M&S
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Press Release

Marks and Spencer Group Plc
Full Year Results For 52 Weeks Ended 31 March 2018
Transformation Underway

52 weeks ended	31 Mar 18	1 Apr 17	*Change %*
Group revenue	£10,698.2m	£10,622.0m	*0.7*
Profit before tax & adjusting items[1]	£580.9m	£613.8m	*-5.4*
Free cashflow before adjusting items	£582.4m	£666.3m	*-12.6*
Adjusting items[1,2]	£(514.1)m	£(437.4)m	*17.5*
Profit before tax	£66.8m	£176.4m	*-62.1*
Profit after tax	£29.1m	£115.7m	*-74.8*
Basic earnings per share before adjusting items[1]	27.8p	30.4p	*-8.6*
Basic earnings per share	1.6p	7.2p	*-77.8*
Net debt	£1.83bn	£1.93bn	*-5.5*
Ordinary dividend per share	18.7p	18.7p	Level

[1]Adjusted results are consistent with how business performance is measured internally. [2]Refer to adjusting items table below for further details. See glossary for definitions.

Steve Rowe, Marks & Spencer CEO said:
"At our half year results in November I outlined the need for accelerated change at M&S. The first phase of our transformation plan, restoring the basics, is now well under way and the actions taken have increased the velocity of change running through our business. These changes come with short term costs which are reflected in today's results.

"There are a number of structural issues to address and we are taking steps towards fixing these. The new organisation will largely be in place by July and the team is now tackling transforming our culture to make M&S a faster, lower cost, more commercial, more digital business. This is vital as we start to leverage the strength of the M&S brand and values across a family of businesses to deliver sustainable, profitable growth in three to five years."

Financial Summary

- Profit before tax & adjusting items down 5.4% impacted by the decrease in Food gross margin.
- Significant adjusting items of £514.1m including £321.1m for our UK store estate closure programme. Cash costs of transformation remain in line with plan.
- Strong cash generation even after restructuring costs reduced net debt by £107.2m, enabling the maintenance of a full year dividend, unchanged at 18.7p.

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- Clothing & Home gross margin up 50 basis points with full price sales level. Revenue down 1.4% due to planned removal of two clearance sales, and unseasonal second half trading conditions.
- Food revenue growth of 3.9% driven by new stores. Gross margin down 140bps, as we continued to absorb input cost inflation.
- UK costs up 1.8% due to costs of new space, inflation and channel shift offset by efficiencies and lower incentive costs.
- International profit before adjusting items more than doubled to £135.2m, as a result of the successful exit of loss-making owned markets and favourable currency effects.

TRANSFORMATION UNDERWAY

Facing Facts

At our half year results we set out a hard-headed diagnosis of the headwinds faced by M&S and the change which is needed. The continued migration of clothing and home online, the development of global competition, the growth of home delivery in food and the march of the discounters all amount to threats to our business and market position. These, together with a challenging UK consumer market, mean that we have to modernise our business to ensure we are competitive and reignite our culture. Accelerated change is the only option.

Developments in the retail industry since then have reinforced our conviction about the need for the transformation of M&S. Changes in the high street and migration online mean that we have to be decisive with our store estate, renewing and closing stores more quickly. Our supply chains in both Clothing & Home and in Food require significant upgrades, so that we can be faster to market, reduce high stock levels in Clothing, and improve availability and waste in Food.

Although our online sales are growing, our online capability is behind the best of our competitors and our website is too slow. Our fulfilment centre at Castle Donington has struggled to cope with peak demand and some of our systems are dated. In both businesses we need to revitalise our ranges and reassert our reputation for value for money.

Restoring the basics

The first phase of our transformation is about restoring the basics, getting the architecture and infrastructure of the business fit for the future. This programme is now underway and gathering pace.

We have made a rapid start with the enabling steps to deliver our ambition of reducing costs by at least £350m and provide a platform for growth in later phases of our plan as we improve our ways of working and reduce unnecessary waste.

We have accelerated our store estate programme and are on the way to closing some 25% of our legacy Clothing & Home space. The success of this programme will be supported by sales transfer rates which have been higher than expectations and by the growth of online.

The website is being improved and we are investing to increase and improve e-commerce capacity, including at our Castle Donington site in order to support our ambition to double the online share of our Clothing & Home sales to over 33%. We are also building a new retail distribution centre at Welham Green. Teams have been established to address the supply chain issues in both main businesses, to deliver a faster, lower cost network.

We have established a long-term technology partnership with TCS to improve our technology base and we are migrating off legacy systems and an old mainframe.

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Delivering shareholder value

The purpose of the transformation plan is to restore the business to sustainable, profitable growth. In doing so, the board remains committed to maintaining the right balance between investment in the business, dividends for shareholders and balance sheet strength. Given the continued net cash generation by the business and our strong belief in the potential of the transformation, we intend to maintain the dividend at its current level.

MAKING M&S SPECIAL AGAIN

Building a faster, lower cost, more commercial M&S

It is imperative that we simplify our culture – as this is the only way to drive change right through our business. We need to change our organisation, move on from the structure of a single business led by functional directors. This created a top-heavy business that was inward looking and too "corporate".

We are moving to a family of accountable businesses each led by its own integrated management team. We start with our Food and Clothing & Home businesses, which are now very different in shape, each with their own leadership teams and support functions. Jill McDonald has already started to rebuild a top calibre team in Clothing & Home and Stuart Machin joined to lead the Food business in April. We have restructured our marketing teams, appointing directors for both Clothing & Home and Food.

Looking forward, our property assets need proactive management and Sacha Berendji will lead the development of an active property management team alongside his other responsibilities.

All of our businesses sit under the M&S brand and are united by a common set of values, trading style, shared infrastructure and draw on the same customer data. Our focus remains to be an own brand retailer with quality, innovation, traceability and trusted value at our core. At the centre we are building a streamlined corporate team including a very strong data analytics and customer insight function. In addition, we look forward to welcoming Humphrey Singer as our new CFO in July.

Restoring broader customer appeal

In both businesses our customer base has narrowed and we have lost share of younger family-age customers and larger households. However, we retain leading market shares in key categories and occasions across all age groups. These are joining moments that attract new customers to our brand and present a real opportunity to restore popular appeal and grow our business.

We are taking steps to recover our appeal to family-age customers in Clothing & Home, reducing the number of lines and phases, buying more stylish product in greater depth and emphasising value. In 2017/18 we grew customers for the first time in five years.

In Food we are embarking on a programme to refresh the offer with relevant innovation, improved value for money, and a refocusing on more popular family product. This will better exploit our unique credentials for freshness, taste, and traceability. Meanwhile we are slowing our new store opening programme while we review the format for the future.

Our International business has already been rationalised and we are now building a much more competitive network of mainly franchise led businesses in territories where we believe we can grow.

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We are in the first phase of our transformation plan, restoring the basics to enable sustainable profitable growth in future years. It is our ambition to restore both Food and Clothing & Home to like-for-like growth and to build a much more competitive International proposition. As we remove legacy and structural costs such as those in our store estate and supply chain, this should enable a reduction in costs and working capital.

