CONSOLIDATED INCOME STATEMENT

		52 weeks ended 1 April 2017			53 weeks ended 2 April 2016		
	Notes	Before adjusted items £m	Adjusted items £m	Total £m	Before adjusted items £m	Adjusted items £m	Total £m
Revenue	2, 3	**10,622.0**	**–**	**10,622.0**	10,555.4	–	10,555.4
Operating profit	2, 3, 5	**690.6**	**(437.4)**	**253.2**	784.9	(200.8)	584.1
Finance income	6	**36.2**	**–**	**36.2**	21.1	–	21.1
Finance costs	6	**(113.0)**	**–**	**(113.0)**	(116.4)	–	(116.4)
Profit before tax	4, 5	**613.8**	**(437.4)**	**176.4**	689.6	(200.8)	488.8
Income tax expense	7	**(122.4)**	**61.7**	**(60.7)**	(118.8)	34.4	(84.4)
Profit for the year		**491.4**	**(375.7)**	**115.7**	570.8	(166.4)	404.4
Attributable to:							
Owners of the parent		**492.8**	**(375.7)**	**117.1**	573.3	(166.4)	406.9
Non-controlling interests		**(1.4)**	**–**	**(1.4)**	(2.5)	–	(2.5)
		491.4	**(375.7)**	**115.7**	570.8	(166.4)	404.4
Basic earnings per share	8	**30.4p**		**7.2p**	35.0p		24.9p
Diluted earnings per share	8	**30.2p**		**7.2p**	34.9p		24.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Profit for the year		**115.7**	404.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	11	**(68.9)**	346.2
Tax charge/(credit) on items that will not be reclassified		**25.3**	(45.6)
		(43.6)	300.6
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences		**31.0**	7.3
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		**56.1**	(30.1)
– reclassified and reported in profit or loss		**(72.4)**	(22.1)
– amount recognised in inventories		**(20.1)**	5.9
Tax credit on cash flow hedges and net investment hedges		**4.1**	6.5
		(1.3)	(32.5)
Other comprehensive (expense)/income for the year, net of tax		**(44.9)**	268.1
Total comprehensive income for the year		**70.8**	672.5
Attributable to:			
Owners of the parent		**72.2**	675.0
Non-controlling interests		**(1.4)**	(2.5)
		70.8	672.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017 £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Intangible assets	14	**709.0**	802.8
Property, plant and equipment	15	**4,837.8**	5,027.1
Investment property		**15.5**	15.5
Investment in joint ventures		**7.0**	6.9
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**706.0**	851.0
Trade and other receivables	17	**234.1**	234.7
Derivative financial instruments	21	**56.8**	74.0
Deferred tax assets	23	**–**	–
		6,569.2	7,015.0
Current assets			
Inventories		**758.5**	799.9
Other financial assets	16	**14.5**	19.1
Trade and other receivables	17	**318.6**	321.1
Derivative financial instruments	21	**163.1**	72.1
Current tax assets		**–**	1.6
Cash and cash equivalents	18	**468.6**	247.6
		1,723.3	1,461.4
Total assets		**8,292.5**	8,476.4
Liabilities			
Current liabilities			
Trade and other payables	19	**1,553.8**	1,617.7
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**518.0**	297.5
Derivative financial instruments	21	**10.5**	28.5
Provisions	22	**147.2**	14.0
Current tax liabilities		**66.6**	75.2
		2,368.0	2,104.8
Non-current liabilities			
Retirement benefit deficit	11	**13.2**	26.9
Trade and other payables	19	**328.5**	353.0
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**324.6**	383.8
Borrowings and other financial liabilities	20	**1,711.7**	1,774.7
Derivative financial instruments	21	**0.8**	0.2
Provisions	22	**113.5**	52.0
Deferred tax liabilities	23	**281.8**	337.6
		2,774.1	2,928.2
Total liabilities		**5,142.1**	5,033.0
Net assets		**3,150.4**	3,443.4
Equity			
Issued share capital	24	**406.2**	405.8
Share premium account		**416.4**	411.3
Capital redemption reserve		**2,210.5**	2,210.5
Hedging reserve		**17.3**	32.3
Other reserve		**(6,542.2)**	(6,542.2)
Retained earnings		**6,648.1**	6,927.5
Total shareholders' equity		**3,156.3**	3,445.2
Non-controlling interests in equity		**(5.9)**	(1.8)
Total equity		**3,150.4**	3,443.4

The financial statements were approved by the Board and authorised for issue on 23 May 2017. The financial statements also comprise the notes on pages 96 to 127.

Steve Rowe 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	Foreign exchange reserve[3] £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total £m
As at 29 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	(12.6)	6,683.1	3,199.6	(0.8)	3,198.8
Profit/(loss) for the year	–	–	–	–	–	–	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:										
Foreign currency translation	–	–	–	(0.5)	–	7.8	–	7.3	–	7.3
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	346.2	346.2	–	346.2
Tax charge on items that will not be reclassified		–	–	–	–	–	(45.6)	(45.6)	–	(45.6)
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	–	–	–	(21.8)	–	–	(8.3)	(30.1)	–	(30.1)
– reclassified and reported in profit or loss[2]	–	–	–	(22.1)	–	–	–	(22.1)	–	(22.1)
– amount recognised in inventories	–	–	–	5.9	–	–	–	5.9	–	5.9
Tax on cash flow hedges and net investment hedges	–	–	–	6.5	–	–	–	6.5	–	6.5
Other comprehensive income/(expense)	–	–	–	(32.0)	–	7.8	292.3	268.1	–	268.1
Total comprehensive income/(expense)	–	–	–	(32.0)	–	7.8	699.2	675.0	(2.5)	672.5
Transactions with owners:										
Dividends	–	–	–	–	–	–	(301.7)	(301.7)	–	(301.7)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	1.5	1.5
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	–	–	20.6	–	20.6
Purchase of own shares held by employee trusts	–	–	–	–	–	–	(10.9)	(10.9)	–	(10.9)
Shares purchased in buy back	(7.9)	–	7.9	–	–	–	(150.7)	(150.7)	–	(150.7)
Credit for share-based payments	–	–	–	–	–	–	17.2	17.2	–	17.2
Deferred tax on share schemes	–	–	–	–	–	–	(3.9)	(3.9)	–	(3.9)
As at 2 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
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[2]	**–**	**–**	**–**	**(72.4)**	**–**	**–**	**–**	**(72.4)**	**–**	**(72.4)**
– amount recognised in inventories	**–**	**–**	**–**	**(20.1)**	**–**	**–**	**–**	**(20.1)**	**–**	**(20.1)**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**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 options	**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**

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 US dollar hedged bonds within finance costs.
3. In the prior year financial statements, the foreign exchange reserve was presented within Retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,165.7**	1,311.3
Income tax paid		**(98.0)**	(99.3)
Net cash inflow from operating activities		**1,067.7**	1,212.0
Cash flows from investing activities			
Proceeds on property disposals		**27.0**	30.6
Purchase of property, plant and equipment		**(309.1)**	(363.3)
Purchase of intangible assets		**(101.1)**	(186.8)
Reduction/(purchase) of current financial assets		**4.6**	(7.2)
Interest received		**6.6**	6.8
Acquisition of subsidiary		**–**	(56.2)
Net cash used in investing activities		**(372.0)**	(576.1)
Cash flows from financing activities			
Interest paid[1]		**(111.2)**	(113.5)
Cash (outflow)/inflow from borrowings		**(32.7)**	3.1
Repayment of syndicated loan notes		**(215.3)**	(19.9)
Issuance of medium-term notes		**300.0**	–
Decrease in obligations under finance leases		**(2.0)**	(2.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(57.9)**	(56.0)
Equity dividends paid		**(377.5)**	(301.7)
Shares issued on exercise of employee share options		**5.5**	20.6
Purchase of own shares by employee trust		**–**	(10.9)
Share buy back		**–**	(150.7)
Net cash used in financing activities		**(491.1)**	(631.4)
Net cash inflow from activities		**204.6**	4.5
Effects of exchange rate changes		**5.6**	3.7
Opening net cash		**196.0**	187.8
Closing net cash	27	**406.2**	196.0

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

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(2,138.3)**	(2,223.2)
Net cash inflow from activities		**204.6**	4.5
(Decrease)/increase in current financial assets		**(4.6)**	7.2
Decrease in debt financing		**7.9**	75.2
Exchange and other non-cash movements		**(4.3)**	(2.0)
Movement in net debt		**203.6**	84.9
Closing net debt	27	**(1,934.7)**	(2,138.3)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

The current financial statements are prepared for the 52-week period ended 1 April 2017, whereas the prior financial period was the 53 weeks ended 2 April 2016.

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 33 including the Group's principal risks and uncertainties as set out on pages 30 to 33. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing its financial statements.

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.

New accounting standards adopted by the Group

There have been no significant changes to accounting under IFRS which have affected the Group's results for the current financial year. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year, and are applicable for the Group, are the Annual Improvements to IFRSs: 2012-2014 cycle. These have not had a material impact on the Group.

New accounting standards in issue but not yet effective

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

→ IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 and introduces:

  – new requirements for the classification and measurement of financial assets and financial liabilities;

  – a new model for recognising provisions based on expected credit losses; and

  – simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

  Work is under way to assess the necessary changes to existing IT systems that will be required to aid the Group's implementation of the standard. The adoption of IFRS 9 is unlikely to have a material impact on the consolidated results of the Group. Any potential impact of IFRS 9 will be quantified in the Annual Report and Financial Statements for the year ending 31 March 2018.

→ IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It 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 an assessment on the impact of IFRS 15 and it is expected adoption will not have a material impact on any of the Group's revenue streams.

→ IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. IFRS 16 is not yet endorsed by the EU.

  The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model. As such it requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease. Accounting requirements for lessors are substantially unchanged from IAS 17.

  The Group has established a working group to assess the impact of the new standard. Work performed includes assessing the accounting impacts of the change, the process of collecting the required data from across the business and the necessary changes to systems and processes. From work performed to date, it is expected implementation of the new standard will have a significant impact on the consolidated results of the Group. On adoption, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. These charges will replace the lease costs currently charged to the income statement.

  The Group continues to assess the full impact of IFRS 16, however, the impact will greatly depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

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. The 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 adjusted 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 on pages 133 and 134 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted 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 adjusted items for the 52-week period ended 1 April 2017:

→ Significant pension charges arising as a result of changes to the defined benefit scheme's rules and practices

1 ACCOUNTING POLICIES CONTINUED

→ Significant restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business.

→ Net gains and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated.

→ Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.

→ 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.

→ Various legal settlements that are significant in value to the results of the Group or to a segment.

Refer to note 5 for a summary of the adjusted items.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention
The financial statements are drawn up on the historical cost basis of accounting, 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 period end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries
Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. This power is generally accompanied by the Group having 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 to our franchise partners or the customer 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 specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental fixed rate supplier charges are not included in the Group's definition of supplier income.

