



FOR OVER 135 YEARS OUR EXTRAORDINARY
COLLEAGUES AND CUSTOMERS HAVE FACED
**CHALLENGES BIG AND
SMALL AND COME
THROUGH THEM BY
SUPPORTING EACH OTHER
AND WORKING TOGETHER**

M&S is a British value for money retailer, focused on own label businesses, including Food, Clothing & Home, in the UK and internationally.

Today we operate a family of businesses, selling high-quality, great value own-brand products in the UK and in 62 countries, from 1,519 stores and 44 websites globally.

In the face of an unprecedented global crisis, the best has been brought out of our 78,000 colleagues – across our stores, our support

centres, our warehouses and in our supply chain – who have worked tirelessly to deliver for our customers.

Together we have strived to secure the future of the business and, as we emerge, our “Never the Same Again” programme will accelerate our transformation and fulfil our potential to deliver long-term, sustainable and profitable growth for our investors, colleagues and wider communities.

 Read more on
FOOD



 p10

 Read more on
CLOTHING & HOME



 Read more on
FINANCIAL REVIEW



 Read more on
COVID-19 RESPONSE



Cover image In April, rainbow bags-for-life started appearing in our stores. Priced at 20p, M&S is donating the entire 10p profit to NHS Charities Together to aid its Covid-19 response.



£10.2bn -1.9%

Group revenue

3.9p -70.7%

Total dividend paid for 2019/20

1.3p -48%

Basic earnings per share

£67.2m -20.2%

Group profit before tax

£403.1m -21.2%

APM Profit before tax and adjusting items

£1.46bn -2.6%

APM Net debt excluding lease liabilities

16.7p -29.5%

APM Adjusted earnings per share

22.5% +1.8%

Percentage of UK Clothing & Home sales online

63% (18/19: 59%)

Food: Value for money perception

68 (18/19: 68)

Stores: Net promoter score¹

57 (18/19: 54)

M&S.com: Net promoter score¹

GO DIGITAL

Access to more detailed and interactive content

The money saved on printing and postage will help lower our costs

Reduces our carbon footprint and saves paper

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

To register, visit [shareview.co.uk](#), a secure platform provided by our Registrar, Equiniti. From the home page, simply click 'Portfolio' followed by 'Open Portfolio Account' and follow the on-screen instructions. You will need your shareholder reference number and activation code to register; these have been posted to you in this year's Notice of Availability.

Covid-19 response timeframe

On page 50 we set out the timeframe for the Company's response to Covid-19, which extends beyond the 52 weeks to 28 March 2020 covered by this report. Within the strategic report 'Our Action in Response to Covid-19' is not confined to the reporting period but we have indicated where the financial impact of these actions relates to the 2019/20 financial year.

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1. Net promoter score (NPS) equals the percentage of 'promoters' minus the percentage of 'detractors'.

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

ALTERNATIVE PERFORMANCE MEASURES



The report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards as adopted by the EU. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 180-182 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

CHAIRMAN'S LETTER

Financial highlights

3.9p -70.7%
Total dividend paid for 2019/20

"We have drawn up our "Never the Same Again" programme to harness our new habits and use the lessons of this crisis to make what feels like three years progress in one."

Archie Norman, Chairman



Dear Shareholder,

Although much of this report is about the results for the financial year 2019/20, these now seem to relate to a previous age. The Covid-19 pandemic has since swamped our lives and the way we operate the business.

At the time of writing we are in the midst of lockdown. Our focus has been first on the safety of our colleagues and customers and on supporting vulnerable people and healthcare workers. Second on securing our business, cash flow and liquidity and planning our way through the clearance and storage of surplus stock. And thirdly on ensuring we learn from the crisis and come out stronger, faster and more competitive when we emerge.

Very sadly, we have lost two colleagues to the virus and others are in hospital. Our thoughts and prayers have been with them and their families. More broadly, the M&S family of colleagues has rallied together magnificently in the crisis. Our business has been operating continuously since 1884, including through two world wars. In the 1939-45 war 100 stores suffered bomb damage and 16 were destroyed. With the support of the most passionate and dedicated workforce in UK retail, we will trade through the crisis, serving our customers throughout.

From a financial point of view, the 2020-21 year is likely to be a lost year. Although we have taken drastic measures to secure cash flow and maximise sales, it is inevitable we will emerge with more debt than we had planned and make losses for a large part of the year. Whilst it is a challenge to forecast the future, our scenarios are based on a prolonged period of social distancing, trading limitations and depressed demand. We have taken steps to obtain substantial concessions from our banks and secure liquidity for the likely duration of the Covid-19 crisis and to underpin the recovery strategy.

There is a saying sometimes attributed to Winston Churchill, "never waste a good crisis". Our business is now operating in ways we have never operated before. Remote working is only a small part of it. Multi-tasking in stores, delegation of authority, fast decision-making, an action orientation irrespective of hierarchy, and brilliant communication direct to the front line. At the same time, the way our

All In This Together

Below We implemented a number of social-distancing measures throughout the shopping journey in our stores to help keep our customers and colleagues well.



Maintaining our standards for customers

Above We've increased hygiene measures across our stores to give our customers confidence when they shop with us – such as cleaning baskets, trollies and self-checkout tills every hour.



Supporting our hardworking colleagues

Above We supported our hardworking colleagues, as well as customers and communities, during the crisis. All our frontline colleagues, including those working in our Castle Donington distribution centre, received a 15% additional pay reward.



Helping manage social distancing in store

Left Our colleagues greeted customers at the entrances of every store and managed the number of customers shopping during busy periods.

customers live and shop has changed beyond recognition and these behaviours will not fully revert any time soon.

We are determined to make our ways of working permanent and accelerate the aspects of our transformation necessary to thrive in a new consumer landscape. The manner in which our colleagues have been galvanised to act with pace and agility gives us confidence we can emerge stronger, as a faster, more streamlined business. This is why we have drawn up our "Never the Same Again" programme to harness our new habits and use the lessons of this crisis to make what feels like three years progress in one.

The acquisition in the year of a 50% share in Ocado Retail, supported by shareholders through a rights issue, gives us access to the UK's fastest growing food channel and is a strategic driver of growth for our Food business. The crisis has created a step change in demand for online grocery and we will commence supply to Ocado in September, making the M&S food range of over 6,000 products available online for the first time.

We are now, after two and a half years of transformation, on the verge of completing a much stronger management team, most notably with the arrival of Eoin Tonge as Chief Financial Officer, Katie Bickerstaffe as Chief Strategy and Transformation Director, and Richard Price as Managing Director, Clothing & Home, together with many others.

I wanted to thank all our colleagues for their loyalty in one of the toughest years in our history, the leadership team for working flat out through the crisis, and the Board for being continuously engaged. Alison Brittain is standing down after over six years; she has been a major force for change and we will miss her. Katie Bickerstaffe is joining the executive team but with Tamara Ingram and Sapna Sood joining the Board, we will still have a very strong, diverse and engaged Board.

Finally, it has not been a happy year for our shareholders, including all those on the Board and management team who are heavily invested in the Company. To provide for an uncertain outlook, we have had to make difficult decisions to secure the future of your business. We appreciate your patience and are determined to accelerate the changes we committed to and make M&S the special business we know it can become.

Yours sincerely,

Archie Norman, Chairman

CHIEF EXECUTIVE'S STATEMENT

"I have never been prouder to work for this business. The care and commitment our colleagues have shown to our customers, their teammates and our communities has been inspiring to see."

Steve Rowe, Chief Executive



Last year's results reflect a year of substantial progress and change including the transformative investment in Ocado, outperformance in Food and some green shoots in Clothing in the second half. However, they now seem like ancient history as the trauma of the Covid crisis has galvanised our colleagues to secure the future of the business. The way our people have rallied to support our customers and communities has been awe inspiring. From the outset we recognised that we were facing a crisis whose effects and aftershocks will endure for the coming year and beyond: whilst some customer habits will return to normal others have changed forever, the trend towards digital has been accelerated, and changes to the shape of the high street brought forward. Most importantly working habits have been transformed and we have discovered we can work in a faster, leaner, more effective way. I am determined to act now to capture this and deliver a renewed, more agile business in a world that will never be the same again.