Full year guidance 2018/19

- In Clothing & Home we expect a year end space reduction of c.5%, as we accelerate our programme to close less productive stores. We anticipate gross margin to be level to up 50 bps, with the first half of the year adversely affected by currency and sale timing.
- In Food, we expect year end space to be broadly level, as we open new Simply Food stores, but close less productive Full Line space. We anticipate gross margin to decrease by between 0 and 50 bps, with the combination of price investment and the annualisation of input cost inflation in the first half of the year.
- We expect UK costs to decrease by up to 1%, as a result of cost efficiencies and lower depreciation offsetting the costs of new space, channel shift and inflation.
- The effective tax rate on profit before tax and adjusting items is expected to be around 22%.
- Capital expenditure is expected to be c.£350-400m.

Group revenue: constant currency

Q4 group revenue declined by 2.1% at constant currency. Revenue was negatively impacted by unseasonal weather conditions which we estimate at c.1% in Food and c.2% in Clothing & Home. Conversely revenue benefited from Easter timing by an estimated c1.7% in Food and c.0.3% in Clothing & Home. International revenue reflects the closure of stores in loss-making owned markets and the sale of our retail operations in Hong Kong to a franchise partner at the end of December.

% change	FY	Q1	Q2	Q3	Q4
Food	**3.9**	4.5	4.4	3.6	3.2
- Like-for-like	**-0.3**	-0.1	-0.1	-0.4	-0.6
Clothing & Home	**-1.4**	-0.5	0.6	-2.3	-3.1
- Like-for-like	**-1.9**	-1.2	-0.1	-2.8	-3.4
Total UK sales	**1.8**	2.6	2.8	1.1	0.9
- Like-for-like	**-0.9**	-0.5	-0.1	-1.4	-1.6
International	**-10.2**	-4.0	-2.2	-10.4	-24.1
Total Group	**0.4**	**1.8**	**2.2**	**-0.2**	**-2.1**
M&S.com (Memo only)	5.2	5.3	6.0	2.9	8.0

See glossary for definitions.

We will report our first half results on 7 November 2018.

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Investor & Analyst webcast:
Investor and analyst presentation will be held at 9am on 23 May 2018. This presentation can be viewed live on the Marks and Spencer Group plc website.

Fixed Income Investor Conference Call:
This will be hosted by Scilla Grimble, Interim Chief Finance Officer, at 2pm on 23 May 2018:

Dial in number: +44 (0)330 336 9411 Access code: 5847983

A recording of this call will be available until 5pm on 30 May 2018:
Dial in number: +44 (0)207 660 0134 Access code: 5847983

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FULL YEAR REVIEW

	52 weeks ended 31 Mar 18 £m	1 Apr 17 £m	Change %
Group revenue	**10,698.2**	**10,622.0**	***0.7***
Food	5,869.9	5,649.0	*3.9*
Clothing & Home	3,741.1	3,792.7	*-1.4*
UK	9,611.0	9,441.7	*1.8*
International	1,087.2	1,180.3	*-7.9*
Group operating profit before adjusting items	**670.6**	**690.6**	***-2.9***
UK	535.4	626.2	*-14.5*
International	135.2	64.4	*109.9*
Net finance costs	(89.7)	(76.8)	***16.8***
Profit before tax & adjusting items	**580.9**	**613.8**	*-5.4*
Adjusting items	(514.1)	(437.4)	*17.5*
Profit before tax	**66.8**	**176.4**	*-62.1*

Consumer & Retail environment

In 2017/18, consumer confidence remained broadly stable according to data from GFK. However, there continued to be a divergence between consumers' views on their personal financial situation which remained strong and their views on the economy as a whole, which were more fragile. Against this backdrop the clothing market declined 1.5% (Kantar Worldpanel, 52 w/e 9 April 2018), with a more challenging trend in the second half of the year. The grocery market returned to growth of 4% (Kantar Worldpanel, 52 w/e 25 March 2018), although this was largely driven by inflation.

UK: Clothing & Home

Clothing & Home revenue declined 1.4% with like-for-like revenue down 1.9%, as we removed two clearance sales. Full price sales were broadly level. Revenue declined in the second half in a more challenging market with unseasonal weather conditions. We delivered solid growth in strategic focus areas such as Childrenswear, Bras and Footwear.

Gross margin was in line with expectations, up 50bps year on year. We offset significant currency headwinds by working with our supply base and through our direct sourcing programme. We put c.8% less stock into sale across the year, as a result of the planned removal of two clearance sales. However, challenging trading conditions in the second half resulted in an increased depth of cut.

M&S.com revenues increased by 5.2% at constant currency. Performance was adversely impacted by the reduction in the number of clearance sales and capacity remained constrained at our Castle Donington warehouse in quarter three.

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In the year ahead, we are building on early improvements in Clothing & Home by further focusing our ranges and building our style credentials, our offer in Wardrobe essentials and our appeal to family-age customers. We are also investing selectively in value as we buy fewer items in greater depth.

In this first phase we are undertaking enabling actions including fixing core elements of our website, improving our delivery proposition and investing to increase the capacity of Castle Donington at peak.

We have accelerated the reshaping of our store portfolio to address the decline of the legacy estate and move to a more cohesive, modern space and layout, resulting in a charge to adjusting items of £321.1m. We anticipate further accounting charges of up to £150m as we complete this programme. We continue to expect the cash costs of the programme to be c.£200m. We have been encouraged by the proportion of sales transferred to nearby stores from those which have closed.

UK: Food

Food revenue increased 3.9% as we opened 62 new Simply Food stores, however like-for-like revenue was down 0.3%. While performance in key events was strong our everyday performance was poor, with intense competition and reflecting a progressive decline in competitiveness in the core ranges. Market share was level year on year. (Source Kantar Worldpanel, 52 w/e 25 March 2018)

The decline in gross margin of 140bps year-on-year was more than expected. During the second half we continued to absorb input cost inflation.

In the year ahead, our focus is on repositioning the business to be more relevant, more often to our customers, to drive sustainable sales growth. We are changing our approach to product development to ensure we shift back to our strength in key shopping missions with new lines which have a broad appeal to family age customers and everyday occasions.

Our repositioning will require renewed investment in trusted value. We believe however that this will be offset by cost reduction, volume optimisation opportunities, removing excessive packaging costs, and tackling issues which impact availability and waste.

As indicated at the half year we have reviewed our Simply Food opening programme to limit future store expansion to only the highest returning locations. In addition, our accelerated UK store estate closure programme will result in a further reduction in the number of Full Line stores.

UK operating costs

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	*Change* %
Store staffing	1,070.6	1,010.3	*6.0*
Other store costs	992.1	1,000.7	*-0.9*
Distribution & warehousing	538.0	519.6	*3.5*
Marketing	151.6	162.7	*-6.8*
Central costs	698.0	697.1	*0.1*
Total	**3,450.3**	**3,390.4**	***1.8***

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UK operating cost growth was 1.8%, which was below expectations. Costs associated with new space and volume drove a c.2% increase overall. Wage and other inflation related increases and investment in store staffing were largely offset by marketing and retail efficiencies.

Other store costs reduced. Favourable rates settlements, lower depreciation and reduced charges for utilities helped to offset the costs of new space.

The growth in distribution and warehousing costs was largely driven by inflation, volume and the costs of channel shift. In Clothing & Home we delivered improved costs per single as we increased utilisation of our Bradford warehouse.