The types of supplier income recognised by the Group and the associated recognition policies are:

A. Promotional contribution Includes supplier contributions to promotional giveaways and pre-agreed contributions to annual 'spend and save' activity.

Income is recognised as a deduction to cost of sales over the relevant promotional period.

Income is calculated and invoiced at the end of the promotional period based on actual sales or according to fixed contribution arrangements. Contributions earned but not invoiced are accrued at the end of the relevant period.

B. Volume-based rebates Includes annual growth incentives, seasonal contributions and contributions to share economies of scale resulting from moving product supply.

Annual growth incentives are calculated and invoiced at the end of the financial year, once earned, based on fixed percentage growth targets agreed for each supplier at the beginning of the year. They are recognised as a reduction in cost of sales in the year to which they relate. Other volume-based rebates are agreed with the supplier and spread over the relevant season/contract period to which they relate. Contributions earned but not invoiced are accrued at the end of the relevant period.

Uncollected supplier income at the balance sheet date is classified within the financial statements as follows:

A. Trade and other payables The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the 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 curtailment, is charged to operating profit in the year.

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 on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

B. Brands Acquired brand values are held on the statement of financial position initially at cost. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and ten years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values on a straight line basis as follows:

- Freehold land – not depreciated.
- Freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives.
- Leasehold buildings with a remaining lease term of less than 50 years – depreciated over the remaining period of the lease.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is recognised within the income statement.

Leasing

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent-free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments

Payments made to acquire leasehold land and buildings are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that the cost is initially established by reference to the hedged exchange rate and not the spot rate at the day of purchase.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed at each reporting period and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is recognised in other comprehensive income or directly in equity.

Provision is made for uncertain tax positions when it is considered probable that there will be a future outflow of funds to a tax authority. The provision is calculated using the single best estimate where that outcome is more likely than not and a weighted average probability in other circumstances. The position is reviewed on an ongoing basis, to ensure appropriate provision is made for each known tax risk.

1 ACCOUNTING POLICIES CONTINUED

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. Subsequently, 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 and 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 and loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit and loss', gains and losses arising from changes in fair value are included in the income statement for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period. 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 net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps, cross-currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

→ A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge).

→ A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

→ A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective and retrospective 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 in the hedging reserve and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in other comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges Changes in the fair value of a derivative instrument designated in a fair value hedge, or, for non-derivatives the foreign currency component of carrying value, are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

1 ACCOUNTING POLICIES CONTINUED

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur or the Group de-designates the hedge relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value of the hedging instruments when the forecast transaction is no longer highly probable but is still expected to occur, are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to the income statement for the period.

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment.

The Group does not use derivatives to hedge income statement translation exposures.

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 judgements and sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. 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 judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Critical accounting judgements

Adjusted items The directors believe that the adjusted profit and earnings per share measures provide additional useful information for shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The adjusted 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 classification of adjusted items requires significant management judgement after considering the nature and intentions of a transaction.

Note 5 provides further details on current year adjusted items and their adherence to Group policy.

Sources of estimation uncertainty

Useful lives and residual values of property, plant and equipment Depreciation is provided to write down the cost of property, plant and equipment to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty. The Group is undertaking a strategic multi-year programme in relation to the UK store estate which will result in future store closures. The timing of these closures and the identification of the specific stores that will be impacted are not yet known, giving rise to additional estimation uncertainty when assessing the residual values and useful lives as at 1 April 2017. The useful lives of property, plant and equipment are reviewed by management annually. See note 15 for further details.

Impairment of property, plant and equipment Property, plant and equipment 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. This method requires the Group to determine the appropriate period over which to assess future cash flows and discount rate assumptions. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

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. The fair value of unquoted investments within total plan assets is determined using fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

Revenue recognition 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 be allocated against revenue in the same period as that in which the 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.

International closure costs During the year the Group announced its strategy for the International business resulting in the planned exit from owned stores in ten international markets. The Group will incur significant closure costs associated with the exits which gives rise to estimation uncertainty at 1 April 2017, most notably in respect of the expected costs to exit leases and the expected redundancy costs. See note 5 for further details.

Inventory provisioning Inventory provisions are recognised where the net realisable value from the sale of inventory is estimated to be lower than its carrying value, requiring estimation of the expected future sale price. The estimation includes judgement on a number of factors including historic sales patterns, expected sales profiles, potential obsolescence and shrinkage.

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 and Asia, together with 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 adjusted 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 1 April 2017				53 weeks ended 2 April 2016			
	Management £m	Logistics adjustment[1] £m	Adjusted items[2] £m	Statutory £m	Management £m	Logistics adjustment[1] £m	Adjusted items[2] £m	Statutory £m
Clothing & Home revenue	**3,792.7**	**–**	**–**	**3,792.7**	3,961.3	–	–	3,961.3
Food revenue	**5,649.0**	**–**	**–**	**5,649.0**	5,509.5	–	–	5,509.5
UK revenue	**9,441.7**	**–**	**–**	**9,441.7**	9,470.8	–	–	9,470.8
Franchise	**314.0**	**–**	**–**	**314.0**	329.7	–	–	329.7
Owned	**866.3**	**–**	**–**	**866.3**	754.9	–	–	754.9
International revenue	**1,180.3**	**–**	**–**	**1,180.3**	1,084.6	–	–	1,084.6
Group revenue	**10,622.0**	**–**	**–**	**10,622.0**	10,555.4	–	–	10,555.4
Clothing & Home gross profit	**2,128.7**				2,180.7			
Food gross profit	**1,837.7**				1,806.2			
UK gross profit	**3,966.4**	**(360.5)**	**–**	**3,605.9**	3,986.9	(300.9)	–	3,686.0
UK operating costs	**(3,390.4)**	**360.5**	**(254.5)**	**(3,284.4)**	(3,320.1)	300.9	(49.1)	(3,068.3)
M&S Bank	**50.2**	**–**	**(44.1)**	**6.1**	59.9	–	(50.3)	9.6
UK operating profit	**626.2**	**–**	**(298.6)**	**327.6**	726.7	–	(99.4)	627.3
International operating profit	**64.4**	**–**	**(138.8)**	**(74.4)**	58.2	–	(101.4)	(43.2)
Group operating profit	**690.6**	**–**	**(437.4)**	**253.2**	784.9	–	(200.8)	584.1
Finance income	**36.2**	**–**	**–**	**36.2**	21.1	–	–	21.1
Finance costs	**(113.0)**	**–**	**–**	**(113.0)**	(116.4)	–	–	(116.4)
Profit before tax	**613.8**	**–**	**(437.4)**	**176.4**	689.6	–	(200.8)	488.8

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 £360.5m (last year £300.9m). Updates to the methodology have been made in the current year to include depreciation of the relevant Distribution Centres within gross margin. This is to ensure consistent treatment with the underlying warehousing costs. The prior year comparatives have not been restated.
2. Management profit excludes the adjusted items (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 5). Please refer to the Glossary on pages 133 and 134 for the definition of these items.

Other segmental information

	2017			2016		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**374.1**	**12.2**	**386.3**	624.9	20.0	644.9
Depreciation and amortisation	**549.1**	**29.1**	**578.2**	531.9	30.9	562.8
Impairment and asset write-offs	**72.7**	**31.2**	**103.9**	60.8	98.8	159.6
Total assets	**7,917.3**	**375.2**	**8,292.5**	8,062.3	414.1	8,476.4
Non-current assets	**6,324.4**	**244.8**	**6,569.2**	6,751.9	263.1	7,015.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2017 Total £m	2016 Total £m
Revenue	**10,622.0**	10,555.4
Cost of sales	**(6,534.2)**	(6,427.0)
Gross profit	**4,087.8**	4,128.4
Selling and administrative expenses	**(3,460.4)**	(3,412.9)
Other operating income	**63.2**	69.4
Operating profit before adjusted items	**690.6**	784.9
Adjusted items (see note 5)	**(437.4)**	(200.8)
Operating profit	**253.2**	584.1

The selling and administrative expenses are further analysed below:

	2017 Total £m	2016 Total £m
Employee costs[1]	**1,491.4**	1,435.7
Occupancy costs	**757.2**	723.2
Repairs, renewals and maintenance of property	**95.1**	99.5
Depreciation, amortisation and asset impairments and write-offs before adjusted items	**589.5**	576.8
Other costs	**527.2**	577.7
Selling and administrative expenses	**3,460.4**	3,412.9

1. There is an additional £61.2m (last year £51.0m) of employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures note 10A.

4 PROFIT BEFORE TAXATION

The following items have been included in arriving at profit before taxation:

	2017 £m	2016 £m
Net foreign exchange (gains)/losses	**(0.2)**	6.9
Cost of inventories recognised as an expense	**5,776.1**	5,778.6
Write-down of inventories to net realisable value	**234.9**	239.7
Depreciation of property, plant, and equipment		
– owned assets	**410.3**	412.7
– under finance leases	**0.5**	1.4
Amortisation of intangible assets	**167.4**	148.7
Profit on property disposals	**–**	(0.6)
Impairments and write-offs of assets	**103.9**	159.6
Operating lease rentals payable		
– property	**350.1**	337.1
– fixtures, fittings and equipment	**4.3**	3.5

Included in administrative expenses is the auditor's remuneration, including expenses for audit and non-audit services, payable to the Company's auditor Deloitte LLP and its associates as follows:

	2017 £m	2016 £m
Annual audit of the Company and the consolidated financial statements	**0.9**	0.7
Audit of subsidiary companies	**0.7**	0.7
Audit-related assurance services	**0.3**	0.2
Total audit and audit-related assurance services fees	**1.9**	1.6
Other services	**–**	0.1
Total other services	**–**	0.1

5 ADJUSTED ITEMS

The total adjusted items reported for the 52-week period ended 1 April 2017 is a net charge of £437.4m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2017 £m	2016 £m
Strategic programmes:			
– changes to pay and pensions	22	**(156.0)**	–
– UK organisation	15, 22	**(24.0)**	–
– UK store estate	15, 22	**(51.6)**	(37.0)
– International store closures and impairments	15, 22	**(132.5)**	(31.6)
UK store impairments and onerous lease charges	15, 22	**(48.8)**	–
M&S Bank charges incurred in relation to the insurance mis-selling provision		**(44.1)**	(50.3)
UK logistics	15, 22	**9.8**	9.2
Legal settlements		**9.8**	–
Other impairments[1]		**–**	(94.5)
IAS 39 fair value movement of embedded derivative		**–**	(2.0)
Net gain on acquisition of joint venture holding Bradford warehouse		**–**	5.4
Adjustments to profit before tax		**(437.4)**	(200.8)

1. Other impairments in the prior year included the impairment of Czech and Hungary goodwill (£19.1m), the M&S Mode brand (£32.4m), an enterprise management system used by the International business of (£19.3m) and impairment costs of (£23.7m) related to the Clothing & Home buying and merchandising systems.