Good progress on transformation 2019/20

Prior to the Covid-19 impact, both major businesses were making good progress in implementing the transformation programme with Food outperforming the market and despite teething issues in changes to men's clothing ranges, kids, womens, and lingerie starting to show sustained, improved performance.

In recent years, we have made a number of structural changes to the basic infrastructure of the business including closing 54 of our legacy shared stores, migrating off mainframe infrastructure to cloud-based systems and implementing new warehouse management systems. These changes have been instrumental in enabling the business to react effectively in the early weeks of the crisis.

To illustrate more clearly the family of accountable businesses operating model, for the first time we are breaking out the operating profit after relevant costs of three business streams: UK Food, UK Clothing & Home, and International. This demonstrates the strength and balance of the combined businesses which has been a major source of resilience in the crisis.

Outperformance in Food

The UK Food business outperformed the market as changes to range, value and customer communication took effect: revenue increased 2.1%, with like-for-like sales¹ up 1.9% strengthening throughout the year, including an estimated 0.3% benefit from the effects of Covid-19 in March. Operating profit before adjusting items¹ increased 11.2%. Value perception improved, resulting in growth in volume ahead of value at 3.3% and increased market share.

We set out the Food strategy 18 months ago, rebuilt the leadership team and started to reposition M&S Food to broaden its appeal and move to 'trusted value'. The programme was picking up momentum before the crisis struck and the progress made is set out in the Food section of this report.

Ocado Retail positioned strongly for growth

The valuable purchase of 50% of Ocado Retail positions the business strongly for growth in online grocery, the UK's fastest growing channel. We reported a first time net income contribution for Ocado Retail to group profit of £2.6m for the 7 months to 1 March 2020, with the early contribution reflecting the limited period since completion. This is the contribution to group results prior to switchover to M&S supply on 1 September, which we expect to drive volume growth for M&S Food.

We have been working closely with Ocado Retail to create a 'one business' mentality which includes common operating procedures, business plan, and shared talent. The value of the investment we have made has been further reinforced by the strong growth reported by Ocado Retail since lockdown, with growth for the most recent 9-week period of 40.4% reported at its AGM on 6 May.

Reengineering Clothing & Home

The UK Clothing & Home business experienced a year of substantial reshaping, resulting in some encouraging performance indicators in the second half. However, revenue declined 8.3% overall, with like-for-like revenue down 6.2%, including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue was level. Operating profit before adjusting items declined 37.0%, largely

1. APM as defined in glossary on page 180.

driven by lower sales, gross margin headwinds related to sourcing and promotional mix and the impact of the crisis.

First-half trading was affected by poor availability in Womenswear, and in the second half by teething issues with the move to a more contemporary style and fit in Menswear. However, as detailed in the Clothing & Home section of this report, towards the end of the year performance, prior to the effects of Covid-19, in Womenswear and Kidswear was encouraging, Menswear saw improving sales trends and Lingerie held its market leading share.

Changing the model in International

As detailed on page 14, the first phase of transforming the International business has been the move away from direct ownership to a franchise and joint venture model working with strong partners in high-potential territories. The focus now is on localising ranges and reducing prices, and will increasingly be on developing sales online globally. International revenue at constant currency decreased 2.5%. Operating profit before adjusting items declined 15.2% to £110.7m, largely as a result of trading conditions in March.

ACTION IN RESPONSE TO COVID-19

Over £1bn of actions including £500m of planned cost reductions and further actions to manage cash under scenario planning for Covid-19

The Covid-19 crisis started to have an impact on the business in the first week of March with reductions in UK Clothing & Home sales, which declined by 6.2% and 26.9% the week after. With the onset of lockdown, the effect on sales, colleagues and customers in both businesses has been dramatic. Clothing sales at the lowest point dropped to 16% of their level a year ago. Without the resilience of the combined food and clothing business model and the extraordinary loyalty of colleagues, the impact on the business would have been even more profound.

My belief has been from the outset that the direct impact of the crisis on sales and stock flow will last at least 12 months and that subsequent demand may be depressed. In a challenging environment to forecast accurately, the business is being managed against a “Covid-19 scenario” created in the early weeks of lockdown, reflecting a very substantial reduction in sales. This scenario has been stress tested and even in the event of a longer and deeper lockdown, the group maintains sufficient liquidity. Although we will be drawing on our available credit facilities in the coming year, under the scenario the business will have significant liquidity headroom throughout the next 18 months. We are pleased to note that in the first six weeks of the new year,

trading has substantially outperformed the scenario.

The scenario has the following core assumptions relative to our original 2020/21 budget:

- UK Clothing & Home, 70% decline in revenue for the four months to July and only a gradual return to original budgeted levels by February 2021 impacting annual revenue by c.£1.5bn.
- UK Food, 20% decline in revenue for the four months to July, with revenue level thereafter, impacting annual revenue by c.£0.4bn.
- International – Clothing & Home revenue to follow a similar pattern to UK Clothing & Home with a significant decline in April due to closures, impacting annual revenue by c.£0.2bn.

The table below sets out the revenue assumptions in the scenario by quarter, showing the variance to the original budget.

REVENUE AT CONSTANT CURRENCY

% change to budget	Q1	Q2	Q3	Q4	FY
UK Clothing & Home	-74	-61	-40	-6	-46
Food	-20	-6	-	-	-6
International	-51	-20	-9	-9	-22

In the light of the prolonged partial or total lockdown envisaged in our Covid-19 scenario, we have taken actions totalling c.£1bn relative to the original budget to reduce costs and manage cash, while protecting our transformation plans and trading potential.

Substantial cost reduction of c.£500m in 2020/21

- Non-essential spending has been reduced at all levels. For instance, we expect Clothing & Home marketing to be down £50m for the year, pay levels and recruitment have been frozen, saving c.£40m, and technology costs will be down c.£40m.
- Costs which are largely related to sales volume are being managed down, for instance, Clothing & Home logistics down c.£60m, colleague costs post-lockdown saving c.£40m, and International costs saving c.£30m.
- Fixed property-related charges are expected to decline, with service charge reductions, rent costs and other occupancy cost savings down by c.£20m before any more far-reaching changes to the store portfolio.
- Government support measures, including business rates relief of c.£172m and the Coronavirus Job Retention Scheme of c.£50m, will further support this year's outcome.

In addition to these savings, we are exploring the potential for other changes, including a more streamlined support centre, changes to leadership structure and negotiations with landlords on commercial terms on lease contracts.

Actions to stabilise cash flow exceeding £500m

In view of the steep increase in working capital resulting from unsold stocks we are experiencing a cash outflow during the lockdown period and expect to draw on our credit facilities in the months ahead. Under the Covid-19 scenario, drawings are estimated to peak in early autumn at c.£600m, although our current performance would suggest a lower figure. To reduce risk, maximise liquidity, and enable a return to growth in the future, steps have been taken to underpin cash flow and reduce working capital.

- Capital expenditure for the year has at this stage been reduced to c.£140m, saving c.£195m in cash outflow in the current year against budget. Only essential and short payback investment focused on growth has been retained, such as the new ambient food depot, investment in online fulfilment and site development, and the Digital & Data programme.
- Cash management initiatives including in-year deferral of corporation tax, VAT and duty payments and likely savings from lower corporation tax paid for 2020/21.
- As previously reported, there will be no final dividend for 2019/20 and the Board does not expect to pay a dividend for the current financial year, using the funds instead for balance sheet support in the region of £340m.

Liquidity and additional headroom secured for 2020 and 2021

It was an immediate priority for the company to secure its debt facilities to provide for the cash requirements modelled under the Covid-19 scenario described above and given the risk in an uncertain market to ensure there is downside protection under even more adverse sensitivities. Therefore:

- Formal agreement has been reached with the syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- We have confirmed that we are eligible to access funding under the government's Covid Corporate Financing Facility and been allocated an issuer limit of £300m.

- As a result of these actions, we expect to have considerable headroom under our available facilities in 2020/21. While we will experience a cash outflow in the first half of the year as sales reduce and we pay for our previous stock commitments, we would expect this to partly reverse in the second half of the year.
- Under the Covid-19 scenario, drawings against our available facilities would be in the range of £300m–£350m by the end of 2020/21.
- The cancellation of the final dividend of c.£130m will generate further cash savings after year end.