Central costs increased in a number of areas including IT and the introduction of the Government's apprentice levy, however these were offset by reduced costs following the head office restructuring and lower incentive costs year on year.

M&S Bank

M&S Bank income before adjusting items was down £9.9m to £40.3m. This was a result of changes to the assumed effective interest rate in both years and the implementation of IFRS 9, which resulted in higher bad debt provisioning. There was also a modest reduction in underlying interest-bearing balances.

International

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	*Change %*	*Change CC %*	*Change CC % excl. Hong Kong*
Revenue					
Franchise	360.6	314.0	14.8	13.3	9.3
Owned Retained[1]	660.2	674.0	-2.0	-4.8	-1.1
Total Retained	1,020.8	988.0	3.3	0.9	2.8
Owned Exit[1]	66.4	192.3	-65.5	-66.7	-66.7
Total	**1,087.2**	**1,180.3**	**-7.9**	**-10.2**	**-10.4**

Operating profit before adjusting items			
Franchise	86.1	81.9	5.1
Owned Retained[1]	53.1	16.8	216.1
Total Retained	139.2	98.7	41.0
Owned Exit[1]	(4.0)	(34.3)	88.3
Total	**135.2**	**64.4**	**109.9**

[1]Last year restated for closure of our online business in China. Hong Kong results reported in owned retained until the business was sold to our franchise partner.

Reported International revenue decreased 7.9%. This was driven by the exit from loss making owned markets and the sale of our operations in Hong Kong to our franchise partner.

Excluding these effects, revenue at constant currency increased 2.8%. We generated strong growth in franchise revenue, with an improved performance in the Middle East, Russia and Turkey and from expansion of our Food business. Revenue in owned retained markets was down 1.1% with a strong performance in India where we opened 7 new stores, offset by difficult trading in the Republic of Ireland.

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International operating profit before adjusting items more than doubled. We completed the planned exit of loss-making markets and generated improved margins in owned retained markets, largely driven by transactional currency gains.

Net finance cost

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	Change £m
Interest payable	(95.4)	(100.2)	4.8
Interest income	6.0	6.6	(0.6)
Net interest payable	**(89.4)**	**(93.6)**	**4.2**
Pension net finance income	17.7	29.3	(11.6)
Unwind of discount on Scottish Limited Partnership liability	(10.9)	(12.6)	1.7
Unwind of discount on provisions	(5.2)	(0.2)	(5.0)
Hedge ineffectiveness on financial instruments	(1.9)	0.3	(2.2)
Net finance cost	**(89.7)**	**(76.8)**	**(12.9)**

Net finance cost increased by £12.9m to £89.7m, largely due to reduced pension net finance income as a result of the lower UK defined benefit pension scheme surplus at the start of the year and the unwind of discount on property provisions. Net interest payable reduced by £4.2m primarily due to the repayment of the US$500m bond which matured in December 2017.

Group profit before tax & adjusting items

Group profit before tax and adjusting items was £580.9m, down 5.4% on last year. The decrease was due to the reduction in UK gross profit and the increase in operating costs in the year.

Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. For further detail on adjusting items and the Group's policy for adjusting items please see Note 3 and Note 1 to the financial information respectively.

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	Change £m
Strategic programmes			
– UK store estate	(321.1)	(51.6)	(269.5)
– UK organisation	(30.7)	(24.0)	(6.7)
– IT restructure	(15.5)	-	(15.5)
– UK logistics	(13.1)	9.8	(22.9)
– Changes to pay and pensions	(12.9)	(156.0)	143.1
– International store closures and impairments	(5.0)	(132.5)	127.5
UK store impairments, asset write-offs and onerous lease charges	(63.4)	(48.8)	(14.6)
M&S Bank charges incurred in relation to the insurance mis-selling provision	(34.7)	(44.1)	9.4
Other	(17.7)	9.8	(27.5)
Adjusting items	**(514.1)**	**(437.4)**	**(76.7)**

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

- A charge of £321.1m in relation to the impairment of assets, accelerated depreciation and estimated onerous lease and closure costs relating to our UK store estate programme;
- A charge of £30.7m primarily relating to the consolidation of our central London Head Office buildings;
- A charge of £15.5m in relation to our technology transformation programme reflecting costs associated with the simplification and consolidation of our technology supplier base;
- A net charge of £13.1m as we continue to transition to a single tier Clothing & Home UK distribution network;
- A charge of £12.9m for the first year of transitional payments to employees impacted by the closure of the UK defined benefit pension scheme to future accrual; and
- A charge of £5.0m relating to the International exit programme.

UK store impairments, asset write-offs and onerous lease charges: since the announcement of the new UK store estate strategy, the Group conducted a review of the £4.8bn net book value of the property, plant and equipment on its balance sheet as at 1 April 2017. A one-off non-cash adjustment to depreciation of leasehold buildings assets was made of £45.8m. Additionally, we recognised charges in relation to UK store impairments and other asset disposals.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a reduction in income of £34.7m during the year.

On 30 December 2017, we completed the disposal of the retail business in Hong Kong and Macau to the Al Futtaim Group resulting in a net profit on disposal of £5.8m. We also incurred charges for potential liabilities for certain employee related matters.

Taxation

The effective tax rate on profit before tax and adjusting items was 21.6% (last year 19.9%). This is higher than the UK statutory rate of 19.0% (last year 20.0%) due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 56.4% (last year 34.4%) due to the impact of the SLP structure and disallowable adjusting items.

Earnings per share

Basic earnings per share decreased by 77.8% to 1.6p, as a result of the lower adjusted operating profit, the increase in adjusting items due to the Group's strategic transformation programmes and the increase in effective tax rate. The weighted average number of shares in issue during the period was 1,624.0m (last year 1,623.1m).

Basic earnings per share before adjusting items decreased by 8.6% to 27.8p due to the lower adjusted profit generated in the year.

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Capital expenditure

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	Change £m
UK store environment	26.6	22.6	4.0
New UK stores	72.1	75.0	(2.9)
International	11.6	13.4	(1.8)
Supply chain	23.8	34.0	(10.2)
IT & M&S.com	91.9	122.9	(31.0)
Property maintenance	72.9	90.3	(17.4)
Capital expenditure before disposals	**298.9**	**358.2**	**(59.3)**
Proceeds from property disposals	(3.2)	(27.0)	23.8
Capital expenditure	**295.7**	**331.2**	**(35.5)**

Group capital expenditure remains well controlled resulting in a 17% reduction year on year, before disposal proceeds.

UK store environment spend reflects the rebalancing of in-store layouts towards strategic growth priorities such as Childrenswear and the rebranding of a number of Foodhalls.

Spend on UK store space was slightly down. Whilst we opened 40 new owned stores compared with 35 last year, the reduction reflects a freehold purchase in the prior year and slightly higher landlord contributions.

Supply chain expenditure reduced, reflecting the completion of larger projects such as the Bradford distribution centre in the prior year. During the second half we began investment in the new Welham Green distribution centre as we move towards completing our single tier network for Clothing & Home.

The decline in IT and M&S.com expenditure reflects the on-going move towards more cloud-based software solutions and the investment in handheld devices and store technology in retail in the prior year. We are also investing to migrate from our mainframe system.