Changes to pay and pensions (£156.0m)

On 25 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. The consultation with employees on these changes completed on 2 September 2016.

The closure of the UK DB pension scheme to future accrual has resulted in a curtailment charge of £127.0m. As all remaining active members of the scheme have transitioned to deferred status, all future pensionable increases will be in line with inflation (CPI) as opposed to the lower 1% salary cap applied to active members. Other costs of £5.4m directly associated with the closure, primarily in relation to third party advisory costs, have also been incurred.

The Group considers the curtailment cost and directly associated costs to be an adjusted item on the basis that they relate to a significant cost impacting the Group results.

Following the completion of the consultation in respect of pay and premia, the Group has committed to transition payments of £23.6m in respect of the removal of premia. The full amount of £23.6m has been recognised as a liability at 1 April 2017 as the criteria for recognition under IAS 37 have been met at this date.

The Group anticipates making further transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c. £25m in total over the next three years. These amounts will be recognised within adjusted items in future years as incurred.

The premia buyout costs are considered to be an adjusted item as they represent costs that are significant in value to the results of the Group.

Strategic programmes – UK organisation (£24.0m)

During the year, the Group announced the results of a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International. The completion of this review has resulted in the Group incurring a number of significant charges.

On 5 September 2016, following completion of a detailed review of the UK organisation, the Group announced changes to the UK Head Office structure. The changes have resulted in a net reduction of c.590 Head Office roles achieved through a combination of fewer contractors, natural attrition and redundancies and resulted in costs of £15.4m inclusive of fees.

On 2 March 2017, as part of the ongoing strategic programme, the Group announced an 18-month programme to centralise its London Head Office functions into one building. The Group has recognised a net charge of £8.6m associated with this rationalisation, inclusive of the impairment and write-off of assets upon exit of vacated buildings, an expected net sub-let shortfall and the costs of relocation.

These costs are considered to be an adjusted item as they are significant in value and relate to a strategic initiative. As a result, they are not considered to be normal operating costs of the business.

Strategic programmes – UK store estate (£51.6m)

The Group has revised its previously announced strategic programme in relation to the UK store estate. As part of this programme, ten UK stores were approved for closure in the period, resulting in closure costs of £47.3m relating to dilapidations, sub-let shortfalls, accelerated depreciation of fixtures and fittings and impairment of assets. The balance of the charges of £4.3m in the period relate to the ongoing review of assumptions associated with previously closed stores.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTED ITEMS CONTINUED

Strategic programmes – International store closures and impairments (£132.5m)
The Group has announced its intention to close its owned stores in ten international markets, resulting in the recognition of a cost of £130.5m in the period. The expected closure costs primarily relate to redundancy, lease exit and property dilapidations. The closure programmes are ongoing in all markets, with the exception of China, where the final store was closed on 1 April 2017. The costs are considered to be an adjusted item as they are part of a strategic programme and are significant in both value and nature to the results of the Group.

International store impairment testing during the year identified a number of stores where current and anticipated future performance does not support the carrying value of the stores, with a resulting impairment charge of £9.0m being incurred, which is considered significant in value to the results of the International segment. Refer to note 15 for further details of these impairments.

Offsetting these store impairments are credits of £7.0m relating to the reversal of historic impairments against five stores and the release of unutilised provisions on completion of the exit from the Balkans. This impairment reversal and release are considered to be adjusted items, consistent with treatment in previous periods when the original charges were recognised as adjusted items.

UK store impairments and onerous lease charges (£48.8m)
The UK store impairment testing during the year has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £39.4m has been incurred in respect of the impairment of assets associated with these stores. A future charge of £9.4m has been incurred in respect of onerous lease provisions associated with some of these stores. Refer to note 15 for further details of these impairments.

The charges associated with the impairment of stores and associated onerous leases have been classified as an adjusted item on the basis of the significant value of the charge in the year to the results of the Group.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£44.1m)
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 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 income from M&S Bank has been reduced by the deduction of our share of the estimated liability in both the current and prior years. The deduction in the period is £44.1m.

The Group considers this cost to be an adjusted item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

UK logistics (£9.8m credit)
A net credit of £9.8m has been recognised in the year relating to an updated view of the estimated closure costs of legacy logistics sites associated with the transition to a single tier distribution network. This credit largely arises following a decision to retain two logistics warehouses within the network which had previously been identified for closure. This net credit is considered to be an adjusted item, consistent with treatment in previous periods when the original charges were recognised as an adjusted item.

Legal settlements (£9.8m credit)
During the year, the Group has reached various legal settlements resulting in a net credit to the income statement of £9.8m. No further detail is provided in respect of these legal settlements due to the requirement to comply with confidentiality clauses within the agreements.

The settlements are considered to be adjusted items as they are significant in value to the results of the Group or to the segment.

6 FINANCE INCOME/COSTS

	2017 £m	2016 £m
Bank and other interest receivable	**6.6**	5.8
Unwind of discount on financial instruments	**0.3**	–
Pension net finance income (see note 11)	**29.3**	15.3
Finance income	**36.2**	21.1
Interest on bank borrowings	**(2.8)**	(3.6)
Interest payable on syndicated bank facility	**(4.3)**	(5.5)
Interest payable on medium-term notes	**(91.2)**	(89.9)
Interest payable on finance leases	**(1.9)**	(1.9)
Unwind of discount on financial instruments	**–**	(0.4)
Unwind of discount on provisions	**(0.2)**	(0.4)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(12.6)**	(14.7)
Finance costs	**(113.0)**	(116.4)
Net finance costs	**(76.8)**	(95.3)

7 INCOME TAX EXPENSE

A. Taxation charge

	2017 £m	2016 £m
Current tax		
UK corporation tax on profits for the year at 20% (last year 20%)		
– current year	**98.3**	111.6
– adjustments in respect of prior years	**(17.4)**	(5.6)
UK current tax	**80.9**	106.0
Overseas current taxation		
– current year	**8.9**	12.4
– adjustments in respect of prior years	**7.3**	(0.5)
Total current taxation	**97.1**	117.9
Deferred tax		
– origination and reversal of temporary differences	**(48.3)**	(28.3)
– adjustments in respect of prior years	**11.5**	2.6
– changes in tax rate	**0.4**	(7.8)
Total deferred tax (see note 23)	**(36.4)**	(33.5)
Total income tax expense	**60.7**	84.4

B. Taxation reconciliation

The effective tax rate was 34.4% (last year 17.3%) and is reconciled below:

	2017 £m	2016 £m
Profit before tax	**176.4**	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	**35.3**	97.8
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**4.7**	2.3
Other income and expenses that are not taxable or allowable for tax purposes	**(0.7)**	(9.6)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(3.9)**	(7.8)
Overseas profits taxed at rates different to those of the UK	**(2.3)**	(4.3)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**0.5**	3.7
Adjustments to the current and deferred tax charges in respect of prior periods	**1.4**	(3.5)
Adjusted items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**–**	2.6
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	**7.7**	–
– International store closures and impairments where no tax relief is available	**26.0**	15.3
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	**(1.7)**	–
– profits and losses on property disposals	**–**	(1.5)
– acquisition of Lima (Bradford) S.à r.l	**–**	(5.4)
– retranslation of deferred tax balances due to the change in statutory UK tax rates	**4.3**	–
– overseas profits taxed at rates different to those of the UK	**(10.6)**	(5.2)
Total income tax expense	**60.7**	84.4

After excluding adjusted items, the adjusted effective tax rate was 19.9% (last year 17.2%).

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax charge of £0.4m in the income statement and the recognition of a deferred tax credit of £11.0m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation continued

	2017 £m	2016 £m
Profit before taxation	**176.4**	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	**35.3**	97.8
Disallowable accounting depreciation and other similar items	**90.2**	85.4
Deductible capital allowances	**(67.2)**	(71.5)
Allowable deductions for employee share schemes	**1.0**	(3.4)
Allowable deductions for employee pension schemes	**(11.7)**	(13.4)
Overseas profits taxed at rates different to those of the UK	**(2.3)**	(4.3)
Overseas tax losses where there is no immediate relief	**0.5**	3.7
Other income and expenses that are not taxable or allowable	**3.8**	7.6
Adjusted items:		
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	**17.3**	21.0
– International store closures and impairments where no tax relief is available	**27.3**	–
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	**(1.8)**	–
– pay and pensions where tax relief is due in the future	**25.4**	–
– profits and losses on property disposals	**–**	(0.5)
– UK property and investment deductions where no tax relief is available	**–**	7.5
– Lima (Bradford) S.à r.l acquisition accounting	**–**	(5.4)
– embedded derivative	**–**	4.7
– overseas profits taxed at rates different to those of the UK	**(10.6)**	(5.2)
Current year current tax charge	**107.2**	124.0
Represented by:		
UK current year current tax	**98.3**	111.6
Overseas current year current tax	**8.9**	12.4
	107.2	124.0
UK adjustments in respect of prior years	**(17.4)**	(5.6)
Overseas adjustments in respect of prior years	**7.3**	(0.5)
Total current taxation (note 7A)	**97.1**	117.9

8 EARNINGS PER SHARE

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

The adjusted earnings per share figures have also been calculated based on earnings before adjusted items that are significant in nature and/or value (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

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

	2017 £m	2016 £m
Profit attributable to equity shareholders of the Company	**117.1**	406.9
Add/(less) (net of tax):		
Strategic programmes:		
– changes to pay and pensions	**128.6**	–
– UK organisation	**20.3**	–
– UK store estate	**46.5**	30.5
– International store closures and impairments	**120.8**	25.2
UK store impairments and onerous lease charges	**41.3**	–
M&S Bank charges incurred in relation to the insurance mis-selling provision	**35.3**	40.2
UK logistics	**(9.2)**	(7.3)
Legal settlements	**(7.9)**	–
Other Impairments	**–**	85.9
IAS 39 fair value movement of embedded derivative	**–**	1.6
Net gain on acquisition of joint venture holding Bradford warehouse	**–**	(9.7)
Profit before adjusted items attributable to equity shareholders of the Company	**492.8**	573.3

	Million	Million
Weighted average number of ordinary shares in issue	**1,623.1**	1,635.9
Potentially dilutive share options under the Group's share option schemes	**8.0**	6.3
Weighted average number of diluted ordinary shares	**1,631.1**	1,642.2

	Pence	Pence
Basic earnings per share	**7.2**	24.9
Diluted earnings per share	**7.2**	24.8
Adjusted basic earnings per share	**30.4**	35.0
Adjusted diluted earnings per share	**30.2**	34.9

9 DIVIDENDS

	2017 per share	2016 per share	**2017 £m**	2016 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.6p	**192.7**	190.8
Special dividend	**4.6p**	–	**74.5**	–
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.9
	23.3p	18.4p	**377.5**	301.7

The directors have proposed a final dividend in respect of the year ended 1 April 2017 of 11.9p per share (last year 11.9p), amounting to a dividend of £193.3m(last year £192.7m). This payment is subject to approval of shareholders at the Annual General Meeting (AGM), to be held on 11 July 2017.

