04716031
Ruby Properties (Thorncliffe) Limited	04716110
Ruby Properties (Tunbridge) Limited	04716032
Ruby Properties (Cumbernauld) Limited	04922798
Marks and Spencer 2005 (Brooklands Store) Limited	05502608
Marks and Spencer 2005 (Chester Store) Limited	05502542
Marks and Spencer 2005 (Chester Satellite Store) Limited	05502519
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	05502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	05502546
Marks and Spencer 2005 (Hedge End Store) Limited	05502538
Marks and Spencer 2005 (Kensington Store) Limited	05502478
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	05502520
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	05502523
Marks and Spencer 2005 (Parman House Kingston Store) Limited	05502588
Marks and Spencer 2005 (Pudsey Store) Limited	05502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	05502502
Marks and Spencer Investments	04903061
Simply Food (Property Investments)	05502543
Simply Food (Property Ventures) Limited	02239799
Busyexport Limited	04411320
Marks and Spencer (Property Holdings) Limited	02100781
Marks and Spencer (Property Ventures) Limited	05502513
per una Group Limited	05149488
Amethyst Leasing (Properties) Limited	04246934
Morpheus Europe Limited	08540784

The Company will guarantee the debts and liabilities of the above UK subsidiaries at the balance sheet date of £6.7m in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantees as remote.

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

GROUP FINANCIAL RECORD

	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m	2012 52 weeks £m	2011 52 weeks £m
Income statement					
Revenue[1]					
UK	**9,223.1**	9,155.7	8,951.4	8,868.2	8,733.0
International	**1,088.3**	1,154.0	1,075.4	1,066.1	1,007.3
	10,311.4	10,309.7	10,026.8	9,934.3	9,740.3
Operating profit[1]					
UK	**640.6**	600.3	632.8	658.0	679.0
International	**60.7**	94.2	120.2	88.5	157.9
Total operating profit	**701.3**	694.5	753.0	746.5	836.9
Net interest payable	**(111.8)**	(125.8)	(212.9)	(114.1)	(93.9)
Pension finance income	**10.5**	11.7	7.1	25.6	37.6
Profit on ordinary activities before taxation	**600.0**	580.4	547.2	658.0	780.6
Analysed between:					
Underlying profit before tax	**661.2**	622.9	648.1	705.9	714.3
Adjustments to reported profit	**(61.2)**	(42.5)	(100.9)	(47.9)	66.3
Income tax expense	**(118.3)**	(74.4)	(102.4)	(168.4)	(182.0)
Profit after taxation	**481.7**	506.0	444.8	489.6	598.6

		2015 52 weeks	2014 52 weeks	2013 52 weeks	2012 52 weeks	2011 52 weeks
Basic earnings per share[1]	Basic earnings/Weighted average ordinary shares in issue	**29.7p**	32.5p	28.3p	32.5p	38.8p
Underlying basic earnings per share[1]	Underlying basic earnings/Weighted average ordinary shares in issue	**33.1p**	32.2p	31.9p	34.9p	34.8p
Dividend per share declared in respect of the year		**18.0p**	17.0p	17.0p	17.0p	17.0p
Dividend cover	Underlying earnings per share/ Dividend per share	**1.8x**	1.9x	1.9x	2.1x	2.0x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/ Fixed charges	**3.6x**	3.4x	3.5x	3.9x	4.0x
Statement of financial position						
Net assets (£m)		**3,198.8**	2,706.7	2,519.5	2,778.8	2,677.4
Net debt[2] (£m)		**2,223.2**	2,463.6	2,614.3	1,857.1	1,900.9
Capital expenditure (£m)		**526.6**	710.0	821.3	737.5	491.5
Stores and space						
UK stores		**852**	798	766	731	703
UK selling space (million sq ft)		**16.8**	16.6	16.4	16.0	15.6
International stores		**480**	455	418	387	361
International selling space (million sq ft)		**6.0**	5.8	5.4	4.7	4.2
Staffing (full-time equivalent)						
UK		**52,247**	54,678	51,835	51,938	49,922
International		**6,849**	6,498	5,683	5,116	4,753

1. Based on continuing operations.
2. Excludes accrued interest.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 28 March 2015 the Company had 181,607 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 percentage of private holders is much higher (we estimate approximately 30%) than that indicated.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1 – 500	94,339	51.95	18,006,086	1.09
501 – 1,000	35,125	19.34	26,306,780	1.60
1,001 – 2,000	26,896	14.81	38,677,377	2.35
2,001 – 5,000	17,944	9.88	55,109,204	3.34
5,001 – 10,000	4,608	2.54	31,828,681	1.93
10,001 – 100,000	2,143	1.18	49,307,034	2.99
100,001 – 1,000,000	387	0.21	137,360,658	8.34
1,000,001 – Highest	165	0.09	1,291,218,926	78.36
Total	181,607	100.00	1,647,814,746	100.00