Lower property disposal proceeds reflect the receipt of the final instalment from the sale of the White City warehouse received in the prior year.

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Cashflow & net debt

52 weeks ended	31 Mar 18 £m	1 Apr 17 £m	Change £m
Adjusted operating profit	**670.6**	**690.6**	**(20.0)**
Depreciation and amortisation before adjusting items	580.6	589.5	(8.9)
Working capital	(96.8)	(7.5)	(89.3)
Defined benefit scheme pension funding	(41.4)	(36.6)	(4.8)
Capex and disposals	(346.0)	(383.2)	37.2
Interest and taxation	(200.5)	(202.6)	2.1
Non-cash share based payment charges	18.9	10.6	8.3
Share transactions	(3.0)	5.5	(8.5)
Free cash flow before adjusting items	**582.4**	**666.3**	**(83.9)**
Adjusting items cash outflow	(164.9)	(80.9)	(84.0)
Free cash flow	**417.5**	**585.4**	**(167.9)**
Ordinary dividends paid	(303.4)	(303.0)	(0.4)
Special dividend	-	(74.5)	74.5
Free cash flow after shareholder returns	**114.1**	**207.9**	**(93.8)**
Opening net debt	**(1,934.7)**	**(2,138.3)**	**203.6**
Exchange and other non-cash movements	(6.9)	(4.3)	(2.6)
Closing net debt	**(1,827.5)**	**(1,934.7)**	107.2

The business generated free cash flow before adjusting items of £582.4m, down £83.9m on last year primarily as a result of lower adjusted operating profit and a higher cash outflow on working capital partially offset by lower capex. The working capital outflow is driven by the impact of International market exits, a lower incentive accrual year on year and higher Clothing & Home stock at year end. The higher stock level was partly due to growth initiatives and the timing of intake.

Defined benefit scheme pension funding in the year reflects the £36.4m second limited partnership interest distribution to the pension scheme in the current year as well as the final contribution for the defined benefit scheme paid after the prior year end.

Adjusting items in cashflow during the year include amounts relating to the closure of stores in International markets of £85.7m, the transition payments in respect of pensions and pay premia of £36.7m and M&S Bank of £34.7m. These were partially offset by the cash inflow associated with the disposal of the Hong Kong retail business of £22.9m.

Despite the significant cash outflows associated with our strategic programmes, net debt was down £107.2m on last year.

Dividend

We have announced a final dividend of 11.9p (full year dividend 18.7p, level year-on-year). This will be paid on 13 July 2018 to shareholders on the register of members as at close of business on 1 June 2018, subject to approval of shareholders at the Annual General Meeting, to be held on 10 July 2018.

Pension

At 31 March 2018, the IAS 19 net retirement benefit surplus was £948.2m (last full year £692.8m). The increase in the surplus is largely due to an increase in the discount rate and a change in mortality assumptions.

In March 2018, the UK defined benefit pension scheme entered into pensioner buy-in policies with two insurers for £1.4bn which reduced its longevity exposure to around one third of the pensioner cash flow liabilities.

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any forward-looking statements are subject to various risks and uncertainties, including, but not limited to, failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2017 Annual Report (pages 30-33).

The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

- Ends -

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Consolidated income statement

		52 weeks ended 31 March 2018			52 weeks ended 1 April 2017		
	Notes	Profit before adjusting items £m	Adjusting items £m	Total £m	Profit before adjusting items £m	Adjusting items £m	Total £m
Revenue	2	10,698.2	-	10,698.2	10,622.0	-	10,622.0
Operating profit	2, 3	670.6	(514.1)	156.5	690.6	(437.4)	253.2
Finance income	4	24.1	-	24.1	36.2	-	36.2
Finance costs	4	(113.8)	-	(113.8)	(113.0)	-	(113.0)
Profit before tax		580.9	(514.1)	66.8	613.8	(437.4)	176.4
Income tax expense	5	(125.4)	87.7	(37.7)	(122.4)	61.7	(60.7)
Profit for the year		455.5	(426.4)	29.1	491.4	(375.7)	115.7
Attributable to:							
Owners of the parent		452.1	(426.4)	25.7	492.8	(375.7)	117.1
Non-controlling interests		3.4	-	3.4	(1.4)	-	(1.4)
		455.5	(426.4)	29.1	491.4	(375.7)	115.7
Basic earnings per share	6	27.8p		1.6p	30.4p		7.2p
Diluted earnings per share	6	27.8p		1.6p	30.2p		7.2p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Profit for the year		29.1	115.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	8	200.9	(68.9)
Tax charge on items that will not be reclassified		(39.0)	25.3
		161.9	(43.6)
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		(23.4)	31.0
- reclassified and reported in profit or loss		(36.2)	-
Revaluation of available for sale asset		6.9	-
Cash flow hedges and net investment hedges			
- fair value movements recognised in other comprehensive income		(208.7)	56.1
- reclassified and reported in profit or loss		85.0	(72.4)
- amount recognised in inventories		57.5	(20.1)
Tax credit on cash flow hedges and net investment hedges		19.7	4.1
		(99.2)	(1.3)
Other comprehensive income/(expense) for the year, net of tax		62.7	(44.9)
Total comprehensive income for the year		91.8	70.8
Attributable to:			
Owners of the parent		88.4	72.2
Non-controlling interests		3.4	(1.4)
		91.8	70.8

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Consolidated statement of financial position

	Notes	As at 31 March 2018 £m	As at 1 April 2017 £m
Assets			
Non-current assets			
Intangible assets		599.2	709.0
Property, plant and equipment		4,393.9	4,837.8
Investment property		15.5	15.5
Investment in joint ventures		7.0	7.0
Other financial assets		9.9	3.0
Retirement benefit asset	8	970.7	706.0
Trade and other receivables		209.0	234.1
Derivative financial instruments		27.1	56.8
Deferred tax assets		-	-
		6,232.3	6,569.2
Current assets			
Inventories		781.0	758.5
Other financial assets		13.7	14.5
Trade and other receivables		308.4	318.6
Derivative financial instruments		7.1	163.1
Current tax assets		-	-
Cash and cash equivalents		207.7	468.6
		1,317.9	1,723.3
Total assets		7,550.2	8,292.5
Liabilities			
Current liabilities			
Trade and other payables		1,405.9	1,553.8
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Borrowings and other financial liabilities		125.6	518.0
Derivative financial instruments		73.8	10.5
Provisions		98.8	147.2
Current tax liabilities		50.0	66.6
		1,826.0	2,368.0
Non-current liabilities			
Retirement benefit deficit	8	22.5	13.2
Trade and other payables		333.8	328.5
Partnership liability to the Marks & Spencer UK Pension Scheme	9	263.6	324.6
Borrowings and other financial liabilities		1,670.6	1,711.7
Derivative financial instruments		30.7	0.8
Provisions		193.1	113.5
Deferred tax liabilities		255.7	281.8
		2,770.0	2,774.1
Total liabilities		4,596.0	5,142.1
Net assets		2,954.2	3,150.4
Equity			
Issued share capital		406.2	406.2
Share premium account		416.4	416.4
Capital redemption reserve		2,210.5	2,210.5
Hedging reserve		(65.3)	17.3
Other reserve		(6,542.2)	(6,542.2)
Retained earnings		6,531.1	6,648.1
Total shareholders' equity		2,956.7	3,156.3
Non-controlling interests in equity		(2.5)	(5.9)
Total equity		2,954.2	3,150.4