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 1 June 2017. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 23 June 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including the Operating Committee) were:

	2017 Total £m	2016 Total £m
Wages and salaries	**1,333.8**	1,278.8
Social security costs	**89.7**	80.6
Pension costs	**100.3**	102.0
Share-based payments (see note 13)	**10.6**	16.0
Employee welfare and other personnel costs	**47.1**	46.7
Capitalised staffing costs	**(28.9)**	(37.4)
Total aggregate remuneration[1]	**1,552.6**	1,486.7

1. Excludes amounts recognised within adjusted items (see note 5) such as the transition payments the Group has committed to in respect of removal of premia and redundancy costs associated with the UK and International strategic programmes.

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2017	2016
UK stores		
– management and supervisory categories	**5,617**	5,696
– other	**66,385**	63,733
UK head office		
– management and supervisory categories	**3,172**	3,191
– other	**862**	881
UK operations		
– management and supervisory categories	**191**	257
– other	**1,267**	1,127
Overseas	**7,445**	8,063
Total average number of employees	**84,939**	82,948

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 59,764 (last year 58,895).

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 (DB) arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final salary basis and is governed by a Trustee board which is independent of the Group. On closure of the UK DB pension scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m. There will be no future service charge relating to the scheme and no future monthly employer contributions for current service. At year end the UK DB pension scheme had no active members (last year 11,176), 62,655 deferred members (last year 53,589) and 51,198 pensioners (last year 51,047).

The most recent actuarial valuation of the Marks and Spencer UK Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. During the year the Group paid the final contribution of £28m, as agreed at the 2012 actuarial valuation, in respect of benefits already accrued by members. In addition, the UK DB pension scheme will continue to receive income from the Scottish Limited Partnership. See Note 12 for further details.

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 53,661 active members (last year 40,712) and some 12,866 deferred members (last year 8,823).

The Group also operates a small funded DB pension scheme in the Republic of Ireland. This scheme closed to future accrual on 31 October 2013. Other retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

The total Group retirement benefit cost was £198.4m (last year £86.7m). Of this, £148.0m (last year £41.0m) relates to the UK DB pension scheme including curtailment charges, £45.1m (last year £40.3m) to the UK DC plan and £5.3m (last year £5.4m) to other retirement benefit schemes.

11 RETIREMENT BENEFITS CONTINUED

By funding its DB pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that lead to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.
- Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Group is exposed to additional risks through its obligation to the UK DB pension scheme via its interest in the Scottish Limited Partnership (see note 12). In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2017 £m	2016 £m
Total market value of assets	**10,135.1**	8,515.3
Present value of scheme liabilities	**(9,433.3)**	(7,682.3)
Net funded pension plan asset	**701.8**	833.0
Unfunded retirement benefits	**(1.0)**	(0.9)
Post-retirement healthcare	**(8.0)**	(8.0)
Net retirement benefit surplus	**692.8**	824.1
Analysed in the statement of financial position as:		
Retirement benefit asset	**706.0**	851.0
Retirement benefit deficit	**(13.2)**	(26.9)
Net retirement benefit surplus	**692.8**	824.1

In the event of a plan wind-up, the pension scheme rules provide M&S with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up or change the benefits due to members of the scheme. As a result, any net surplus in the UK DB pension scheme is recognised in full.

B. Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

	2017 %	2016 %
Rate of increase in salaries	**N/A**[1]	1.0
Rate of increase in pensions in payment for service	**2.0-3.2**	1.9-3.0
Discount rate	**2.55**	3.40
Inflation rate	**3.20**	2.95
Long-term healthcare cost increases	**7.20**	6.95

1. Rate of increase in salaries is no longer applicable as the UK DB pension scheme is closed to future accrual.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

C. Demographic assumptions

The UK demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2015. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015. The specific mortality rates used are based on the VITA lite tables. The life expectancies underlying the valuation are as follows:

		2017	2016
Current pensioners (at age 65)	– males	**23.2**	23.1
	– female	**24.7**	24.6
Future pensioners – currently in active status (at age 65)	– males	**N/A[1]**	23.6
	– female	**N/A[1]**	26.2
Future pensioners – currently in deferred status (at age 65)	– males	**24.7**	24.1
	– female	**27.1**	26.4

1. No future pensioners currently in an active status. All employees in the UK DB pension scheme are in deferred status due to the decision to close the scheme to future accrual from 1 April 2017.

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the UK DB pension scheme surplus:

	2017 £m	2016 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(90.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(20.0)**	20.0
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**370.0**	300.0

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 DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (see 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 92% of interest rate movements and 90% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

The fair value of the total plan assets at the end of the reporting period for each category is as follows:

	2017 £m	2016 £m
Debt investments		
– government bonds net of repurchase agreements[1]	**5,219.7**	4,165.7
– corporate bonds	**901.9**	1,058.2
– asset-backed securities and structured debt	**547.9**	459.0
Scottish Limited Partnership interest (see note 12)	**412.1**	469.5
Equity investments – quoted	**1,504.0**	1,047.5
Equity investments – unquoted	**315.1**	236.7
Property	**509.3**	420.7
Derivatives		
– interest and inflation rate swap contracts	**(28.9)**	(101.5)
– foreign exchange contracts and other derivatives	**204.2**	142.0
Hedge and reinsurance funds	**322.0**	317.9
Cash and cash equivalents	**158.3**	190.5
Other	**69.5**	109.1
	10,135.1	8,515.3

1. Repurchase agreements were £1,333.9m (last year £1,333.0m).

All pension assets have quoted prices in an active market with the exception of £1,444.9m (last year £1,219.1m) of unquoted assets. The fair values of the above equity and debt investments are based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The fair value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the scheme to hedge a proportion of interest rate and inflation risk. The scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 193,506 (last year 169,509) ordinary shares in the Company through its investment in UK Equity Index Funds.

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:

	2017 £m	2016 £m
Current service cost	**96.5**	98.0
Administration costs	**3.2**	3.0
Past service costs – curtailment charge	**128.0**	1.0
Net interest income	**(29.3)**	(15.3)
Total	**198.4**	86.7
Remeasurement on the net defined benefit surplus:		
– actual return on scheme assets excluding amounts included in net interest income	**(1,543.8)**	156.3
– actuarial gain – experience	**(1.5)**	(164.8)
– actuarial loss – demographic assumptions	**–**	100.8
– actuarial (gain)/loss – financial assumptions	**1,614.2**	(438.5)
Components of defined benefit cost recognised in other comprehensive income	**68.9**	(346.2)

G. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2017 £m	2016 £m
Fair value of scheme assets at start of year	**8,515.3**	8,596.5
Interest income based on discount rate	**284.9**	262.4
Actual return on scheme assets excluding amounts included in net interest income[1]	**1,543.8**	(156.3)
Employer contributions	**137.0**	118.4
Benefits paid	**(347.7)**	(311.7)
Administration costs	**(3.0)**	(3.0)
Exchange movement	**4.8**	9.0
Fair value of scheme assets at end of year	**10,135.1**	8,515.3

1. The actual return on scheme assets was a gain of £1,828.7m (last year gain of £106.1m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2017 £m	2016 £m
Present value of obligation at start of year	**7,691.2**	8,147.5
Current service cost	**96.5**	98.0
Administration costs	**0.2**	–
Curtailment charge	**128.0**	1.0
Interest cost	**255.6**	247.1
Benefits paid	**(347.7)**	(311.7)
Actuarial gain – experience	**(1.5)**	(164.8)
Actuarial loss – demographic assumptions	**–**	100.8
Actuarial loss/(gain) – financial assumptions	**1,614.2**	(438.5)
Exchange movement	**5.8**	11.8
Present value of obligation at end of year	**9,442.3**	7,691.2
Analysed as:		
Present value of pension scheme liabilities	**9,433.3**	7,682.3
Unfunded pension plans	**1.0**	0.9
Post-retirement healthcare	**8.0**	8.0
Present value of obligation at end of year	**9,442.3**	7,691.2

The average duration of the defined benefit obligation at 1 April 2017 is 19 years (last year 18 years).

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

The Partnership holds £1.6bn (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 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 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further £36.4m annually from 2017 until 2031.

The partnership liability in relation to the first interest of £396.5m (last year £455.7m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 1 April 2017 an interest charge of £12.6m (last year £14.7m) was recognised in the income statement representing the unwind 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 £412.1m (last year £469.5m). It is also included as a liability on the Group's statement of financial position as it is a transferable financial instrument. The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19. The associated liability is eliminated on consolidation.

13 SHARE-BASED PAYMENTS

This year a charge of £10.6m was recognised for share-based payments (last year charge of £16.0m). Of the total share-based payments charge, £10.9m (last year £9.5m) relates to the Save As You Earn Scheme and a credit of £3.6m (last year charge of £1.1m) relates to the Performance Share Plan. The remaining charge of £3.3m (last year £5.4m) is spread over the other share plans. An additional charge of £1.3m was recognised in relation to the Annual Bonus Scheme for 2016/17 under the Deferred Share Bonus Plan. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 66 to 78.

A. Save As You Earn Scheme

The SAYE Scheme was last approved by shareholders in 2007 and shareholder approval is being sought at the 2017 AGM to renew the scheme for a further ten years. 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 an Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC approved schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2017		2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**30,154,547**	**393.3p**	29,530,523	357.6p
Granted	**28,166,455**	**260.0p**	10,437,215	432.0p
Exercised	**(1,763,039)**	**312.8p**	(6,645,922)	302.6p
Forfeited	**(12,881,484)**	**391.8p**	(2,967,697)	382.5p
Expired	**(382,385)**	**355.2p**	(199,572)	317.2p
Outstanding at end of year	**43,294,094**	**310.6p**	30,154,547	393.3p
Exercisable at end of year	**4,928,971**	**403.5p**	1,936,860	315.3p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 387.4p (last year 443.9p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2017	**2017**	**2017**	2016
	3-year plan	**3-year plan 2016 modified[1]**	**3-year plan 2015 modified[1]**	3-year plan
Grant date	**Nov 16**	**Nov 16**	**Nov 16**	Nov 15
Share price at grant date	**335p**	**335p**	**335p**	520p
Exercise price	**260p**	**432p**	**369p**	432p
Option life in years	**3 years**	**3 years**	**3 years**	3 years
Risk-free rate	**0.2%**	**0.2%**	**0.2%**	0.9%
Expected volatility	**28.5%**	**28.5%**	**28.5%**	23.4%
Expected dividend yield	**5.6%**	**5.6%**	**5.6%**	3.7%
Fair value of option	**66p**	**19p**	**30p**	96p
Incremental fair value of option	**N/A**	**47p**	**36p**	–

1. In the current year, there has been a modification to the 2017 scheme relating to employees cancelling awards from previous years in subsitution for awards granted under the 2017 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2017 options, being 66p, and the fair value of repriced previous awards, calculated using 2017 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 19p for 2016 modified options and 30p for 2015 modified options, is already recognised in operating profit.