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	174,558	96.12	258,939,325	15.71
Institutional and corporate	7,049	3.88	1,388,875,421	84.29
Total	181,607	100.00	1,647,814,746	100.00

2015/16 financial calendar and key dates	
28 May 2015	Ex-dividend date – Final dividend
29 May 2015	Record date to be eligible for the final dividend
07 July 2015	Results – Quarter 1 Interim Management Statement†
07 July 2015	Annual General Meeting (11am)
10 July 2015	Final dividend payment date for the year to 28 March 2015
04 November 2015*	Results – Half Year†
12 November 2015*	Ex-dividend date – Interim dividend
13 November 2015*	Record date to be eligible for the interim dividend
January 2016*	Results – Quarter 3 Interim Management Statement†
08 January 2016*	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.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, the internet based 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**.

ANNUAL GENERAL MEETING 2015

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 7 July 2015. The meeting will start at 11am and registration will be open from 9.30am.

DIVIDENDS

Paid in January and July each year (subject to Board and shareholder approval). We encourage shareholders to have their dividends paid directly into their bank account to ensure efficient payment and that cleared funds are received on the payment date. Shareholders who receive their dividend payments in this way receive a single, consolidated tax voucher annually in January, covering both dividend payments made during the tax year. We are able to send separate tax vouchers if preferred.

Shareholders can change their preferred dividend payment method online at **shareview.co.uk** or by contacting Equiniti.

SHAREHOLDER INFORMATION
CONTINUED

CHANGING YOUR ADDRESS

You should inform Equiniti of your new address as soon as possible to avoid missing important correspondence relating to your shareholding. If you hold 1,500 shares or fewer and reside in the UK, this can be done quickly over the telephone. Holdings of more than 1,500 shares will require a written instruction quoting your full name, 11-digit shareholder reference number (if known) and both your previous and new addresses.

DUPLICATE DOCUMENTS

Around 10,000 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.

CORPORATE WEBSITE

You can access the corporate website at **marksandspencer.com/thecompany**.

The M&S corporate website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. Shareholders are also encouraged to sign up to receive news alerts by email. These include all of the financial news releases throughout the year that are not sent to shareholders by post.

The directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

NEW SHAREHOLDER LOYALTY SCHEME

2015 saw the launch of the Equiniti Payment Plus Scheme, a new loyalty scheme for private investors developed by Equiniti in collaboration with M&S. The scheme enables M&S shareholders to apportion anything up to a maximum of £900 of their dividend payment to purchase credit on an M&S Shareholder Card, which can be used to shop in our stores and online. This is similar to an M&S gift card, however the credit is offered to shareholders at a 10% discount. So, a shareholder who allocates the full £900 would receive £1,000 credit on their card. Our private investors are some of our most loyal customers and we are pleased to be able to introduce this fantastic new scheme that directly rewards their level of investment in the Company.

The scheme is not currently available for investors whose shares are held in nominee accounts. However, we will work with both Equiniti and nominee companies to seek a solution that will allow those whose shares are held in this way to participate in future years.

Further information on the scheme and a detailed FAQ can be found at **shareview.co.uk/info/paymentplus**.

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. Find out more by visiting **sharegift.org** or by calling +44 (0)207 930 3737.

CAPITAL GAINS TAX

For the purpose of Capital Gains Tax, the price of an ordinary share on 31 March 1982 was 153.5p, which when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p. Following the capital reorganisation in March 2002, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

AMERICAN DEPOSITARY RECEIPTS (ADRs)

The Company has a Level 1 ADR programme. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to **otcqx.com**
For Deutsche Bank, email:
DB@amstock.com
ADR website: **adr.db.com**
Toll free callers within the US:
1 866 249 2593
For those calling outside the US:
+1 (718) 921 8137

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 to the right. For more general queries, shareholders should consult the 'Investors' section of our corporate website.

USEFUL CONTACTS

M&S Registered Office
Waterside House,
35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

Registrar
Equiniti Limited,
Aspect House,
Spencer Road,
Lancing,
West Sussex BN99 6DA
United Kingdom
Telephone 0845 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).

Group Secretary and Head of Corporate Governance
Amanda Mellor

Additional documents
An interactive version of our 2014/15 Annual Report is available online at **marksandspencer.com/annualreport2015**.

Additionally, both the Annual Report and Strategic Report are available for download in pdf format at **marksandspencer.com/thecompany**.

Alternatively, call 0800 591 697.

Students
Please note, students are advised to source information from our website.

General queries
Customer queries: 0845 302 1234
Shareholder queries: 0845 609 0810
Alternatively, email us at **chairman@marks-and-spencer.com**.

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. An overview of current common scams is available on the Action Fraud website **actionfraud.police.uk**.

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Back cover image:
The recipe for the Strawberry, White Chocolate and Almond Semifreddo made using M&S ingredients is available on the Cook with M&S app, which can be downloaded on Apple and Android devices.

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