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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	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
As at 3 April 2016	405.8	411.3	2,210.5	32.3	(6,542.2)	(4.8)	6,932.3	3,445.2	(1.8)	3,443.4
Profit/(loss) for the year	-	-	-	-	-	-	117.1	117.1	(1.4)	115.7
Other comprehensive (expense)/income:										
Foreign currency translation	-	-	-	(4.3)	-	35.3	-	31.0	-	31.0
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	(68.9)	(68.9)	-	(68.9)
Tax credit on items that will not be reclassified	-	-	-	-	-	-	25.3	25.3	-	25.3
Cash flow hedges and net investment hedges										
- fair value movement recognised in other comprehensive income	-	-	-	77.7	-	-	(21.6)	56.1	-	56.1
- reclassified and reported in profit or loss	-	-	-	(72.4)	-	-	-	(72.4)	-	(72.4)
- amount recognised in inventories	-	-	-	(20.1)	-	-	-	(20.1)	-	(20.1)
Tax on cash flow hedges and net investment	-	-	-	4.1	-	-	-	4.1	-	4.1
Other comprehensive income/(expense)	-	-	-	(15.0)	-	35.3	(65.2)	(44.9)	-	(44.9)
Total comprehensive income/(expense)	-	-	-	(15.0)	-	35.3	51.9	72.2	(1.4)	70.8
Transactions with owners:										
Dividends	-	-	-	-	-	-	(377.5)	(377.5)	-	(377.5)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	(2.7)	(2.7)
Shares issued on exercise of employee share	0.4	5.1	-	-	-	-	-	5.5	-	5.5
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	-	-	-
Credit for share-based payments	-	-	-	-	-	-	13.5	13.5	-	13.5
Deferred tax on share schemes	-	-	-	-	-	-	(2.6)	(2.6)	-	(2.6)
As at 1 April 2017	406.2	416.4	2,210.5	17.3	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4
As at 2 April 2017	**406.2**	**416.4**	**2,210.5**	**17.3**	**(6,542.2)**	**30.5**	**6,617.6**	**3,156.3**	**(5.9)**	**3,150.4**
Profit/(loss) for the year	-	-	-	-	-	-	25.7	25.7	3.4	29.1
Other comprehensive (expense)/income:										
Foreign currency translation										
- movement recognised in other comprehensive	-	-	-	0.2	-	(23.6)	-	(23.4)	-	(23.4)
- reclassified and reported in profit or loss	-	-	-	-	-	(36.2)	-	(36.2)	-	(36.2)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	200.9	200.9	-	200.9
Tax credit on items that will not be reclassified	-	-	-	-	-	-	(39.0)	(39.0)	-	(39.0)
Revaluation of available for sale asset	-	-	-	-	-	-	6.9	6.9	-	6.9
Cash flow hedges and net investment hedges										
- fair value movement recognised in other comprehensive income	-	-	-	(211.0)	-	-	2.3	(208.7)	-	(208.7)
- reclassified and reported in profit or loss	-	-	-	51.0	-	-	34.0	85.0	-	85.0
- amount recognised in inventories	-	-	-	57.5	-	-	-	57.5	-	57.5
Tax on cash flow hedges and net investment hedges	-	-	-	19.7	-	-	-	19.7	-	19.7
Other comprehensive income/(expense)	-	-	-	(82.6)	-	(59.8)	205.1	62.7	-	62.7
Total comprehensive income/(expense)	-	-	-	(82.6)	-	(59.8)	230.8	88.4	3.4	91.8
Transactions with owners:										
Dividends	-	-	-	-	-	-	(303.4)	(303.4)	-	(303.4)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-	-
Shares issued on exercise of employee share	-	-	-	-	-	-	-	-	-	-
Purchase of own shares held by employee trusts	-	-	-	-	-	-	(3.1)	(3.1)	-	(3.1)
Credit for share-based payments	-	-	-	-	-	-	18.5	18.5	-	18.5
Deferred tax on share schemes	-	-	-	-	-	-	-	-	-	-
As at 31 March 2018	406.2	416.4	2,210.5	(65.3)	(6,542.2)	(29.3)	6,560.4	2,956.7	(2.5)	2,954.2

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. Amounts 'reclassified and reported in profit or loss' includes the revaluation of the cross currency swaps, offsetting the revaluation of the USD hedged bonds within finance costs.

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Consolidated statement of cash flows

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flows from operating activities			
Cash generated from operations	12	944.1	1,165.7
Income tax paid		(94.3)	(98.0)
Net cash inflow from operating activities		849.8	1,067.7
Cash flows from investing activities			
Proceeds on property disposals		3.2	27.0
Purchase of property, plant and equipment		(274.9)	(309.1)
Proceeds on disposal of Hong Kong business		22.9	-
Purchase of intangible assets		(74.3)	(101.1)
Reduction of current financial assets		0.8	4.6
Interest received		6.0	6.6
Net cash used in investing activities		(316.3)	(372.0)
Cash flows from financing activities			
Interest paid[1]		(112.2)	(111.2)
Cash inflow/(outflow) from borrowings		43.8	(32.7)
Repayment of syndicated loan		-	(215.3)
Decrease in obligations under finance leases		(2.6)	(2.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(59.6)	(57.9)
Equity dividends paid		(303.4)	(377.5)
Shares issued on exercise of employee share options		0.1	5.5
Purchase of own shares by employee trust		(3.1)	-
(Redemption)/issuance of medium-term notes		(328.2)	300.0
Net cash used in financing activities		(765.2)	(491.1)
Net cash (outflow)/inflow from activities		(231.7)	204.6
Effects of exchange rate changes		(3.5)	5.6
Opening net cash		406.2	196.0
Closing net cash		171.0	406.2

[1]Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

Reconciliation of net cash flow to movement in net debt

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Opening net debt		(1,934.7)	(2,138.3)
Net cash (outflow)/ inflow from activities		(231.7)	204.6
Decrease in current financial assets		(0.8)	(4.6)
Decrease in debt financing		346.6	7.9
Exchange and other non-cash movements		(6.9)	(4.3)
Movement in net debt		107.2	203.6
Closing net debt	13	(1,827.5)	(1,934.7)

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1 General information and basis of preparation

General Information
The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, does not constitute full accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. The auditor has reported on the Group's statutory accounts for each of the years 2017/18 and 2016/17, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2016/17 have been delivered to the Registrar of Companies and the statutory accounts for 2017/18 will be filed with the Registrar in due course.

Basis of preparation
Whilst the financial information included in this press release has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The consolidated financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 31 March 2018.

Going concern basis
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 bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Accounting Policies
There have been no significant changes to accounting under IFRS which have affected the Group’s results for the current financial year. The IFRS IC has issued the annual improvements to IFRS: 2014-2016 cycle. The majority of amendments in this cycle are effective for annual periods on or after 1 January 2018 with the exception of the changes to IFRS 12 which have already been implemented and have not impacted the Group.

The following IFRS have been issued but are not yet effective:

- IFRS 9 ‘Financial Instruments’ replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’. The standard is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019.