13 SHARE-BASED PAYMENTS CONTINUED

Volatility has been estimated by taking the historic volatility in the Company's share price over a three-year period.

The resulting fair value is expensed over the service period of three years on the assumption that 10% (last year 10%) of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2017**	2016	**2017**	2016	Option price
January 2013	**–**	1,917,252	**–**	0.2	312p
January 2014	**4,854,749**	5,918,608	**0.2**	1.2	405p
January 2015	**6,280,741**	12,334,645	**1.2**	2.2	369p
January 2016	**4,676,198**	9,984,042	**2.2**	3.2	432p
January 2017	**27,482,406**	–	**3.2**	–	260p
	43,294,094	30,154,547	**2.5**	2.3	311p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2016/17 included Adjusted Earnings Per Share, Return on Capital Employed and free cash flow. 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 78. Awards under this plan have been made in each year since 2005.

During the year, 7,569,499 shares (last year 5,850,134) were awarded under the plan. The weighted average fair value of the shares awarded was 328.0p (last year 533.2p). As at 1 April 2017, there were 14,816,764 shares (last year 15,749,605) outstanding under the plan.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 500 of the most senior managers within the Group. 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 within the Group and the value of any dividends earned on the vested shares during the deferred period will also be paid on vesting.

During the year, 1,563,439 shares (last year 1,044,961) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 355.8p (last year 548.3p). As at 1 April 2017, there were 3,033,709 shares (last year 2,586,096) outstanding under the plan.

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 the employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period will also be paid on vesting.

During the year, 321,229 shares (last year 221,681) have been awarded under the plan. The weighted average fair value of the shares awarded was 326.6p (last year 454.4p). As at 1 April 2017, there were 888,027 shares (last year 1,285,666) outstanding under the plan.

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's SAYE 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 to that allowed within the UK scheme. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

During the year, 324,768 options (last year 160,113) were granted, at a fair value of 66.3p (last year 95.6p). As at 1 April 2017, there were 521,837 options (last year 312,826) outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,173,101 (last year 4,087,837) shares with a book value of £10.7m (last year £20.6m) and a market value of £7.3m (last year £16.6m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

ShareBuy, the Company's Share Incentive Plan enables the participants to buy shares directly from their gross salary. This scheme does not attract an IFRS 2 charge.

* 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 28 March 2015					
Cost or valuation	129.7	112.5	1,087.7	86.6	1,416.5
Accumulated amortisation and impairments	(34.4)	(55.8)	(466.9)	(1.2)	(558.3)
Net book value	95.3	56.7	620.8	85.4	858.2
Year ended 2 April 2016					
Opening net book value	95.3	56.7	620.8	85.4	858.2
Additions	6.2	–	92.9	93.9	193.0
Transfers	–	–	91.2	(91.2)	–
Asset impairments	(19.1)	(32.5)	(22.1)	–	(73.7)
Asset write-offs	–	–	(11.9)	(14.5)	(26.4)
Amortisation charge	–	(5.3)	(143.4)	–	(148.7)
Exchange difference	0.3	(0.2)	0.2	0.1	0.4
Closing net book value	82.7	18.7	627.7	73.7	802.8
At 2 April 2016					
Cost or valuation	136.2	112.3	1,272.0	89.4	1,609.9
Accumulated amortisation, impairments and write-offs	(53.5)	(93.6)	(644.3)	(15.7)	(807.1)
Net book value	82.7	18.7	627.7	73.7	802.8
Year ended 1 April 2017					
Opening net book value	**82.7**	**18.7**	**627.7**	**73.7**	**802.8**
Additions	**–**	**–**	**0.3**	**100.8**	**101.1**
Transfers	**–**	**–**	**95.8**	**(107.6)**	**(11.8)**
Asset impairments	**–**	**–**	**6.1**	**(5.1)**	**1.0**
Asset write-offs	**–**	**–**	**(9.6)**	**(2.9)**	**(12.5)**
Amortisation charge	**–**	**(5.3)**	**(162.1)**	**–**	**(167.4)**
Other[1]	**(5.5)**	**–**	**–**	**–**	**(5.5)**
Exchange difference	**1.2**	**–**	**0.2**	**(0.1)**	**1.3**
Closing net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**
At 1 April 2017					
Cost or valuation	**137.4**	**112.3**	**1,368.3**	**82.5**	**1,700.5**
Accumulated amortisation, impairments and write-offs	**(59.0)**	**(98.9)**	**(809.9)**	**(23.7)**	**(991.5)**
Net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**

Goodwill relates to the following:

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 2 April 2016	**69.5**	**7.0**	**6.2**	**82.7**
Exchange difference	**–**	**1.2**	**–**	**1.2**
Other[1]	**–**	**–**	**(5.5)**	**(5.5)**
Net book value at 1 April 2017	**69.5**	**8.2**	**0.7**	**78.4**

1. Other adjustments relate to the adjustment of provision values for business combinations related to the acquisition of Lima (Bradford) S.à r.l in the prior year.

14 INTANGIBLE ASSETS CONTINUED

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.

The costs in relation to the per una brand are £80.0m (net book value £13.4m). The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years and is only assessed for impairment where such indicators exist.

The value in use calculations are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a flat long-term growth rate for the UK and with reference to forecast GDP growth for India. These growth rates do not exceed the long-term growth rates for the Group's retail businesses in these territories.

While management believes the assumptions used are realistic, it is possible that a further impairment could be identified for per una, Bradford or India 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 has 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 28 March 2015				
Cost	2,855.1	7,066.4	133.3	10,054.8
Accumulated depreciation, impairments and 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
Year ended 2 April 2016				
Opening net book value	2,515.3	2,394.1	121.7	5,031.1
Additions	115.2	204.6	138.3	458.1
Transfers	1.7	186.8	(188.5)	–
Disposals	(5.0)	(0.6)	–	(5.6)
Asset impairments	(30.4)	(24.3)	(1.9)	(56.6)
Asset write-offs	–	(2.9)	–	(2.9)
Depreciation charge	(13.3)	(400.8)	–	(414.1)
Exchange difference	11.4	5.9	(0.2)	17.1
Closing net book value	2,594.9	2,362.8	69.4	5,027.1
At 2 April 2016				
Cost	2,981.6	7,476.3	82.9	10,540.8
Accumulated depreciation, impairments and write-offs	(386.7)	(5,113.5)	(13.5)	(5,513.7)
Net book value	2,594.9	2,362.8	69.4	5,027.1
Year ended 1 April 2017				
Opening net book value	**2,594.9**	**2,362.8**	**69.4**	**5,027.1**
Additions	**–**	**76.2**	**209.0**	**285.2**
Transfers	**17.4**	**189.6**	**(196.2)**	**10.8**
Disposals	**(0.6)**	**(1.0)**	**–**	**(1.6)**
Asset impairments	**(11.6)**	**(68.6)**	**(1.9)**	**(82.1)**
Asset write-offs	**(6.0)**	**(1.8)**	**(2.5)**	**(10.3)**
Depreciation charge	**(16.3)**	**(394.5)**	**–**	**(410.8)**
Exchange difference	**10.0**	**9.2**	**0.3**	**19.5**
Closing net book value	**2,587.8**	**2,171.9**	**78.1**	**4,837.8**
At 1 April 2017				
Cost	**3,008.4**	**7,750.3**	**96.0**	**10,854.7**
Accumulated depreciation, impairments and write-offs	**(420.6)**	**(5,578.4)**	**(17.9)**	**(6,016.9)**
Net book value	**2,587.8**	**2,171.9**	**78.1**	**4,837.8**

The net book value above includes land and buildings of £42.1m (last year £42.6m) and equipment of nil (last year £0.2m) 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 finance leases.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU with the exception of outlet stores which are considered together as one CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The recoverable value of each CGU is determined to be the higher of value in use and fair value less costs to sell.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a flat long-term growth rate for UK stores and with reference to forecast GDP growth for other territories. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in these territories.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 7% to 21% (last year 7% to 24%).

Where appropriate, fair value less cost to sell is determined with regard to the expected rent and yield for each property and reflect the specific characteristics relevant to each property and the location in which it is based. The fair values have been determined with the assistance of independent, professional valuers.

During the year the Group has recognised a net impairment charge of £43.4m (gross impairment charge of £47.5m offset by an impairment reversal of £4.1m) as a result of store impairment testing. The gross impairment charge relates primarily to stores in the UK and Hong Kong, with the reversal of impairment relating to stores in Ireland due largely to the movement in the Sterling to Euro currency rate. These impairments, including the reversal, have been recognised within adjusted items (see Note 5).

The Group has performed a sensitivity analysis on the impairment tests for its UK store portfolio using various reasonably possible scenarios. An increase of one percentage point in the post-tax discount rate would have resulted in an increase to the impairment charge of £6.5m. Neither a 2% reduction in year one sales growth nor a 20bps reduction in total UK margin would result in a significant increase to the impairment charge.

In addition the Group has recognised additional impairment charges of £27.3m associated with stores approved for closure during the year, £13.1m associated with the exit from owned stores in ten international markets and £5.7m associated with the rationalisation of UK Head Offices. Offsetting these charges were impairment reversals of £7.4m following an updated view of the logistics strategy. These net charges have been recognised within adjusted items (see Note 5).

16 OTHER FINANCIAL ASSETS

	2017 £m	2016 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**14.5**	19.1

1. Includes £5.3m (last year £3.6m) of money market deposit 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

	2017 £m	2016 £m
Non-current		
Other receivables	**15.1**	12.9
Prepayments and accrued income	**219.0**	221.8
	234.1	234.7
Current		
Trade receivables	**111.0**	116.5
Less: provision for impairment of receivables	**(1.7)**	(0.7)
Trade receivables – net	**109.3**	115.8
Other receivables	**28.5**	50.4
Prepayments and accrued income	**180.8**	154.9
	318.6	321.1

Trade and other receivables that were past due but not impaired amounted to £20.8m (last year £19.6m) 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 £31.5m (last year £19.4m) 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 where there is a right to offset. The remaining amount is immaterial.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £468.6m (last year £247.6m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.21% (last year 0.51%). These deposits have an average maturity of eight days (last year 48 days).