Experience to date has been ahead of the Covid-19 scenario against which we set strong cost and cash management plans and has outperformed the scenario by over £150m year to date, with actions planned to further improve our cash flow. If sustained, this leaves the Group well positioned to exit the crisis with limited drawdown against its facilities in 2020/21, with a further saving of the final dividend in the early months of the next year. We intend to adopt a dynamic approach to investment using sustained cashflow outperformance to capitalise on strong investment opportunities under our 'Never the Same Again' agenda.

Management of excess Clothing & Home stock

Like all fashion retailers, one of the biggest challenges arising from the crisis is the backlog of unsold stock for spring/summer 2020 and the forward pipeline ordered for autumn/winter. We closed 2019/20 with Clothing & Home stock of c.£500m and at that time had committed forward orders of £560m scheduled to arrive in the following six months. As the lockdown eases, a large proportion of current season stock will remain unsold and demand for many categories is likely to be weak. We have acted quickly to improve this position.

- We have cancelled late summer stock which will no longer be required, reducing forward commitment at cost by £100m.
- Of the balance of stock and forward orders, c.£400m is year-round basic product where M&S trades strongly and which will be carried forward at low risk.
- Of the unsold seasonal stock, we have made arrangements to hibernate around £200m until spring 2021, secured storage facilities and planned for the cost of these actions.
- We have therefore taken a charge of £145.3m in adjusting items to reflect the cumulative impact of the combined handling, clearance, hibernation and write-off of the stock.

The combined impact of lockdown, social distancing and depressed demand is likely to continue through the year.

Recent trading performance

The first six weeks trading has been ahead of the Covid-19 scenario particularly in Food and online.

- Store sales in UK Clothing & Home were reduced to a trickle due to the closure of space, running down 98.8% year on year at the lowest point. In-store sales of essentials increased from £252k per week in the first week of lockdown to £1.4m per week by week six.
- Although online Clothing & Home has traded throughout, demand in the initial weeks for clothing was very low with a gradual uplift since. In the last three weeks, online sales have been running c.20% up year on year.
- Standalone Simply Food stores have traded strongly, up on average 17% with a positive trend in many Retail park stores which typically have direct access. In the earliest weeks of lockdown this was offset by lower sales in travel franchise units (c.5% of revenue) and the closure of in-store hospitality and cafes (c.4% of revenue). In the last three weeks overall Food sales have on average been level.
- We also experienced an initial adverse margin mix as demand shifted towards ambient grocery sales, although this is now diminishing.

Never the Same Again

During the crisis, we have all had to work differently and consumers have rapidly changed shopping habits and may never shop in the same way again. We intend to use the learning from the crisis and, as set out on the opposite page, we have drawn up our Never the Same Again agenda to accelerate our transformation.

We have:

- Committed to never be the same again in culture, organisation and work habits.
- Taken immediate steps to ensure that the "change of gear" of the last few weeks endures.
- Started to bring forward the aspects of our transformation necessary to thrive in a changed consumer landscape and become an online winner in Clothing & Home and Food. As made clear on page 10, the Ocado relationship is an integral part of our strategy to bring M&S Food into the online and home delivery market, which we expect to be even more vibrant as a result of the crisis.

A significantly renewed management team will implement our Never the Same Again programme, and in the coming weeks this team will take shape with a number of important arrivals. Katie Bickerstaffe has joined as Chief Strategy and Transformation Director and Eoin Tonge arrives as CFO in June. Richard Price joins as Managing Director Clothing & Home in July, with new Head of Clothing & Home Supply Chain Paul Babbs and Head of Clothing & Home Online Stephen Langford both joining in May. Property Director Will Smith arrives in May and Helen Milford joins as Store Operations Director in June. Craig Lovelace joins as Finance Director of Food in June.

Our response to Covid-19 is explored throughout this report but in short, I have never been prouder to work for this business. The care and commitment our colleagues have shown to our customers, their teammates and our communities has been inspiring to see. M&S has faced this crisis in the same way we have met challenges throughout our history. Each member of the M&S family has pulled together and responded with agility and pace to show our customers that they can trust M&S to be there for them and their community in the ways that matter most, and I would like to extend my personal thanks to them all. They are what makes this business special.

While there are many uncertainties, we are confident we will emerge from this period in a strengthened competitive position. We have a strong Food business – soon to be stronger as our products become available on Ocado.com and, although there is some way to go, there is progress being made across every aspect of our Clothing & Home business. In a consumer environment that will never be the same again, we will accelerate parts of our transformation in response and learn from our crisis actions to ensure that M&S is changed for good.



Steve Rowe, Chief Executive

OUR STRATEGIC PRIORITIES

The aim of our transformation is to restore M&S to sustainable, profitable growth

and this has not changed. However, in the new landscape – where the way we work and how customers shop may never be the same again – we are learning from the crisis to ensure that M&S is changed for good.

WHAT WE ARE LEARNING FROM THE CRISIS

The crisis illustrated how differently we can use technology, run stores, and make decisions fast. In a business with a history of slow cultural change we intend to use these lessons, to ensure that as lockdown eases, we are never the same again in culture, organisation and work habits. For instance:

- A smaller top team has made decisions faster and more efficiently, delegating trading and operating management to business unit heads. Working groups, committees and elaborate management processes have been disbanded.

- Support colleagues have learnt to improvise their routines at lower cost with no detriment to trading standards.
- Our strategic relationship with Microsoft has been highly effective supported by Teams.
- In stores, given the need to furlough and redeploy colleagues, valuable lessons have been learned about our ability to multi-task and increase the pace of work with no adverse impact to service.

- Online has for a period been our only significant clothing business and this has illustrated the need to be leaner, and more integrated to compete with online pure plays.
- The reduction in forward order volumes in clothing has forced the need to change ranges to buy more of less from fewer core suppliers.

WHAT WILL NEVER BE THE SAME AGAIN

The following steps have already been taken to ensure that the 'change of gear' of the last few weeks endures:

- On 14 May, we announced changes to the business leadership structure with the formation of a small executive board consisting of the operating MDs together with Katie Bickerstaffe, who has now started as Chief Strategy and Transformation

- Director, and Chief Financial Officer Eoin Tonge who is arriving in early June.
- Central support costs and headcount will be examined at all levels, delegating decisions to business unit and category heads.
- In stores, multi-tasking and more flexible management structures will be integrated into the way the business operates.

- Digital is being consolidated under a single transformation team bringing together data, online and technology.
- The direct-to-the-frontline, tech-enabled communication, combined with increased flexibility in working patterns, will become permanent.

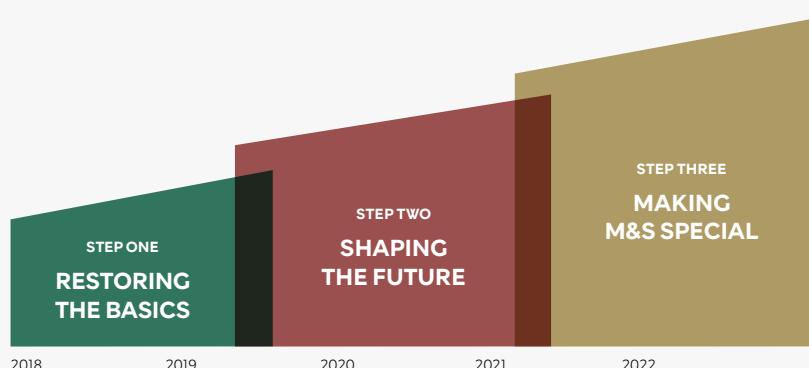
ACCELERATING THE TRANSFORMATION PROGRAMME

We will accelerate aspects of the transformation to increase our relevance in a new consumer environment, including:

- The move to 'trusted value' in Clothing & Home and option count reduction and supplier concentration brought forward.
- The reduction in range and shift towards fast moving product at great value necessitated by the crisis will result in a permanent reduction of 20% in autumn/winter store option count.
- The role of the sourcing offices will be increased so that sampling, ordering and quality issues are dealt with offshore.
- A faster "near-sourcing" supply chain will be developed, to enable a test and re-order of seasonal fashion lines, particularly for the online business.

- Establishing a store estate for the new world with the replacement of ageing stores already under way and shift in relationships with property providers to go faster.
- The longstanding issues in Food distribution will be tackled to capture value in our Food supply chain, with the roll-out of the Vangarde programme and addressing the contract and relationship with Gist.