  The standard introduces changes to three key areas:
    - new requirements for the classification and measurement of financial instruments;
    - a new impairment model based on expected credit losses for recognising provisions; and
    - simplified hedge accounting through closer alignment with an entity’s risk management methodology.

  The Group has completed an assessment of the impact of IFRS 9 and has concluded that adoption will not have a material impact on either the Consolidated Income Statement or the Consolidated Balance Sheet. The Group will apply all aspects of the new standard at the transition date of 1 April 2018 by adjusting opening retained earnings in the balance sheet and no restatement of comparative periods.

  The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group’s share of profits for the period includes the post implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9.

- IFRS 15 ‘Revenue from Contracts with Customers’ is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards.

  The Group has completed its assessment of the impact of IFRS 15 and based on the straightforward nature of the Group’s revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 will not have a material impact on the timing or nature of the Group’s revenue recognition.

- IFRS 16 ‘Leases’ is effective for periods beginning on or after 1 January 2019 and therefore will be effective in the Group financial statements for the 52 weeks ending 28 March 2020. Transition to IFRS 16 will take place for the Group on 31 March 2019. The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will replace the current lease accounting requirements including IAS 17 Leases and the related interpretations.

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For lessees, IFRS 16 removes distinctions between operating leases and finance leases. These are replaced by a model where a right of use asset and a corresponding liability are recognised for all leases except for short-term leases and low value assets. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group has established a steering committee to oversee the governance of the implementation project, which regularly reports to the Group Audit Committee. During the current period the Group has made progress in a number of areas including the identification of leases and contracts that could be determined to include a lease; the collation of lease data required for the calculation of the impact assessment; identification of areas of complexity or judgement relevant to the Group; identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with IFRS 16; and development of initial estimates for discount rates.

From the work performed to date, it is anticipated that implementation of the new standard will have a significant impact on the reported assets and liabilities of the Group. In addition, the implementation of the standard will impact the income statement and classification of cash flows. A reliable estimate of the financial impact on the Group's consolidated results is dependent on a number of unresolved areas, including; choice of transition option, refinement of approach to discount rates, estimates of lease-term for leases with options to break and renew and conclusion of data collection. In addition, the financial impact is dependent on the facts and circumstances at the time of transition. For these reasons, it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures, "APMs", which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like sales; gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt; free cash flow; and return on capital employed. Each of these APMs, and others used by the Group, are set out in the Glossary including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in nature and/or quantum or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 31 March 2018:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from adjustments to depreciation of leasehold assets and write-off of assets that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Other adjusting items including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

Refer to note 3 for a summary of the adjusting items.

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2 Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in Europe, Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

The following is an analysis of the Group's revenue and results by reportable segment:

	52 weeks ended 31 March 2018				52 weeks ended 1 April 2017			
	Management[2]	Logistics Adjustment[1]	Adjusting items	Statutory	Management[2]	Logistics Adjustment[1]	Adjusting items	Statutory
	£m	£m	£m	£m	£m	£m		£m
Clothing & Home revenue	3,741.1	-	-	3,741.1	3,792.7	-	-	3,792.7
Food revenue	5,869.9	-	-	5,869.9	5,649.0	-	-	5,649.0
UK revenue	9,611.0	-	-	9,611.0	9,441.7	-	-	9,441.7
Franchised	360.6	-	-	360.6	314.0	-	-	314.0
Owned	726.6	-	-	726.6	866.3	-	-	866.3
International revenue	1,087.2	-	-	1,087.2	1,180.3	-	-	1,180.3
Group revenue	10,698.2	-	-	10,698.2	10,622.0	-	-	10,622.0
Clothing & Home gross profit	2,116.7				2,128.7			
Food gross profit	1,828.7				1,837.7			
UK gross profit	3,945.4	(370.0)	-	3,575.4	3,966.4	(360.5)	-	3,605.9
UK operating costs	(3,450.3)	370.0	(477.5)	(3,557.8)	(3,390.4)	360.5	(254.5)	(3,284.4)
M&S Bank	40.3	-	(34.7)	5.6	50.2	-	(44.1)	6.1
UK operating profit	535.4	-	(512.2)	23.2	626.2	-	(298.6)	327.6
International operating profit	135.2	-	(1.9)	133.3	64.4	-	(138.8)	(74.4)
Group operating profit	670.6	-	(514.1)	156.5	690.6	-	(437.4)	253.2
Finance income	24.1	-	-	24.1	36.2	-	-	36.2
Finance costs	(113.8)	-	-	(113.8)	(113.0)	-	-	(113.0)
Profit before tax	580.9	-	(514.1)	66.8	613.8	-	(437.4)	176.4

[1] Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £370.0m (last year £360.5m).
[2] Management profit excludes the adjustments (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 3).

Other segmental information

	2018			2017		
	UK[1]	International	Total	UK[1]	International	Total
	£m	£m	£m	£m	£m	£m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	322.4	13.2	335.6	374.1	12.2	386.3
Depreciation and amortisation	615.7	24.6	640.3	549.1	29.1	578.2
Impairment and asset write-offs	228.3	5.3	233.6	72.7	31.2	103.9
Total assets	7,242.4	307.8	7,550.2	7,917.3	375.2	8,292.5
Non-current assets	6,022.3	210.0	6,232.3	6,324.4	244.8	6,569.2

[1]UK assets include centrally held assets largely relating to IT systems that support the International business of £24.9m (last year: £34.0m)

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3 Adjusting items

The total adjusting items reported for the 52 week period ended 31 March 2018 is a net charge of £514.1m (last year £437.4m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	2018 £m	2017 £m
Strategic programmes - UK store estate	(321.1)	(51.6)
Strategic programmes - UK organisation	(30.7)	(24.0)
Strategic programmes - IT restructure	(15.5)	-
Strategic programmes - UK logistics	(13.1)	9.8
Strategic programmes - Changes to pay and pensions	(12.9)	(156.0)
Strategic programmes - International store closures and Impairments	(5.0)	(132.5)
UK store Impairments, asset write-offs and onerous lease charges	(63.4)	(48.8)
M&S Bank charges incurred in relation to the insurance mis-selling provision	(34.7)	(44.1)
Other	(17.7)	9.8
Adjustments to profit before tax	(514.1)	(437.4)

In the prior year, the Group announced a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International which has resulted in the Group recognising significant charges in both the prior and current financial years.

Strategic programmes – UK store estate (£321.1m)

In November 2016, the Group announced a five year strategic programme to transform the UK store estate. During the year the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme has resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £321.1m in the year in relation to those stores identified as part of its transformation plans. The charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous contracts and leases, dilapidations and, where closure has been approved and announced, redundancy costs.

Whilst costs relating to the closure and re-configuration of the UK store estate will recur across future financial years, the Group considers that they should be treated as an adjusting item given they are part of a strategic programme and are significant in value to the results of the Group.

Strategic programmes – UK organisation (£30.7m)

During the year the Group recognised a charge of £28.2m in relation to the centralisation of its London Head Office functions into one building. The remaining £2.5m charge in the period represents redundancy costs associated with changes to the UK Head Office structure. These costs are considered to be an adjusting item as the total programme cost is significant in value and relates to a significant strategic transformation programme of the Group. Treatment of the redundancy costs within adjusting items is consistent with the disclosure of the original UK organisation charges in the prior year.