19 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Current		
Trade and other payables	**967.5**	1,021.9
Social security and other taxes	**55.0**	49.8
Accruals and deferred income	**531.3**	546.0
	1,553.8	1,617.7
Non-current		
Other payables , accruals and deferred income	**328.5**	353.0

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2017 £m	2016 £m
Current		
Bank loans and overdrafts[1]	**70.3**	297.1
Finance lease liabilities	**0.4**	0.4
6.250% US$500m medium-term notes 2017[3&4]	**328.1**	–
Interest accrued on medium-term notes[6]	**46.4**	–
Revaluation of medium-term notes[6]	**72.8**	–
	518.0	297.5
Non-current		
Bank loans	**–**	0.2
6.250% US$500m medium-term notes 2017[3&4]	**–**	327.9
6.125% £400m medium-term notes 2019[2&5]	**400.2**	399.3
6.125% £300m medium-term notes 2021[2]	**297.8**	297.3
3.00% £300m medium-term notes 2023[2]	**296.3**	–
4.750% £400m medium-term notes 2025[2&5]	**397.1**	396.8
7.125% US$300m medium-term notes 2037[3&4]	**191.9**	191.8
Interest accrued on medium-term notes[6]	**–**	42.2
Revaluation of medium-term notes[6]	**80.1**	71.0
Finance lease liabilities	**48.3**	48.2
	1,711.7	1,774.7
Total	**2,229.7**	2,072.2

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture.
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$500m and US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross-currency interest rate swaps).
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, £425m (last year £425m) was swapped from fixed to floating rate.
6. The prior year comparatives have been split to show the interest accrued on medium-term notes and revaluation of medium-term notes on individual line items to be in line with the format of the current year note disclosure.

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 weighted average lease term for equipment is three years (last year four years) and 95 years (last year 96 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 liquidation of 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, counterparty, foreign currency and interest rate 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 the year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2022. During the current financial year, the Group extended the facility by one year. This facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At the year end, these amounted to £150m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year £205m) was drawn under the committed facilities and £nil (last year £30m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year £1.1bn) was in issuance as at the balance sheet date. A new £300m bond, set to mature in 2023, was issued under the Euro Medium Term Note programme during the financial year.

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 (note 12) £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(92.2)	(205.1)	(98.6)	(2.4)	(71.9)	(470.2)	117.5	(62.8)	54.7
Between one and two years	–	–	(448.1)	(2.6)	(71.9)	(522.6)	399.3	(362.6)	36.7
Between two and five years	–	–	(605.9)	(7.1)	(215.6)	(828.6)	61.4	(41.2)	20.2
More than five years	–	–	(1,329.3)	(176.9)	(143.7)	(1,649.9)	465.6	(427.0)	38.6
	(92.2)	(205.1)	(2,481.9)	(189.0)	(503.1)	(3,471.3)	1,043.8	(893.6)	150.2
Effect of discounting	–	–	755.6	140.4	47.4	943.4			
At 2 April 2016	(92.2)	(205.1)	(1,726.3)	(48.6)	(455.7)	(2,527.9)			
Timing of cash flows									
Within one year	**(70.3)**	**–**	**(514.2)**	**(2.5)**	**(71.9)**	**(658.9)**	**543.6**	**(373.4)**	**170.2**
Between one and two years	**–**	**–**	**(88.0)**	**(2.6)**	**(71.9)**	**(162.5)**	**26.7**	**(14.5)**	**12.2**
Between two and five years	**–**	**–**	**(915.1)**	**(7.3)**	**(215.6)**	**(1,138.0)**	**63.9**	**(41.2)**	**22.7**
More than five years	**–**	**–**	**(1,309.0)**	**(176.0)**	**(71.9)**	**(1,556.9)**	**519.5**	**(413.2)**	**106.3**
	(70.3)	**–**	**(2,826.3)**	**(188.4)**	**(431.3)**	**(3,516.3)**	**1,153.7**	**(842.3)**	**311.4**
Effect of discounting	**–**	**–**	**715.6**	**139.7**	**34.8**	**890.1**			
At 1 April 2017	**(70.3)**	**–**	**(2,110.7)**	**(48.7)**	**(396.5)**	**(2,626.2)**			

1. Derivative cash flows are disclosed based on actual settlement. All derivatives are settled net, except for currency swaps.

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued
(a) Liquidity and funding risk continued

The present value of finance lease liabilities is as follows:

	2017 £m	2016 £m
Within one year	**(0.4)**	(0.4)
Later than one year and not later than five years	**(1.6)**	(1.6)
Later than five years	**(46.7)**	(46.6)
Total	**(48.7)**	(48.6)

(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's 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) ((BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different to 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.

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								
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short term investments[1]	–	–	–	25.1	60.6	63.5	–	–	149.2
Derivative assets[2]	–	–	–	42.6	33.3	23.4	–	18.2	117.5
At 2 April 2016	–	–	–	67.7	93.9	86.9	–	18.2	266.7

	AAAm £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Short-term investments[1]	**–**	**–**	**–**	**17.4**	**149.3**	**185.0**	**–**	**–**	**351.7**
Derivative assets[2]	**–**	**–**	**–**	**62.8**	**84.1**	**19.0**	**–**	**41.0**	**206.9**
At 1 April 2017	**–**	**–**	**–**	**80.2**	**233.4**	**204.0**	**–**	**41.0**	**558.6**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash at hand and in transit of £116.9m (last year £98.4m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

The Group has 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 £111m (last year £114m), other receivables £44m (last year £63m), cash and cash equivalents £469m (last year £248m) and derivatives £220m (last year £146m).

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(c) Foreign currency risk

Transactional foreign currency exposures arise primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar incurred in the sourcing of clothing and home products from Asia.

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 15 months ahead of the start of the season and is between 80% and 100% hedged nine months before the start of the season.

Other exposures from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £2,023m (last year £1,640m) with a weighted average maturity date of six months (last year five months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 1 April 2017 will be released to the income statement at various dates over the following 17 months (last year 15 months) from the balance sheet date.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €26m (last year €nil) and HK$190m (last year HK$1,245m) 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 resulted in a £2.3m gain (last year £nil) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £367m (last year £289m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities, excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme, is set out below:

	2017			2016		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,727.8**	**492.3**	**2,220.1**	1,343.7	716.7	2,060.4
Euro	**6.6**	**0.7**	**7.3**	6.2	0.8	7.0
Other	**0.1**	**2.2**	**2.3**	0.1	4.7	4.8
	1,734.5	**495.2**	**2,229.7**	1,350.0	722.2	2,072.2

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 5.0% (last year 5.3%) and the weighted average time for which the rate is fixed is six years (last year seven 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 £1,734.5m (last year £1,350.0m) representing the public bond issues and finance leases, amounting to 78% (last year 65%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2017 %	2016 %
Committed and uncommitted borrowings	**0.3**	1.0
Medium-term notes	**5.0**	5.3
Finance leases	**4.3**	4.1

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued
(d) Interest rate risk continued

Derivative financial instruments

		2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Current					
Cross-currency swaps	– cash flow hedges	**72.6**	**–**	–	–
Forward foreign exchange contracts	– cash flow hedges	**89.1**	**(9.0)**	69.7	(26.7)
	– held for trading	**0.7**	**(1.5)**	1.6	(1.8)
	– net investment hedges	**0.7**	**–**	0.8	–
		163.1	**(10.5)**	72.1	(28.5)
Non-current					
Cross-currency swaps	– cash flow hedges	**14.0**	**–**	27.3	–
Forward foreign exchange contracts	– cash flow hedges	**1.3**	**(0.8)**	5.4	(0.2)
Interest rate swaps	– fair value hedges	**41.5**	**–**	41.3	–
		56.8	**(0.8)**	74.0	(0.2)

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 £0.2m) as the loss on the hedged items was £0.3m (last year £3.0m loss) and the gain on the hedging instruments was £nil (last year £2.8m gain). 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.

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The directors consider that a 2%+/- (last year 2%) movement in interest and a 20% +/- (last year 20%) weakening in sterling against the relevant currency represents a reasonably possible change. However, this analysis is for illustrative purposes only.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

Interest rates: the impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

Foreign exchange: the impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges 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 2 April 2016				
Impact on income statement: gain/(loss)	9.2	(11.1)	–	–
Impact on other comprehensive income: (loss)/gain	(0.8)	1.0	136.0	(90.7)
At 1 April 2017				
Impact on income statement: gain/(loss)	**7.8**	**(2.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(2.2)**	**0.3**	**246.4**	**(164.3)**

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out.

	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 2 April 2016					
Trade and other receivables	31.6	(29.5)	2.1	–	2.1
Derivative financial assets	146.1	–	146.1	(28.7)	117.4
Cash and cash equivalents	39.3	(39.3)	–	–	–
	217.0	(68.8)	148.2	(28.7)	119.5
Trade and other payables	(259.3)	29.5	(229.8)	–	(229.8)
Derivative financial liabilities	(28.7)	–	(28.7)	28.7	–
Bank loans and overdrafts	(90.8)	39.3	(51.5)	–	(51.5)
	(378.8)	68.8	(310.0)	28.7	(281.3)

	Gross financial assets/(liabilities) £m	**Gross financial (liabilities)/ assets set off £m**	**Net financial assets/(liabilities) per statement of financial position £m**	**Related amounts not set off in the statement of financial position £m**	**Net £m**
At 1 April 2017					
Trade and other receivables	**25.1**	**(22.8)**	**2.3**	**–**	**2.3**
Derivative financial assets	**219.9**	**–**	**219.9**	**(11.3)**	**208.6**
Cash and cash equivalents	**42.4**	**(41.6)**	**0.8**	**–**	**0.8**
	287.4	**(64.4)**	**223.0**	**(11.3)**	**211.7**
Trade and other payables	**(279.2)**	**22.8**	**(256.4)**	**–**	**(256.4)**
Derivative financial liabilities	**(11.3)**	**–**	**(11.3)**	**11.3**	**–**
Bank loans and overdrafts	**(103.9)**	**41.6**	**(62.3)**	**–**	**(62.3)**
	(394.4)	**–**	**(330.0)**	**11.3**	**(318.7)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Fair Value Hierarchy continued

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

	2017				2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	–	0.7	–	0.7	–	1.4	–	1.4
Derivatives used for hedging	–	219.2	–	219.2	–	144.7	–	144.7
Short- term investments	–	14.5	–	14.5	–	19.1	–	19.1
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	–	(1.5)	–	(1.5)	–	(1.8)	–	(1.8)
Derivatives used for hedging	–	(9.8)	–	(9.8)	–	(26.9)	–	(26.9)

The Marks & Spencer DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,135.1m (last year £8,515.3m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £8,690.2m (last year £7,296.2m). Additionally, the pension scheme assets include £1,444.9m (last year £1,219.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

There were no transfers between the levels of the fair value hierarchy. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost (see note 16).