- Turbocharging growth to become an online winner in Clothing & Home and Food. The sharp growth of online grocery during the crisis is evidence of this, as is the strengthening performance of our online Clothing & Home.



MARKET CONTEXT

The retail industry has changed dramatically in a few short weeks,
and has in some ways become unrecognisable from the one in
which we traded for the vast majority of 2019/20.

In 2019 retail sales declined for the first time on record, with the British Retail Consortium reporting a 0.1% contraction across the sector due to political instability and increased consumer caution (Source: BRC-KPMG).

In contrast, early 2020 saw consumer confidence beginning to return, although this did not translate into significant sales for retailers.

An overview of the Food and Clothing markets in 2019/20, as well as a brief assessment of the Covid-19 impact that followed, is below.

FOOD MARKET

The grocery market returned growth of 2.7% for the 52 weeks ended 22 March 2020 to grow to £117.6bn (Source: Kantar) with Covid-19 impacting consumer spending in Q4. Home delivery and online maintained its position as the UK's fastest growing channel at 5.5% year-on-year growth, versus 2.5% in store (Source Kantar). M&S maintained a 3.4% market share across the year, with the four largest supermarkets together holding a 59.6% share, discount retailers capturing 11.4% and Ocado Retail a 1.2% share.

Key consumer trends included the rise of environmental awareness driving consumer choice and spend, with our own research revealing 75% of consumers were actively seeking to reduce their use of plastic packaging. We trialled a refillable grocery initiative in

response, which was well received by our customers. Vegan food also continued to become a more popular choice among UK consumers, with 86% of plant-based meals eaten by non-vegans.

Covid-19 impact

March 2020 was the biggest month of grocery sales on record (Source: Kantar) as the impact of Covid-19 drove consumers to increase spend on grocery prior to the UK commencing lockdown on 22 March. Immediately following the government's measures, spend and frequency of visits dropped as consumers followed guidance to stay close to home. The market experienced unprecedented levels of demand for online grocery deliveries at the height of the crisis with the country impacted by lockdown, and retailers needed to be

increasingly agile in launching and executing food delivery online in a short space of time. In the absence of an online offer, M&S rolled out several quick solutions – including online food box deliveries and a temporary partnership with Deliveroo – to help isolated customers access essentials (see Food section on page 10).

As we look ahead, we expect the crisis-driven change in behaviours of customers such as the rapid adoption of online food shopping, and fewer, bigger shopping trips to continue at least as long as the Covid-19 crisis remains. The switchover of our products onto Ocado Retail's platform from September 2020 will mean we are competitively positioned to service accelerating demand in the UK's fastest growing grocery channel.

CLOTHING & HOME MARKET

The clothing market declined by 5.7% year-on-year for the 52 weeks to 05 April 2020 to a total value of £33.3bn (Source: Kantar). Consumers spent less on clothing throughout the year – with disposable spend focused instead on experience. As a result, the sector experienced a move towards spend on activewear and athleisure, reflecting a consumer shift towards casual dressing and focusing on healthy everyday lifestyles. We launched Goodmove, a new athleisure range, to access this growing trend, which delivered encouraging results.

Online continued to be the fastest growing channel against declining spend offline, growing 2% points to account for 29.9% share of total clothing sales across the market (Source: Kantar), with purchases on laptops the largest online channel and mobile the fastest growing, particularly in womenswear spend. M&S continues to be the UK's largest

clothing retailer, maintaining our market-leading position across Womenswear and Menswear, closely followed by Next and Primark.

Covid-19 impact

Covid-19 rapidly accentuated the headwinds and spending habits the clothing sector experienced through FY19/20. Bricks and mortar retailers were required to shut stores and operations in response to government measures, including our outlet stores and C&H sections of larger stores, resulting in greater numbers of consumers making purchases online. Additionally, consumer spend was concentrated on different categories reflecting life at home and changing behaviours, such as loungewear, babywear, and bedding products, and away from formal and suiting. The market broadly reacted to the closure of UK stores by heavily discounting items, peaking in w/e 29th March where over half of the UK online

clothing market was discounted, the largest proportion, outside of Black Friday in 2019, for at least eight years. For M&S our online operations continued to trade as robust social distancing measures to help keep our colleagues well were implemented, and customers continued to purchase essential products required during this time (see Clothing & Home section on page 12).

The outlook for the UK's clothing sector remains uncertain at present, but we fully anticipate consumer behaviour to follow the recently established trends for the coming months ahead and limited customer appetite. Online purchasing activity will only continue to grow, with the impact of social distancing likely to linger on. We are boosting our online relevance to meet that demand by rolling out brands on M&S.com and an additional 850 Clothing & Home products on Ocado from September.

BUSINESS MODEL

M&S serves about 31 million customers every year from across the UK.

We operate a family of accountable businesses of Food, Clothing & Home, International, Services and Property, and the strength and balance of our combined business model has been a major source of resilience during the Covid-19 crisis.



OUR CUSTOMERS

M&S serves about 31 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services for our target 'family age' customers and beyond, who we reach through a channel network of 1,519 stores and online services in the UK and across 62 international markets.



OUR COLLEAGUES

We employ over 78,000 colleagues across our office, operations and international teams, who demonstrate extraordinary passion for the business, deliver great customer experience through our channels, and bring extensive technical skills, giving us strength in areas such as ingredients, sourcing, size and fit.



DIGITAL & DATA

Our Digital & Data central function provides support across the business, ensuring a seamless customer experience, improving customer personalisation, embedding digital across our stores and shopping missions, revamping our loyalty proposition and ensuring that we are at the forefront of the latest innovation and trends.

A FAMILY OF ACCOUNTABLE BUSINESSES

M&S operates a family of parallel businesses each trading value for money ranges. Each is led by its own integrated management team, with functional accountability for their divisions, including marketing, supply chain, finance and online.

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

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

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

International: M&S exports the best of M&S Food and Clothing & Home around the world in select target markets across Europe, the Middle East and Asia. Customers purchase our products through a network of mainly partner-led or owned businesses in territories with growth potential, or through online-only channels in growing markets such as Australia and the United States.

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

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

OCADO

M&S holds a 50% investment in Ocado Retail, a relationship between M&S and Ocado, which from September 2020 will roll out M&S Food and Clothing products across the platform for customers to purchase online, enabling access for the Group into the UK's fastest-growing grocery sales channel.

THE GROUP

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

FOOD

Financial highlights

£6.0bn +2.1%

UK Food revenue

£236.7m +11.2%

Operating profit before adjusting items

PERFORMANCE THIS YEAR

In 2018, we outlined our far-reaching plan to protect the magic of M&S Food – our industry-leading quality, sourcing standards, convenience and innovation – while modernising the rest of our operations to create a more efficient Food business and restore it to growth. We said we would do this through:

- Driving frequency of shop and broadening appeal beyond special occasions through trusted value, more relevant innovation and family-focused marketing.
- Modernising the Food supply chain to improve margin and reduce waste.
- Building more strategic supplier partnerships to buy better and lowering costs to invest in improved value, while maintaining quality.
- Enabling more customers to shop our full range – developing bigger, better, fresher Food stores with a renewed in-store experience and through the relationship with Ocado.

The UK Food business outperformed the market, increasing UK Food sales by 2.1%, as changes to range, value and customer communication took effect. Like-for-like performance was up 1.9% and strengthened through the year, including an estimated 0.3% benefit from the effects of Covid-19 in March. Operating profit before adjusting items increased 11.2%. The Vangarde supply chain programme demonstrated the opportunity to reset the store operating model and reduce waste and improve availability. In August, we completed our investment in 50% of Ocado Retail, which will provide M&S with a profitable, scalable presence in online grocery from September 2020.

During the year, we worked to make M&S Food more price competitive and improved value perception, without

compromising our quality point of difference. We lowered prices on over 500 lines, with a focus on staple products – such as reducing our Super Soft Vitamin D White Loaf from £1.15 to 65p. In June, we introduced Fresh Market Specials, to showcase our great value across fresh produce, meat and fish, and featured products saw significant sales uplifts. This investment was partly offset by the reduction of complex, multi-buy promotions and cost reductions. As a result, M&S Food is now at its most price competitive for several years; a basket of comparable lines is consistently cheaper than our key competitors, resulting in improved price perceptions.