Strategic programmes – IT reorganisation (£15.5m)

As part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function that will work with the business to deliver both growth and cost efficiency. The £15.5m of costs incurred in the year relate primarily to redundancy, transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group expects to retire early as a result of the transformation strategy. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the project.

Strategic programmes – UK Logistics (£13.1m)

As part of the previously announced long-term strategic programme to transition to a single tier UK distribution network, the Group has announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result the Group has announced the closure of two existing distribution centres. A net charge of £13.1m has been recognised in the period for redundancy, dilapidations, accelerated depreciation, onerous contracts and project costs. The Group considers this cost to be an adjusting item as it is significant in value and relates to a significant strategic initiative of the Group. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. Treatment of the costs as being adjusting items is consistent with the treatment in previous periods in relation to the creation of a single tier logistics network.

Strategic programmes – Changes to pay and pensions (£12.9m)

In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB

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scheme, expected to be c. £25m in total over three years (commencing 2017/18). The charge in the period for the first year of these transitional payments to employees is £12.9m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with the disclosure of the UK DB scheme closure costs in the prior year.

Strategic programmes – International store closures and impairments (£5.0m)
In the prior year the Group announced its intention to close its owned stores in ten international markets, resulting in the recognition of £132.5m of expected closure costs primarily relating to redundancy, lease exit and property dilapidations. A net charge of £5.0m has been recognised in the period reflecting the actualisation of previously estimated closure costs and those costs which can only be recognised as incurred such as legal costs. The net charge is considered to be an adjusting item as it relates to a significant strategic program, which over the two years of charges has been significant in both value and nature to the results of the Group.

UK store impairments, asset write-offs and onerous lease contracts (£63.4m)
The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

UK store impairment testing (excluding those stores which have been captured as part of the UK store estate programme) has identified certain stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £12.6m has been incurred primarily in respect of the impairment of assets associated with these stores. This impairment charge is considered to be an adjusting item as it is considered to be consistent with the treatment of related impairments in the prior period.

Following the announcement of the UK store estate strategy in November 2016, the Group conducted a review of the £4.8bn net book value (as at 1 April 2017) of the property, plant and equipment on its balance sheet. A one-off non-cash adjustment was made to depreciation of £45.8m. Of the £45.8m, £43.2m relates to assets in the UK and £2.6m relates to assets in Ireland. Additionally, the Group has recognised an additional charge of £5.0m related to the write-off of store environment assets that are no longer used by the Group. The Group considers these costs to be adjusting items as the charges are significant in nature and value to the results of the Group for the current period.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£34.7m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the period is £34.7m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

Other (£17.7m)
Other includes profit on the disposal of our retail business in Hong Kong and charges for potential liabilities for certain employee related matters in the current period. The prior period income related to litigation settlements. These amounts are considered to be adjusted items as they are significant in nature and value to the results of the group in the current period.

On 30 December 2017, the Group completed the disposal of the retail business in Hong Kong and Macau to the Al Futtaim Group for consideration of HKD360.7m (£33.9m). The profit on disposal of the business was £5.8m including the recycling of amounts previously taken to equity in respect of foreign currency translation and net investment hedging. This profit is considered to be an adjusting item as it is significant in nature to both the results of the Group and the International segment. The profit on disposal is analysed as follows:

	2018 £m	2017 £m
Proceeds	33.9	-
Disposal costs	(0.9)	-
Net disposal proceeds	33.0	-
Fair value of net assets disposed	(28.6)	-
Provision for transition services	(0.8)	-
Net foreign exchange amounts recycled from reserves	2.2	-
Profit on disposal	5.8	-

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4 Finance income/costs

	2018 £m	2017 £m
Bank and other interest receivable	6.0	6.6
Ineffectiveness on financial instruments	0.4	0.3
Pension net finance income (see note 8)	17.7	29.3
Finance income	**24.1**	36.2
Interest on bank borrowings	(1.2)	(2.8)
Interest payable on syndicated bank facility	(2.3)	(4.3)
Interest payable on medium-term notes	(90.0)	(91.2)
Interest payable on finance leases	(1.9)	(1.9)
Ineffectiveness on financial instruments	(2.3)	-
Unwind of discount on provisions	(5.2)	(0.2)
Unwind of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 9)	(10.9)	(12.6)
Finance costs	**(113.8)**	(113.0)
Net finance costs	**(89.7)**	(76.8)

5 Income tax expense

The effective tax rate was 56.4% (last year: 34.4%) and after excluding adjusting items the effective tax rate was 21.6% (last year: 19.9%).

6 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 3). These have been presented to provide shareholders with an additional measure of the Groups' year on year performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has four types of dilutive potential ordinary shares being: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

Details of the adjusted earnings per share are set out below:

	2018 £m	2017 £m
Profit attributable to equity shareholders of the Company	**25.7**	117.1
Add/(less) (net of tax):		
Strategic programmes - UK store estate	264.7	46.5
Strategic programmes - UK organisation	28.0	20.3
Strategic programmes - IT restructure	12.5	-
Strategic programmes - UK logistics	10.7	(9.2)
Strategic programmes - Changes to pay and pensions	10.4	128.6
Strategic programmes - International store closures and impairments	(4.1)	120.8
UK store Impairments, asset write-offs and onerous lease charges	61.6	41.3
M&S Bank charges incurred in relation to the insurance mis-selling provision	28.1	35.3
Other	14.5	(7.9)
Profit before adjusted items attributable to equity shareholders of the Company	**452.1**	492.8

	Million	Million
Weighted average number of ordinary shares in issue	1,624.0	1,623.1
Potentially dilutive share options under Group's share option schemes	5.4	8.0
Weighted average number of diluted ordinary shares	**1,629.4**	1,631.1

	Pence	Pence
Basic earnings per share	1.6	7.2
Diluted earnings per share	1.6	7.2
Adjusted basic earnings per share	27.8	30.4
Adjusted diluted earnings per share	27.8	30.2

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7 Dividends

	2018 per share	2017 per share	2018 £m	2017 £m
Dividends on equity ordinary shares				
Paid final dividend	11.9p	11.9p	193.1	192.7
Special Dividend	-	4.6p	-	74.5
Paid interim dividend	6.8p	6.8p	110.3	110.3
	18.7p	**23.3p**	**303.4**	**377.5**

The directors have approved a final dividend of 11.9p per share (last year 11.9p per share) which in line with the requirements of IAS 10 'Events after the Reporting Period', has not been recognised within these results. This final dividend of c.£193.1m (last year £193.1m) will be paid on 13 July 2018 to shareholders whose names are on the Register of Members at the close of business on 1 June 2018. The ordinary shares will be quoted ex dividend on 31 May 2018.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 22 June 2018.