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

	2017 £m	2016 £m
Opening balance	1,219.1	1,093.6
Fair value gain recognised in other comprehensive income	100.6	70.3
Additional investment/(derecognition)	125.2	55.2
Closing balance	1,444.9	1,219.1

In the prior year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the lease contract was between subsidiaries of the Group. Gains recognised in the prior year income statement related to the valuation of the embedded derivative in the lease contract up until the acquisition date. The fair value movement of the embedded derivative of £2.0m loss and subsequent derecognition of the asset (£21.7m) was treated as an adjustment to reported profit in the prior year (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 (Level 1 equivalent) was £2,110.7m (last year £1,726.4m); the fair value of this debt was £2,236.7m (last year £1,868.3m).

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 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 seven years (last year eight 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	2017 £m	2016 £m
At 2 April 2016	**52.4**	**9.8**	**3.8**	**66.0**	78.3
Provided in the year	**104.5**	**116.8**	**24.7**	**246.0**	40.0
Released in the year	**(19.4)**	**(5.8)**	**(1.1)**	**(26.3)**	(31.5)
Utilised during the year	**(9.4)**	**(20.9)**	**0.1**	**(30.2)**	(21.6)
Exchange differences	**0.4**	**2.9**	**0.1**	**3.4**	0.4
Discount rate unwind	**0.2**	**–**	**–**	**0.2**	0.4
Reclassification from trade and other payables	**–**	**(1.2)**	**2.8**	**1.6**	–
At 1 April 2017	**128.7**	**101.6**	**30.4**	**260.7**	66.0
Analysed as:					
Current				**147.2**	14.0
Non-current				**113.5**	52.0

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one central London location. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions primarily relate to the estimated costs associated with the International exit strategy which include lease exit costs. These provisions are expected to be utilised within the next year.

Other provisions include £23.6m of transition payments due following completion of the consultation in respect of pay and premia.

Please see note 5 for further information on these provisions.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 17% (last year 20%, 19% and 18%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 'Income Taxes') during the year are shown below.

Deferred tax assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 28 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
Credited/(charged) to income statement	6.4	25.9	0.7	3.0	36.0	(2.5)	33.5
Credited/(charged) to equity/other comprehensive income	–	–	(51.4)	(1.8)	(53.2)	2.4	(50.8)
Other balance sheet movement	(6.2)	–	–	–	(6.2)	–	(6.2)
At 2 April 2016	(46.8)	(80.1)	(205.5)	(1.9)	(334.3)	(3.3)	(337.6)
At 3 April 2016	**(46.8)**	**(80.1)**	**(205.5)**	**(1.9)**	**(334.3)**	**(3.3)**	**(337.6)**
Credited/(charged) to income statement	**3.5**	**17.7**	**14.5**	**1.4**	**37.1**	**(0.7)**	**36.4**
Credited/(charged) to equity/other comprehensive income	**–**	**–**	**21.6**	**4.8**	**26.4**	**(5.2)**	**21.2**
Other balance sheet movement	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**(0.2)**	**(1.8)**
At 1 April 2017	**(43.3)**	**(62.4)**	**(169.4)**	**2.7**	**(272.4)**	**(9.4)**	**(281.8)**

Other short-term temporary differences relate mainly to employee share options and financial instruments.

Other balance sheet movements, categorised as other short-term temporary differences, include £1.4m in relation to recognition of a deferred tax liability on the acquisition of the remaining 50% stake in Lima (Bradford) S.à r.l.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £254.5m (last year £249.5m) and a tax value of £48.4m (last year £49.9m).

23 DEFERRED TAX CONTINUED

Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £147.9m (last year £106.6m) and a tax value of £34.2m (last year £22.3m).

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 an anticipated distribution of these earnings under applicable tax legislation. Undistributed earnings with a gross value of £38.2m (last year £30.6m) and a potential tax liability of £9.0m (last year £7.2m) have not been recognised on the basis that the distribution can be controlled by the Group.

24 ORDINARY SHARE CAPITAL

	2017		2016	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,622,964,807**	**405.8**	1,647,814,746	412.0
Shares issued on exercise of share options	**1,763,039**	**0.4**	6,797,209	1.7
Shares cancelled through share buy back	**–**	**–**	(31,647,148)	(7.9)
At end of year	**1,624,727,846**	**406.2**	1,622,964,807	405.8

Issue of new shares

1,763,039 (last year 6,797,209) ordinary shares having a nominal value of £0.4m (last year £1.7m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £5.5m (last year £20.6m).

Share buy back

Last year 31,647,148 ordinary shares having a nominal value of £7.9m were bought back and subsequently cancelled during the year. The aggregate consideration paid, including directly attributable costs was £150.7m. There was no buyback programme in the current year.

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2017 £m	2016 £m
Commitments in respect of properties in the course of construction	**156.4**	129.2
Software capital commitments	**11.0**	17.1
	167.4	146.3

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 which are currently owned and operated by the warehouse operators on the Group's behalf (at values ranging from historical net book value to market value).

See note 12 for details on the Partnership arrangement with the Marks & Spencer UK DB 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.

	2017 £m	2016 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**342.0**	311.3
– Later than one year and not later than five years	**1,115.9**	1,108.4
– Later than five years and not later than ten years	**964.1**	1,099.4
– Later than ten years and not later than 15 years	**421.9**	542.8
– Later than 15 years and not later than 20 years	**285.3**	351.9
– Later than 20 years and not later than 25 years	**166.8**	225.8
– Later than 25 years	**1,069.5**	970.3
Total	**4,365.5**	4,609.9

The total non-cancellable future sub-lease payments to be received are £34.6m (last year £36.1m).

Of the total commitments under operating leases disclosed above, £70m are already provided for on the balance sheet with regards to expected lease exit costs arising from the International strategic programme.

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2017 £m	2016 £m
Profit on ordinary activities after taxation	**115.7**	404.4
Income tax expense	**60.7**	84.4
Finance costs	**113.0**	116.4
Finance income	**(36.2)**	(21.1)
Operating profit	**253.2**	584.1
Depreciation, amortisation and asset impairments and write-offs before adjusted items	**589.5**	576.8
Share-based payments charge	**10.6**	16.0
Pension costs charged against operating profit	**100.3**	102.0
Adjusted profit items	**437.4**	200.8
Decrease/(increase) in inventories	**53.9**	(22.5)
(Increase)/decrease in receivables	**(9.9)**	3.3
(Decrease)/increase in payables	**(53.1)**	32.4
Adjusted items cash outflows	**(36.8)**	(12.9)
Adjusted items non-cash	**(44.1)**	(50.3)
Cash contributions to pension schemes	**(135.3)**	(118.4)
Cash generated from operations	**1,165.7**	1,311.3

Adjusted items cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with the UK store estate, UK organisation and UK logistics and legal settlements. Adjusted items non-cash relate to the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 3 April 2016 £m	Cash flow £m	Exchange and other non-cash movements £m	At 1 April 2017 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(297.3)	237.2	(10.2)	**(70.3)**
Less: amounts treated as financing (see below)	245.7	(248.0)	10.2	**7.9**
	(51.6)	(10.8)	–	**(62.4)**
Cash and cash equivalents (see note 18)	247.6	215.4	5.6	**468.6**
Net cash per statement of cash flows	196.0	204.6	5.6	**406.2**
Current financial assets (see note 16)	19.1	(4.6)	–	**14.5**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(245.7)	248.0	(10.2)	**(7.9)**
Medium-term notes (see note 20)	(1,613.8)	(300.0)	2.4	**(1,911.4)**
Finance lease liabilities (see note 20)	(48.6)	2.0	(2.1)	**(48.7)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(445.3)	57.9	–	**(387.4)**
Debt financing	(2,353.4)	7.9	(9.9)	**(2,355.4)**
Net debt	(2,138.3)	207.9	(4.3)	**(1,934.7)**

27 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2017 £m	2016 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**468.6**	247.6
Current financial assets (see note 16)	**14.5**	19.1
Bank loans and overdrafts (see note 20)	**(70.3)**	(297.3)
Medium-term notes – net of hedging derivatives	**(1,957.8)**	(1,656.1)
Finance lease liabilities (see note 20)	**(48.7)**	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	**(396.5)**	(455.7)
	(1,990.2)	(2,191.0)
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	**55.5**	52.7
Total net debt	**(1,934.7)**	(2,138.3)

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. Marks & Spencer UK Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

D. Key management compensation

The Group has determined that the key management personnel constitute the Board for the whole year and the members of the Operating Committee with effect from November 2016, when the terms of reference of the Operating Committee were ratified. For the whole of the prior year the Group had determined that only members of the Board were key management personnel.

	2017 £m	2016 £m
Salaries and short-term benefits	**8.1**	7.5
Share-based payments	**–**	0.3
Total	**8.1**	7.8

E. Other related party transactions

There were no related party transactions during the year to 1 April 2017. Last year, supplier transactions occurred between the Group and a company controlled by Martha Lane Fox's partner. Martha was a non-executive director of the Group, retiring from the Board on 2 April 2016. These transactions amounted to £2.6m during the year with an outstanding trade payable of £0.2m at 2 April 2016.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017 £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,249.3**	9,235.8
Total assets		**9,249.3**	9,235.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,552.2**	2,559.2
Total liabilities		**2,552.2**	2,559.2
Net assets		**6,697.1**	6,676.6
Equity			
Ordinary share capital		**406.2**	405.8
Share premium account		**416.4**	411.3
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,266.7**	2,251.7
Total equity		**6,697.1**	6,676.6

The Company's profit for the year was £379.0m (last year £302.1m)

The Company financial statements were approved by the Board and authorised for issue on 23 May 2017. The financial statements also comprise the notes on pages 129 to 131.

Steve Rowe 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 29 March 2015	412.0	392.4	2,202.6	1,397.3	2,392.6	6,796.9
Profit for the year	–	–	–	–	302.1	302.1
Dividends	–	–	–	–	(301.7)	(301.7)
Capital contribution for share-based payments	–	–	–	–	9.4	9.4
Shares purchased in buy-back	(7.9)	–	7.9	–	(150.7)	(150.7)
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	20.6
At 2 April 2016	**405.8**	**411.3**	**2,210.5**	**1,397.3**	**2,251.7**	**6,676.6**
At 3 April 2016	**405.8**	**411.3**	**2,210.5**	**1,397.3**	**2,251.7**	**6,676.6**
Profit for the year	**–**	**–**	**–**	**–**	**379.0**	**379.0**
Dividends	**–**	**–**	**–**	**–**	**(377.5)**	**(377.5)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**13.5**	**13.5**
Shares issued on exercise of employee share options	**0.4**	**5.1**	**–**	**–**	**–**	**5.5**
At 1 April 2017	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,266.7**	**6,697.1**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flow from investing activities		
Dividends received	**379.0**	302.1
Net cash generated from investing activities	**379.0**	302.1
Cash flows from financing activities		
Shares issued on exercise of employee share options	**5.5**	20.6
Shares purchased in buy-back	**–**	(150.7)
Repayment of intercompany loan	**(7.0)**	129.7
Equity dividends paid	**(377.5)**	(301.7)
Net cash used in financing activities	**(379.0)**	(302.1)
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 £936,000 (last year £956,000). 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

	2017 per share	2016 per share	2017 £m	2016 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.6p	**192.7**	190.8
Special dividend	**4.6p**	–	**74.5**	–
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.9
	23.3p	18.4p	**377.5**	301.7

The directors have proposed a final dividend in respect of the year ended 1 April 2017 of 11.9p per share (last year 11.9p), amounting to a dividend of £193.3m (last year £192.7m). This payment is subject to approval of shareholders at the Annual General Meeting, to be held on 11 July 2017.