We have started to build a more commercial pipeline of relevant innovation and broaden our appeal to a wider range of shoppers. Our award-winning Plant Kitchen range helped attract a significant number of new customers. In September, we introduced our Cook With range featuring simple ingredient and meal solutions to help busy families cook fresh meals fast.

This year's marketing has been more family focused with clearer communication of value. In November, we launched *Re-Marks-able Value* – a new way of talking about our great value everyday prices where featured products are price benchmarked against key competitors while upholding M&S's renowned quality. Our sponsorship of ITV's *Britain's Got Talent* took M&S Food into over eight million homes each week, while in July our Little Shop campaign helped attract more family customers.

We opened five 'test and learn' renewal stores across different formats to encourage bigger basket shops by showcasing more of the M&S Food offer. Within each store, we extended the square footage of Food trading space and created a fresh market feel, with a sharper focus on our value, and the categories that support a fuller family shop, such as frozen, bakery and household goods. Early performance has been encouraging with strong sales, and we are now optimising the concept in order to support further roll-out with a more efficient renewal model.

The Vangarde end-to-end supply chain programme has been rolled out to 90 stores and the team has demonstrated scope for reducing waste,

improving availability and running stores more efficiently.

Since completion in August, we have worked closely with Ocado Retail to create a one-business mentality and, even through the crisis, continued a laser focus on preparations for launch in September 2020 to drive faster growth. We completed a detailed line-by-line review of the existing c.4,000 Waitrose products and, from 1 September, we will launch with a compelling range of over 6,000 M&S lines, complementing the 55,000 Ocado and branded products, leveraging our unique capabilities in sourcing and new product development.

ACTIONS IN RESPONSE TO COVID-19: HELPING TO FEED THE NATION

Throughout the crisis, we have taken decisive action to mitigate supply chain disruption, respond to changes in consumer shopping behaviour, support the vulnerable and health and social care workers, and play our part in feeding the nation. The Food business experienced strong trading in standalone Simply Food stores – particularly those with car parking – but this was offset by the closure of cafés and the stores located in travel hubs.

Responding to changing customer shopping behaviours: In line with government restrictions, customers embraced a 'shop local' mentality and we temporarily closed franchise stores in travel locations and a small number of owned stores, and redeployed M&S colleagues to busier Foodhalls. Store manager-led local communication via social media helped highlight the M&S Foodhalls open to serve their community with social-distancing measures in place and support for vulnerable customers through reserved shopping hours.

Range adjustment and protecting availability: In response to customer demand, we increased volumes on grocery, cooking ingredients and household cleaning products. To enable suppliers to focus on high-demand products, we initially rested some lines and, where necessary, temporarily introduced branded goods in areas such as pasta and rice, while temporarily placing purchasing restrictions on a small number of items. Following a difficult initial period, and utilising our strong supplier relationships, food availability improved very strongly.

Rapid introduction of new online solutions to help serve isolated customers

customers: To provide customers with essential groceries, we introduced a temporary partnership with a delivery app provider, initially at 120 BP franchise stores, and in May, we extended the service to selected town and city centre sites and included a broader product range. Alongside this, we quickly introduced online M&S Food Boxes, as explained opposite.

Supporting our suppliers: At its core, protecting the magic is about protecting the quality and provenance of our food through the strength of our supplier partnerships. Our 10,000 British M&S Select Farmers have been put under immense pressure following the collapse of hospitality sales, labour shortages and increased absence. M&S stood by its longstanding commitments to British sourcing and paying a fair price for milk, and introduced new initiatives and promotions on products like steak to help M&S Select Farmers manage excess stock. In addition, we extended our funding platform for smaller Food suppliers to access immediate payments from our banking partners to support cash flow.

NEVER THE SAME AGAIN PRIORITIES

The impact of Covid-19 has affirmed our strategy to create an even better value, differentiated Food business and grow the volume opportunity by enabling more customers to shop our full range. While the shape of trading has been affected by the change in customer shopping patterns during Covid-19, we maintain our belief that we have an opportunity to double the size of the M&S Food business in the medium term. To achieve this we will:

- Develop a winning online Food business through the successful delivery of the Ocado switchover which is critical to bring M&S Food into home and online delivery. The value of the investment we have made has been further reinforced



Backing our 10,000 M&S Farmers

Above We ran a six-week TV, digital and in-store campaign to encourage support for British farmers in the midst of the Covid-19 crisis to put a spotlight on the incredible food our nation's farmers produce.

We're All In This Together



Challenge

Supporting isolated customers who cannot shop in store.

M&S response

In under two weeks we launched our first online Food Box, and by May offered a range of eight, spanning cupboard essentials through to fresh meat and vegetable options and convenient ready-meals and Made-Without versions. The first boxes were targeted to customers over 70 identified by our Sparks loyalty programme. We used capacity within our Clothing & Home distribution network to help us increase volumes and dispatched over 2,500 boxes per day.

Number of Food Boxes dispatched per day

2,500

by the strong growth reported by Ocado Retail since lockdown, with growth for the most recent 9 week period of 40.4% reported at its AGM on 6 May.

- Continue working with Ocado Retail to ensure a compelling offer at the switchover on 1 September through:
 - Adding over 6,000 M&S lines to Ocado from September compared with c.4,000 Waitrose lines. In all cases, we believe M&S product, quality, date life and price will be equivalent or better than the current offer.
 - Finalising product data sets for online trading, supply chain processes for direct to Customer Fulfilment Centre deliveries and switchover procedures for September.
 - Delivering synergies for M&S starting this year and building to not less than £70m in 36 months from inception of supply.

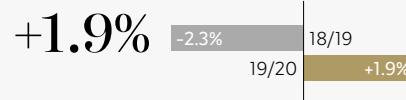
- Agreeing through Ocado new supply agreements with major branded suppliers to improve M&S competitiveness in branded sourcing.

- We will accelerate our end-to-end supply chain transformation by resolving our Cist relationship and through the roll-out of the Vangarde programme. This will reset our operating model to help deliver a positive step change in our waste and availability levels, through better forecasting and allocation, depot process changes, more timely delivery windows, fill processes and stock counts. Having begun at our York Vangarde store, we rolled out the principles to 90 stores and the programme will be delivered nationwide, enhanced by a new ambient food depot. We expect this to open ahead of Christmas 2020 to improve availability during this peak trading quarter.

STRATEGIC KPI'S

Like-for-like sales

Like-for-like sales performance improved and strengthened through the year as we outperformed the market.



Value for money perception

The proportion of customers who rated us highly on value for money. We reduced the price of over 500 lines by 10% this year to ensure 'trusted value'.

63% (18/19: 59%)

Availability

We continued our drive to improve availability and reduce waste through the Vangarde programme, designed to improve the running of our stores.

93.3% (Level)

Quality perception

The proportion of customers who rated us highly on quality. Our Food strategy of 'protect the magic' includes maintaining the quality our Food products are famous for.

86% (18/19: 85%)

CLOTHING & HOME

Financial highlights

£3.2bn -8.3%

UK Clothing & Home revenue

£223.9m -37.0%

Operating profit before adjusting items

PERFORMANCE THIS YEAR

Last year, we set out plans to address the historical challenges of our Clothing business and the action required to start the reversal of its declining performance. We outlined how we would build a more confident Clothing business focused on contemporary, wearable stylish clothes, underpinned by great quality and value. To do this, we said we would:

- Restore style and value credentials and broaden appeal to a family age customer.
- Reduce the proliferation of range and options.
- Substantially increase high-volume wardrobe staples in key categories such as denim and school wear.
- Target one third of sales online by 2022.
- Modernise our end-to-end supply chain.
- Trade more effectively in season – with a first price, right price mentality.
- Continue to reduce the quantity of sale merchandise.

In 2019/20, UK Clothing & Home sales decreased by 8.3%, with like-for-like revenue down 6.2% including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue remained level. Operating profit before adjusting items declined 37.0%, largely driven by lower sales and gross margin and also the impact of the crisis. Following a challenging start to the year, we made up for lost time through the second half, taking decisive action to trade the ranges through shorter clearance periods and improving availability. For the 8 weeks ended 22 February UK Clothing & Home like-for-like revenue increased 0.3%, driven by stronger trends at M&S.com, up until the beginning of the crisis.