8 Retirement benefits

	2018 £m	2017 £m
Opening net retirement benefit surplus	**692.8**	824.1
Current service cost	**(0.3)**	(47.2)
Administration cost	**(3.5)**	(3.2)
Curtailment charge	**-**	(128.0)
Net interest income	**17.7**	29.3
Employer contributions	**40.7**	87.7
Remeasurements	**200.9**	(68.9)
Exchange movement	**(0.1)**	(1.0)
Closing net retirement benefit surplus	**948.2**	692.8
Total market value of assets	**9,989.3**	10,135.1
Present value of scheme liabilities	**(9,029.6)**	(9,433.3)
Net funded pension plan asset	**959.7**	701.8
Unfunded retirement benefits	**(3.6)**	(1.0)
Post-retirement healthcare	**(7.9)**	(8.0)
Net retirement benefit surplus	**948.2**	692.8
Analysed in the statement of financial position as:		
Retirement benefit asset	**970.7**	706.0
Retirement benefit deficit	**(22.5)**	(13.2)
Net retirement benefit surplus	**948.2**	692.8

Financial assumptions

The main 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. The most significant of these are the discount rate and the inflation rate which are 2.65% (last year 2.55%) and 3.15% (last year 3.20%) respectively. The inflation rate of 3.15% (last year 3.20%) reflects the Retail Price Index (RPI) rate.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate decreased by 0.25% the surplus would decrease by c.£70m. If the inflation rate decreased by 0.25%, the surplus would decrease by c.£25m.

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9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). Under the partnership agreement, the limited partners have no ongoing involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.5bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £335.5m (last year £396.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Groups' financial statements as it a transferable financial instrument. During the year to 31 March 2018 an interest charge of £10.9m (last year £12.6m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £345.4m (last year £412.1m).

The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly the associated liability is not included on the Groups statement of financial position.

10 Financial instruments

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. No level 3 instruments were in place at the year end.

At the end of the reporting period, the Group held the following financial instruments at fair value:

				2018				2017
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
- trading derivatives	-	2.0	-	2.0	-	0.7	-	0.7
Derivatives used for hedging	-	32.2	-	32.2	-	219.2	-	219.2
Short-term investments	-	13.7	-	13.7	-	14.5	-	14.5
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- trading derivatives	-	(0.2)	-	(0.2)	-	(1.5)	-	(1.5)
Derivatives used for hedging	-	(104.3)	-	(104.3)	-	(9.8)	-	(9.8)

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £9,989.3m (last year £10,135.1m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,152.4m (last year £8,690.2m). Additionally, the scheme assets include £2,836.9m (last year £1,444.9m) of Level 3 financial assets.

There were no transfers between the levels of the fair value hierarchy. In addition to the above, the Group has £9.9m (last year £3.0m) in unlisted equity securities measured at fair value.

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The following table represents the changes in Level 3 instruments held by the Pension Schemes:

	2018 £m	2017 £m
Opening balance	1,444.9	1,219.1
Fair value (loss)/gain recognised in other comprehensive income	(74.9)	100.6
Additional investment	1,466.9	125.2
Closing balance	2,836.9	1,444.9

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 (level 1 equivalent) was £1,659.9m (last year £2,110.7m), the fair value of this debt was £1,761.0m (last year £2,236.7m).

11 Contingencies and commitments

A. Capital commitments

	2018 £m	2017 £m
Commitments in respect of properties in the course of construction	121.8	156.4
Software capital commitments	17.2	11.0
	139.0	167.4

B. Other material contracts

In the event of termination of our trading arrangements with certain warehouse operators, the Group has a number of options and commitments to purchase some property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf.

See note 9 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

12 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2018 £m	2017 £m
Profit on ordinary activities after taxation	29.1	115.7
Income tax expense	37.7	60.7
Finance costs	113.8	113.0
Finance income	(24.1)	(36.2)
Operating profit	156.5	253.2
(Increase)/decrease in inventories	(38.2)	53.9
Decrease/(increase) in receivables	28.8	(9.9)
Decrease in payables	(87.4)	(51.5)
Adjusting items net cash outflows	(153.1)	(36.8)
Non-cash share-based payment charges	18.9	10.6
Depreciation, amortisation and write-offs	580.6	589.5
Defined benefit pension funding	(41.4)	(36.6)
Adjusting items non-cash	(34.7)	(44.1)
Adjusting operating profit items	514.1	437.4
Cash generated from operations	944.1	1,165.7

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13 Reconciliation of net debt to statement of financial position

	2018 £m	2017 £m
Statement of financial position and related notes		
Cash and cash equivalents	207.7	468.6
Current financial assets	13.7	14.5
Bank loans and overdrafts	(88.4)	(70.3)
Medium-term notes – net of hedging derivatives	(1,621.7)	(1,957.8)
Finance lease liabilities	(48.0)	(48.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 8)	(335.5)	(396.5)
	(1,872.2)	(1,990.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	44.7	55.5
Total net debt	(1,827.5)	(1,934.7)

14 Related party transactions

There were no related party transactions other than key management compensation during the year to 31 March 2018.

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<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores</td><td>The period on period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th>FY 17/18
£m</th><th>FY 16/17
£m</th><th>%</th></tr>
<tr><td>UK Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>9,252.2</td><td>9,338.8</td><td>(0.9)</td></tr>
<tr><td>Net new space</td><td>358.8</td><td>102.9</td><td></td></tr>
<tr><td>Statutory Total</td><td>9,611.0</td><td>9,441.7</td><td>1.8</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period on period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th></th><th>FY 17/18
£m</th><th>FY 16/17
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>1,087.2</td><td>1,211.3</td><td>(10.2)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>(31.0)</td><td></td></tr>
<tr><td>At reported currency</td><td>1,087.2</td><td>1,180.3</td><td>(7.9)</td></tr>
</table></td></tr>
<tr><td>International owned retained and franchise revenue growth at constant currency</td><td>Movement in revenue per the Income Statement</td><td>Sales from closure markets</td><td>The period on period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th>International Revenue</th><th>FY 17/18
£m</th><th>FY 16/17
£m</th><th>%</th></tr>
<tr><td>Reported currency</td><td>1,087.2</td><td>1,180.3</td><td>(7.9)</td></tr>
<tr><td>Owned exit</td><td>(66.4)</td><td>(192.3)</td><td></td></tr>
<tr><td>Owned retained and franchise</td><td>1,020.8</td><td>988.0</td><td>3.3</td></tr>
<tr><td>Impact of FX translation</td><td></td><td>23.5</td><td></td></tr>
<tr><td>Owned retained and franchise at constant currency</td><td>1,020.8</td><td>1,011.5</td><td>0.9</td></tr>
</table></td></tr>
</table>

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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Gross margin	Gross profit margin[1]	Certain downstream logistics costs (See Note 2)	Where referred to throughout the Annual Report, gross margin is calculated as gross profit before adjusting items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.
EBIT before adjusting items	EBIT[2]	Adjusting items (See Note 3)	Calculated as profit before the impact of adjusting items, net finance costs and tax. This measure is used in calculating the Return on Capital Employed for the Group.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See Note 3)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans.
Adjusted earnings per share	Earnings per share	Adjusting items (See Note 3)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See Note 3)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See Note 3)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the UK pension scheme less cash, cash equivalents and unlisted and short term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed.

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APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination.
Return on capital employed	None	Not applicable	Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed which are defined above. The measures used in this calculation are set out below: FY 17/18 £m / FY 16/17 £m EBIT before adjusting items: 670.6 / 690.6 Average capital employed: 4,785.3 / 5,031.6 This measure is used within the Group's incentive plans. It is calculated consistently year-on-year.

1. Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.
2. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

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