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 1 June 2017. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 23 June 2017.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £379.0m (last year £302.1m) and decreased its loan from Marks and Spencer plc by £7.0m (last year increased by £129.7m). The outstanding balance was £2,552.2m (last year £2,559.2m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2017 £m	2016 £m
Beginning of the year	**9,235.8**	9,226.4
Additional investment in subsidiary undertakings relating to share-based payments	**13.5**	9.4
End of the year	**9,249.3**	9,235.8

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 1 April 2017 is disclosed below.

Subsidiary undertakings registered in the UK(i)

Name	Share Class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 Ordinary	0	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 Ordinary	0	50
M&S Limited	£1 Ordinary	0	100
Manford (Textiles) Limited	£1 Ordinary	0	100
Marks & Spencer Company Archive CIC	£1 Ordinary	0	100
Marks & Spencer Outlet Limited	£1 Ordinary	0	100
Marks & Spencer Simply Foods Limited	£1 Ordinary	0	100
Marks and Sparks Limited	£1 Ordinary	0	100
Marks and Spencer (Northern Ireland) Limited Registered Office: 8 Laganbank Road, Belfast, BT1 3LR	£1 Ordinary	0	100
Marks and Spencer (Property Investments) Limited	£1 Ordinary	0	100
Marks and Spencer Chester Limited	£1 Ordinary	0	100
Marks and Spencer France Limited	£1 Ordinary	0	100
Marks and Spencer Guernsey Investments LLP	£1 Ordinary	0	100
Marks and Spencer International Holdings Limited	£1 Ordinary	0	100
Marks and Spencer Pension Trust Investments Limited	£1 Ordinary	0	100
Marks and Spencer Pension Trust Limited(ii)	£1 A Ordinary	100	0
	£1 B Ordinary	0	0
	£1 C Ordinary	0	0
Marks and Spencer plc	£0.25 Ordinary	100	0
Marks and Spencer Property Developments Limited	£1 Ordinary	0	100
Marks and Spencer Scottish Limited Partnership(iii) Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	0	100
Marks and Spencer Shared Services Limited	£1 Ordinary	0	100
Minterton Services Limited	£1 Ordinary	0	100
Marks and Spencer (Bradford) Limited	£1 Ordinary	0	100
Ruby Properties (Enfield) Limited	£1 Ordinary	0	100
St. Michael (Textiles) Limited	£1 Ordinary	0	100
St. Michael Finance plc	£1 Ordinary	0	100

UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 1 April 2017. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Amethyst Leasing (Properties) Limited	0	100	04246934
Busyexport Limited	0	100	04411320
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	0	SC315365
Marks and Spencer (Property Ventures) Limited	0	100	05502513
Marks and Spencer 2005 (Brooklands Store) Limited	0	100	05502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	0	100	05502519
Marks and Spencer 2005 (Chester Store) Limited	0	100	05502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	0	100	05502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	0	100	05502546
Marks and Spencer 2005 (Hedge End Store) Limited	0	100	05502538
Marks and Spencer 2005 (Kensington Store) Limited	0	100	05502478
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	0	100	05502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	0	100	05502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	0	100	05502588
Marks and Spencer 2005 (Pudsey Store) Limited	0	100	05502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	0	100	05502502
Marks and Spencer Hungary Limited	0	100	08540784
Marks and Spencer Investments	0	100	04903061
Marks and Spencer Property Holdings Limited	0	100	02100781
Ruby Properties (Cumbernauld) Limited	0	100	04922798
Ruby Properties (Hardwick) Limited	0	100	04716018
Ruby Properties (Long Eaton) Limited	0	100	04716031
Ruby Properties (Thorncliffe) Limited	0	100	04716110
Ruby Properties (Tunbridge) Limited	0	100	04716032
Simply Food (Property Investments)	0	100	05502543
Simply Food (Property Ventures) Limited	0	100	02239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £6.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.
(ii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C Ordinary shares are both directors of that company.
(iii) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

C6 INVESTMENTS CONTINUED

B Related undertakings continued
International subsidiary undertakings(i)

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer GmbH in Liqu. (in liquidation)	Sterngasse 13, Vienna, Austria	Austria	€35,000 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
			CAD NPV	100
			CAD 1 Pref	100
Marks & Spencer Holdings Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
			CAD 1 Preference Class A	100
Marks & Spencer Inc.	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
Marks and Spencer (Shanghai) Limited	Unit 03-04, 6/F, ECO City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100
Marks and Spencer Commercial (Shanghai) Ltd	863 Nanjing Road West, Jin An District, Shanghai, China	China	Registered Capital	100
Marks and Spencer Croatia d.o.o. (in liquidation)	Draškovićeva ul. 82, 10000, Zagreb, Croatia	Croatia	HRK Ordinary	100
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, 14000 Praha 4, Michle, Czech Republic	Czech Republic	Registered Capital	100
Oü MSF Estonia	Paldiski mnt 102, Tallinn, 13522, Estonia	Estonia	Registered capital	100
Andis SARL	48 Rue de la Chaussée-d'Antin, 75009 Paris, France	France	€1,060 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Asia Pacific) Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9 Canton Road, Kowloon, Hong Kong,	Hong Kong	HKD 1 Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9 Canton Road, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	100
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Ltd	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51
			INR 10 Class B	100
			INR 10 Class C(ii)	0
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	100
Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer Pension Trust (Ireland) Limited(iii)	24-27 Mary Street, Dublin 1, Ireland	Ireland	Limited by guarantee	100

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Israel) Limited	31 Ahad Haam Street, TEL AVIV 65202, Israel	Israel	NIS Ordinary	100
Per Una Italia SRL (in liquidation)	via Giotto 25 - 59100 Prato, Italy	Italy	€ Quota	100
Marks and Spencer (Jersey) Limited	7-11 Britannia Place, Bath Street, St Helier	Jersey	£1 Ordinary	100
MSF Latvia SIA (in liquidation)	Ieriku iela 3, Riga, LV-1084, Latvia	Latvia	€142 Ordinary	100
UAB MSF Lithuania	Gedimino pr. 20, Vilnius, Lithuania	Lithuania	€28.96 Ordinary	100
Marks and Spencer Montenegro DOO Podgorica (under liquidation)	C/O Eurofast Global Limited, 112 Bul Svetog Petra Cetinjskog, 8100 Podgorica, Montenegro	Montenegro	€ Ordinary	100
M & S Mode International B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Prins Bernhardplein, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Nederland (Retail) B.V.	Muntplein 10C, 1012 WR Amsterdam, Netherlands	Netherlands	€100.00 Ordinary	100
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer Poland Sp z o.o.	Ul. Marszałkowska 104/122, 00-017 Warszawa, Poland	Poland	PLN 50.00 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer Romania SA	No. 262 Timisoara Boulevard, Anchor Plaza, 3rd Floor premises 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
Marks and Spencer Doo Beograd (in liquidation)	Patrisa Lumumbe no. 70, 11000 Belgrade	Serbia	RSD Quotas	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	No Par Value Ordinary
MSF Slovakia S.R.O	Ivanská cesta 16, Bratislava, 821 04, Slovakia	Slovakia	Registered capital	100
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (Thailand) Limited	1011 Supalai Grand Tower, 24th Floor, Rama 3 Road, Kwaeng Chongnonsi, Khet Yannawa, Bangkok 10120, Thailand	Thailand	THB 100.00 Ordinary	100
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	100
Marks & Spencer Services Inc.	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100
Marks & Spencer Ventures Finance LLC	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).
(ii) INR 10 Class C shares 100% owned by JV partner.
(iii) No share capital as the company is limited by guarantee.

GROUP FINANCIAL RECORD

	2017 52 weeks £m	2016 53 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m
Income statement					
Revenue[1]					
UK	**9,441.7**	9,470.8	9,223.1	9,155.7	8,951.4
International	**1,180.3**	1,084.6	1,088.3	1,154.0	1,075.4
	10,622.0	10,555.4	10,311.4	10,309.7	10,026.8
Operating profit/(loss)[1]					
UK	**327.6**	627.3	640.6	600.3	632.8
International	**(74.4)**	(43.2)	60.7	94.2	120.2
Total operating profit	**253.2**	584.1	701.3	694.5	753.0
Net interest payable	**(106.1)**	(110.6)	(111.8)	(125.8)	(212.9)
Pension finance income	**29.3**	15.3	10.5	11.7	7.1
Profit on ordinary activities before taxation	**176.4**	488.8	600.0	580.4	547.2
Analysed between:					
Profit before tax and adjusted items	**613.8**	689.6	661.2	622.9	648.1
Adjustments to reported profit	**(437.4)**	(200.8)	(61.2)	(42.5)	(100.9)
Income tax expense	**(60.7)**	(84.4)	(118.3)	(74.4)	(102.4)
Profit after taxation	**115.7**	404.4	481.7	506.0	444.8

		2017 52 weeks	2016 53 weeks	2015 52 weeks	2014 52 weeks	2013 52 weeks
Basic earnings per share[1]	Profit after tax/ Weighted average ordinary shares in issue	**7.2p**	24.9p	29.7p	32.5p	28.3p
Adjusted basic earnings per share[1]	Adjusted profit after tax/ Weighted average ordinary shares in issue	**30.4p**	35.0p	33.1p	32.2p	31.9p
Dividend per share declared in respect of the year[3]		**18.7p**	18.7p	18.0p	17.0p	17.0p
Dividend cover	Adjusted basic earnings per share/Dividend per share	**1.6x**	1.9x	1.8x	1.9x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.4x**	3.7x	3.6x	3.4x	3.5x
Statement of financial position						
Net assets (£m)		**3,150.4**	3,443.4	3,198.8	2,706.7	2,519.5
Net debt[2] (£m)		**1,934.7**	2,138.3	2,223.2	2,463.6	2,614.3
Capital expenditure (£m)		**331.2**	525.1	526.6	710.0	821.3
Stores and space						
UK stores		**979**	914	852	798	766
UK selling space (m sq ft)			17.0	16.8	16.6	16.4
International stores		**454**	468	480	455	418
International selling space (m sq ft)		**5.9**	6.1	6.0	5.8	5.4
Staffing (full-time equivalent)						
UK		**53,562**	52,388	52,247	54,678	51,835
International		**6,202**	6,507	6,849	6,498	5,683

1. Based on continuing operations.
2. Excludes accrued interest.
3. Excludes special dividend.