In Womenswear, we took action to simplify our ranges; the number of options was reduced by 11% and we increased volume on our top 100 lines resulting in strong uplifts. We focused on hero categories and saw what is possible when we back our best-performing categories with contemporary fits, clear price architecture, supportive marketing aimed at our family customers and relevant innovation. In Denim, we increased our market-leading position and have seen a sales uplift of 10% across two years. We also launched Goodmove – a great-value, stylish activewear range developed on M&S's strength in performance fabrics and sports bra innovation – designed to broaden appeal and capitalise on the fast-growing athleisure category. Early sales were strong resulting in an improved 16% growth in this category in the first three months.

Lingerie held its leading market share at 27%, including our highest ever Bra market share, with a strong performance from Collection, and an increased rate of sale as option count marginally reduced. In Kidswear, under a new leadership team, the shift away from 'Sunday best' to more casual ranges at better value resulted in like-for-like sales growth in the second half.

Teething issues held us back in Menswear as we transition to a more contemporary style, but we do not expect these issues to be repeated. Hero categories started to see improving trends after Christmas, and knitwear like-for-like sales grew by 5.6%, following a strong marketing effort, in contrast to further declines in formal clothing experienced alongside the broader market.

As set out on page 17, M&S.com performance was level, with our percentage of UK Clothing & Home sales online at 22%. Issues in Clothing & Home availability and conversion as more customers chose to shop on mobile impacted the first half of the year. Performance improved somewhat in the second half as initial steps were taken to improve the customer proposition and Search Engine Optimisation (SEO) prior to the adverse trading impact of Covid-19. M&S.com is to be re-organised under new leadership as part of the post-Covid programme.

Supported by the new mezzanine, our distribution centre Castle Donington had a strong Christmas performance – including its biggest day on record – sending 417,000 customer parcels. Within our stores logistics network we

continued to make changes – announcing the closure of the final two regional distribution centres. This move will help improve flow of product through the supply chain and therefore availability nationwide for customers shopping in store. We know our performance remains held back by limitations in supply chain capability and our current processes still add cost and complexity. Led by Paul Babbs, our new Head of Clothing & Home Supply Chain, we will act at pace to improve the planning, flow, visibility and complexity of deliveries.

ACTIONS IN RESPONSE TO COVID-19

Following the lockdown announcement on 22 March, our Clothing & Home store operations were packed down within 24 hours. This, combined with subdued customer demand, resulted in store sales being reduced to a trickle. Although online Clothing & Home traded throughout, demand in initial weeks for clothing was very low with a gradual uplift afterwards.

The following actions were implemented to mitigate risk and support our operations.

Supporting online distribution at Castle Donington:

We acted quickly to implement hygiene measures and support for colleagues at our online distribution centre. The high levels of automation at the site have been beneficial for the implementation of social distancing so that we can help keep our fantastic distribution centre colleagues well and maintain service and divert capacity to support Food operations.

Decisive action on stock management, supporting long-term suppliers:

We took fast action to manage stock and costs to secure the business for the future. We cancelled all late summer stock production from 24 March. Around £400m of remaining stock and forward orders is year-round 'essentials' product, and this will be carried forward into future seasons. Of the unsold seasonal stock, we made arrangements to hibernate a proportion until Spring 2021 and secured storage facilities. We adjusted supplier payment terms to improve our working capital position. However, with the impact of Covid-19 felt acutely across the garment industry, we put in place measures to support our long-term suppliers, who remain as important to our business as ever and we will continue to work in partnership with them through the crisis. We paid for all shipped products and offered pre-payment for the vast majority

'All In This Together T-shirt'

Below M&S Ambassador Holly Willoughby launched our 'All In This Together T-shirt' in aid of NHS Charities Together and it sold out on the day of launch.



of orders and committed fabric – the most expensive cost for a supplier. We continued to offer vendor finance and letters of credit enabling suppliers to get immediate access to cash. We continue to work with the Ethical Trading Initiative, the International Labour Organization and remain committed to our community projects.

Following a trial, we rolled out a store pick model to 83 stores to service M&S.com protecting online availability on core products such as babywear and clearing stock.

Adapting the M&S.com journey to reflect customer behaviours: We were agile to customers' needs and updated the site architecture to make it easier to shop popular categories such as leisurewear and kidswear. As set out on page 17, we optimised site performance and set up a dedicated SEO working party to improve search rankings. To drive longer-term customer loyalty and engagement during the lockdown phase, we highlighted the benefits of the M&S app resulting in three times as many weekly downloads of the app by new customers.

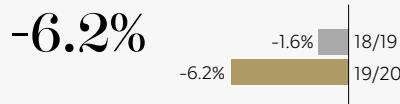
Adapting our customer propositions: We introduced contactless delivery as standard and made changes to customer service to reflect lockdown, including extending our returns policy to 90 days and lengthening the collection widow for Click & Collect orders. We kept customers updated on service changes through a dedicated Covid-19 page on M&S.com.

Readjustment of our logistics network: Following the suspension of store deliveries, around 3,000 logistics network colleagues were furloughed. We worked with our third-party logistics providers and offered wage support while they waited for support from the government's Coronavirus Job Retention Scheme. The number of furloughed colleagues was reviewed weekly as we progressed into the new financial year to ensure cost-saving was balanced with the need to support online trading and food operations.

STRATEGIC KPI'S

Like-for-like sales

Like-for-like sales for 2019/20 were adversely impacted by availability in H1. However, before the impact of Covid-19, the eight weeks ended 22 February showed encouraging signs of improvement with like-for-like sales increasing 0.3%.



Value for money perception

The proportion of customers who rated us highly on value for money. We are accelerating our move towards trusted value for customers.



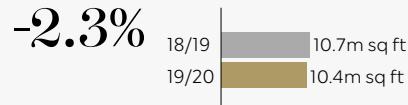
Style perception

The proportion of customers who rated us highly on style. We are reengineering our Clothing & Home business towards more contemporary fit and style as well as improvement to our core ranges.



Clothing & Home space

We continue to make good progress in reshaping our store estate for customers.



NEVER THE SAME AGAIN PRIORITIES

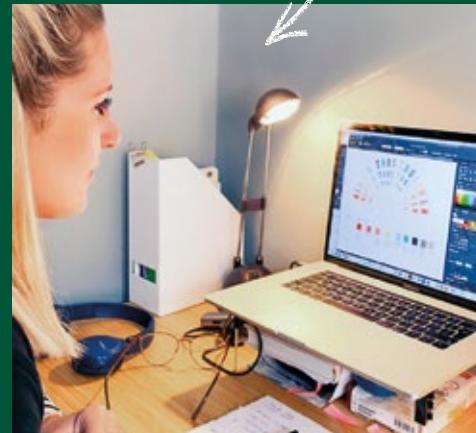
The crisis has rapidly altered customer behaviour for the future, with sharp growth in online channels. This will likely continue at least in the coming months ahead, and to respond and adapt:

- We will broaden relevance and increase online growth by introducing complementary guest brands to M&S.com and large store formats. Additionally, we have agreed with Ocado Retail that around 850 core Clothing & Home products – such as school wear and underwear – will be available on the site from September and around 1,600 core Clothing & Home lines per year will be available on the site.
- The move to more trusted value will be accelerated with an opportunity to further reshape our buy and permanently reduce Autumn/Winter store option counts by 20%. Supplier concentration activity will be brought

forward ensuring more strategic commercial partnerships. The reduction in forward order volumes has forced the need to change ranges and buy more of less from fewer core suppliers.

- The role of the sourcing offices will be increased so that sampling, ordering and quality issues are dealt with offshore and we will bring forward the implementation of a fast 'near sourcing' supply chain to enable a test and re-order approach to seasonal fashion lines.
- The strengthening of our leadership team with the arrival of Richard Price (Clothing MD), Stephen Langford (Head of Online) and Paul Babbs (Head of Supply Chain) will help us fulfil our priorities at pace. Through delivering these actions we believe we will emerge from the crisis with a much more focused and relevant range offering substantially better value.

We're All In This Together



Challenge

Customers and colleagues asked M&S if there was a way we could create a product range so they could do their bit and show support for the NHS.

M&S response

The team moved quickly to produce a fantastic range of T-shirts for the whole family with all profits going to NHS Charities Together. Our designers came up with the distinctive design in 24 hours – and we repurposed stock and sent it to the printers and launched on the web within a week. Holly Willoughby (see above) launched the campaign and the T-shirts sold at a rate of one per second. Further batches sold quickly supported by M&S Food Ambassador Amanda Holden, who used the artwork as the cover of her charity single.

INTERNATIONAL & SERVICES

Highlights

£110.7m -15.2%

Operating profit before adjusting items

85

Net promoter score¹

Our International business recorded a net promoter score for the first time in line with the wider business and will continue to measure future progress against this.

44 (18/19: 39)

International websites



Above A range of Covid-19 measures across our international store estate were introduced to follow local government guidance and keep our colleagues and customers well.

PERFORMANCE THIS YEAR

Last year, we said that the actions we had taken in closing loss-making stores and changing the business model to focus on working with partners in select markets with the potential for growth had resulted in us making headway in our transformation. However, we were clear we had further to go to improve our local relevance and competitiveness. We said we would do this through:

- Expanding in strategic, scale markets.
- Modernising our store estate in a low-cost way to improve our customer experience.
- Strengthening market right pricing and further localising ranges to become more competitive and grow volume.
- Continue the roll-out of our international online channels.

Over the past year, the International business has faced significant headwinds including stock efficiency management by franchise partners resulting in reduced shipments, political unrest in Hong Kong and France, and – most significantly – Covid-19. This disruption, combined with weak performance in Ireland, resulted in revenues for the year declining at constant currency by 2.5%. Trading conditions deteriorated significantly in March with a number of markets or stores unable to trade due to the virus, resulting in operating profit (before adjusting items) declining 15.2% to £110.7m.

In line with our priorities, throughout the year we drove local relevance through market right pricing in select markets, with average selling prices dropped by -12%, boosting sales by +2% and volumes by +15%. Alongside this, we continued to drive greater localisation of our products to meet the needs of our customers in key markets, such as in India where 25% of Womenswear and Menswear is now specifically designed for the market.

We expanded and modernised our store estate to 481 stores, opening 47, 18 in owned and 29 in franchise markets, as well as modernising 24 and closing 10.

Our international e-commerce channels are divided into direct shipments from the UK, sales on third-party marketplaces and sales fulfilled by franchise partners on their own websites. This year, in line with our strategy, we launched an additional

five transactional websites, including our flagship website in India – our key owned market – and now sell online to customers in 44 different countries. Our e-commerce sales channels performed strongly with online retail sales growing +26% on last year to £103m, and we saw further growth in online sales following store closures in markets as a result of Covid-19.

ACTIONS IN RESPONSE TO COVID-19

The impact of Covid-19 has mirrored the spread of the virus from China and South East Asia, where we have a presence in Hong Kong, Singapore and Malaysia, to the Middle East, impacting operations in the UAE, Saudi Arabia and Dubai and then Europe. By the end of the financial year, it had resulted in 382 stores closures, almost 80% of the estate.

We took a number of actions to support our International colleagues, partners and customers:

Supported our partners: Established partner and operational support teams with daily crisis calls and identified alternative ways to deliver our products to customers while meeting local government guidance, including the launch of a Deliveroo partnership in France.

Reinforced our online sales channels for customers: Optimised our existing e-commerce sales channels in key markets like in Czech Republic where we supported the acceleration of customers shopping online through promoting both our own flagship website, and the leading local e-supermarket, for customers to continue purchasing M&S products.

Responded to increased product demand: Worked with suppliers and partners to maintain supply of fresh food products in our Asian markets through sourcing alternative delivery routes to market.

Boosted operational support for partners: Delivered international buying fairs for partners, which are usually attended by over 100 people in the UK, online for the first time so partners were able to continue reviewing and selecting products to sell in their markets for the year ahead despite restrictions on travel.

1. Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

Provided colleague training and support:
Ran online training for colleagues affected by locally enforced lockdowns in visual merchandising and store management courses to upskill with high engagement and participation rates.

NEVER THE SAME AGAIN PRIORITIES

The double-digit growth in International online sales achieved since Covid-19 signals that we have potential to achieve a step change in this area, as well as continuing to improve and develop the localisation of M&S internationally. Our priorities will be:

- Reduce costs and improve support for further growth in 2020/21 by prioritising investment in the Hemel Hempstead export centre to avoid inventory being double handled through the UK network and deliver a more accurate and efficient service for our international partners.
- Turbocharge our international e-commerce proposition as the crisis drives more customers to shop online, which we have begun with improvements in our online service for customers through Covid-19, and attain faster growth rates in these channels, which operate attractive contribution margins.
- Adapt to changing customer behaviours, with social-distancing measures encouraging less contact, by prioritising efficient store modernisations, such as our One Raffles Place store in Singapore. In this store we have digitally enhanced operations which now include features such as Mobile Pay Go for a contact-free shopping experience for customers.

- Reduce costs and improve support for further growth in 2020/21 by prioritising investment in the Hemel Hempstead export centre to avoid inventory being double handled through the UK network and deliver a more accurate and efficient service for our international partners.

SERVICES

We continued to provide our customers with a range of services through our wider family of businesses, including financial services through M&S Bank (managed by HSBC) and fully renewable electricity via M&S Energy (in partnership with Octopus). M&S Bank & Services income before adjusting items was down £10.2m to £16.8m. This was predominantly the result of an increase in bad debt provisioning due to a higher risk of customer default. M&S Bank income after adjusting items decreased £1.9m to £4.2m.

Following the onset of Covid-19 our Services businesses also continued to support customers through measures such as introducing priority access for NHS and emergency services on our telephone lines, or offering guidance on fraud protection during this time.



Above We modernised 24 additional stores across our international estate this year, including One Raffles Place in Singapore, which features a range of digital services for customers.



Left We are looking to expand our international online channels as more of our international customers choose to shop for the best of M&S online through our flagship sites, such as in Greece.

CHANNELS

STRATEGIC KPIS

Footfall (average per week)
18.0m (18/19: 18.6m)

Transactions (average per week)
11.9m (18/19: 11.4m)

Net promoter score¹
73 (18/19: 68)

1. Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

We're All In This Together

Keeping all our customers and colleagues well

We moved quickly to help keep our colleagues well as they worked and to help our customers get the things they needed and feel confident shopping by introducing strict hygiene protocols and investing in social distancing. Our list of measures was extensive, including comprehensive hygiene routines for items such as trolleys and baskets, putting in new equipment such as perspex screens at till points, and using signage to encourage contactless payment where possible.



PERFORMANCE THIS YEAR

Last year, we said we had made progress in reshaping our store estate to reflect rapidly changing customer habits and address years of underinvestment. But we had further to go and would continue to focus our attention on:

- Accelerating the pace of our store estate reshape.
- Expanding our reshape programme to include redeveloping sites to make the most of our existing space.
- Beginning to look at our new store formats.

Good progress was made on the store reshape programme, with 54 of our legacy shared stores closed to date out of 110. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Our transformation requires well-located stores reflecting how customers want to shop today. An example of this would be the move of our Rochdale store to the new Riverside development, an area that is family-focused, in a convenient location with a great mix of leisure and retail facilities plus car parking.

We empowered store colleagues and increased efficiency through industry-leading technology. In partnership with Microsoft, we rolled out our Teams platform to deliver more seamless communication between stores and support centres. The move has given store managers greater access to data to run insight-driven stores and bring the voice of the stores back into the heart of M&S.

As outlined on page 10, we saw encouraging early sales results from the five renewal 'test and learn' Food stores opened in the year.

Our Property Development team began proactively researching ways to unlock and maximise value out of our property portfolio through active management of the estate and using space effectively.

ACTIONS IN RESPONSE TO COVID-19

- Quickly responded to government guidance, closing all Clothing only outlets, packing down our Clothing & Home sections in 24 hours and suspending M&S Bank Bureaux, cafés and other in-store services in our large stores.

STORES & PROPERTY

- Introduced a range of social-distancing and hygiene measures in stores to help keep our customers and colleagues well, including regular handwashing breaks, perspex screens at checkouts, additional cleaning of trolleys and baskets.
- Introduced dedicated shopping hours for elderly and more vulnerable customers, as well as NHS, emergency services, and health and social care workers.
- Began engaging landlords with the aim of introducing flexibility on property costs to help us manage our overall cost base.
- Deferred closure of two stores to later in the year to support communities and continue to provide our customers access to our full range of Food products.
- Reduced facilities and equipment activity to mirror an anticipated decline in upcoming new store activity – including permanently removing substantial costs from storage and maintenance of our equipment.

NEVER THE SAME AGAIN PRIORITIES

Addressing our ageing store estate to meet the rapidly changing customer behaviours remains an important part of our transformation programme and to accelerate this we will:

- Progress the emphasis of our store reshape programme towards the relocation of ageing stores as the downturn creates opportunities for new sites.
- Maintain our dialogue with landlords on commercial terms on lease contracts.
- Prioritise capital expenditure to focus on essential and short payback investments focused on growth as we move towards extension of the food renewal formats and redevelopment proposals for a few of the older, larger city centre stores.
- Fast-forward the expansion and integration of technology into our store environments to support our colleagues in stores.

STRATEGIC KPIS

Percentage of UK Clothing & Home sales online

22.5% +1.8%

Traffic (visits per week)

9.5m +8.0%

Net promoter score¹

57 (18/19: 54)

M&S.COM AND DIGITAL & DATA

PERFORMANCE THIS YEAR

Last year, we said improvements had been made to M&S.com to bring us back to level but were clear there was more work to do to become a Digital First business. We outlined the required changes to enhance the operational performance of our digital channels and address the slow progress towards creating a Digital First culture. These included:

- Improving search functions and enhancing the end-to-end journey to get the customer to the product they want faster.
- Creating a joined-up operation between M&S.com and stores by adding more collection points and improving fulfilment times on Click & Collect and giving colleagues on the shop floor the technology they need (e.g. ordering product and checking stock for customers on the shop floor using tablets).
- Engaging customers with a more personalised experience across digital products and marketing communications.
- Fast-forwarding progress to become a data-driven digitally enabled workforce and leverage our external partnerships to help get us there.

Online revenue growth for the year was level and was showing improvements in the second half before Covid-19 significantly impacted performance in Q4, particularly across Clothing & Home. Digital is being re-organised under a single transformation team, bringing together data, online and technology as part of the post-Covid programme.

Operationally, we improved aspects of the online customer experience, such as extending order cut-off time to 11pm for Click & Collect and midnight for next day delivery. Our online distribution centre at Castle Donington delivered our best performance over Christmas with peak week despatch up 18% overall, including the biggest ever despatch day, with no operational issues.

However, we have yet to harness the growth a digitally enabled organisation can create. To rectify this, we established a central Digital & Data function to provide support across the business, ensuring a seamless customer experience and improving personalisation, embedding digital across our stores and shopping missions, revamping our loyalty proposition and ensuring we are at the forefront of the latest innovation and trends. We also continued to work with our external partners, such as Microsoft and Founders Factory, to act as a catalyst for change and drive our aim to become a Digital First business forward.

ACTIONS IN RESPONSE TO COVID-19

- Prioritised the wellbeing of our colleagues and quickly revised our M&S.com operations and supporting services, such as our distribution centres, to follow government social-distancing and hygiene guidelines (see further detail in Clothing & Home section on page 12).
- Adapted M&S.com journey to reflect rapidly changing customer behaviours, including trading our site with refreshed architecture focused on the required goods most searched for by customers such as kidswear, bedding, towels, loungewear.
- Temporarily suspended event-focused elements of our Food to Order to enable greater operational focus on customer fulfilment and new initiatives such as the launch of contactless delivery across Clothing, Home, Food and flower orders.
- Adjusted delivery timeframes as needed for the extra measures in place to keep all colleagues and customers well.
- Expanded our Mobile Pay Go payment facility to a further 100 stores to further help minimise contact during payment process.

NEVER THE SAME AGAIN PRIORITIES

As a result of the crisis, we must take the opportunity to accelerate the construction of M&S.com into a winning online proposition, as Covid-19 forces more customers than ever to permanently shift shopping preferences to online. The crisis resulted in M&S.com trading for a period as our only significant Clothing business and showed us the need to be leaner, faster and more integrated to compete with pure-play online competitors.

Our new post-Covid ambition for the Group will therefore be to drive at least one third of sales online and our priorities will be to:

- Reorganise M&S.com under new leadership to drive improvements.
- Fracture the old 'stores first' mindset and treat M&S.com as our biggest and best store.
- Roll out well-known brands across our M&S.com and large store platforms as a start in broadening our appeal.
- Unlock the potential of our colleagues by accelerating our Digital First behaviour changes across the business.

We're All In This Together ↗

Challenge: With many customers unable to shop in a store while self-isolating, M&S wanted to provide a way to help volunteers shop on behalf of the most vulnerable customers in their community.

Response: We created the M&S 'We're All In This Together' E-Gift Cards so customers – or their family or friends – can purchase online and email the barcode to volunteer shoppers to use as payment in our stores – removing the need to exchange cash or payment transfers. This was a simple way for volunteers to pay without cash or a payment card and we received over 1,000 orders for the E-Gift Cards within the first two weeks of launch.



PEOPLE & CULTURE

A year ago we set out our culture that we want to create as part of the transformation, drawing on the values of the past in a modern way to establish a renewed and reinvigorated workplace. We were clear that we want to make M&S the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat organisational structure. Our plan was based on:

- Transforming our organisational design to a family of accountable businesses to drive ownership, pace and commerciality.
- Creating empowered, responsive and commercial leaders who are close to the frontline.
- Putting the voice of the stores back at the centre of the business.
- Creating a culture of plain speaking.
- Moving away from hierarchy to an organisation that welcomes argument and challenge and respects all colleagues equally.

TRANSFORMATION PROGRESS

Transforming our organisational design

In the past year, we have halved the number of our central offices in London and Manchester and moved to segmental reporting for each business unit in line with our model of accountable business units supported by a smaller corporate centre.

Creating a team of empowered, responsive and commercial leaders

We have continued to attract world-class talent and have built a strong team over the past year. Katie Bickerstaffe joined the executive team as Chief Strategy and Transformation Director, Eoin Tonge will start as Chief Financial Officer in June and Richard Price will be taking up his role as Clothing & Home Managing Director.

We have also welcomed new leaders into key positions. Will Smith joined as Property Director in May from Asda, Helen Milford joins as Store Operations Director from J Sainsbury on 1 June, Paul Babbs is soon to arrive as Head of Clothing & Home Supply Chain from Adidas, Stephen Langford arrived from George at Asda to be Head of Clothing & Home Online in May and Craig Lovelace joins the Food team as Finance Director from N Brown. These new leaders make up c.40% of the leadership team – providing diverse experience and a



Above Our colleagues' commitment to our customers, communities and each other in the crisis has been phenomenal.

mix of fresh eyes and talent we have promoted from within M&S.

We have made initial progress in building a wider leadership team, moving from a 'senior leadership group' to a 'transformation leadership team', but we have more to do to devolve accountability and create a sense of shared mission.

Putting the store voice at the heart of the business

Trading areas of the business have begun to work more closely with the stores. There are now weekly buyers and sellers calls where store and the commercial teams review the prior week's trading and develop action plans, and a weekly store feedback call on how plans are landing.

Business-wide programmes now begin in stores rather than being developed centrally. The Vangarde supply chain efficiency programme is named after the York store where it was developed before being rolled out by operators themselves in a test and learn approach.

The roll-out of the Microsoft Teams communication platform has been transformational in connecting colleagues, to each other and to the centre. Teams has launched across all UK stores and 800 digital champions have been trained to support colleagues with the transition. Teams is available for all colleagues on their personal devices and 43,000 are now using Teams to stay connected. We are also rolling out functionality so colleagues can use Teams

to manage shifts as well as viewing and logging the completion of tasks.

An involving, engaging culture where everyone can get on

This year, we launched new clear behaviours, after extensive collaboration with colleagues. They are 'talk straight', 'own it and get it done', 'make every penny count' and 'all in for the customer'. Talk straight really resonated, reflecting the need to encourage plain speaking, and the business tone of voice has started to become more direct.

Our colleague representative body BIG (Business Involvement Group) attends the PLC Board and Operating Committee regularly, providing a link between the business and frontline. However, despite its strengths, the organisation and culture of BIG has been overly formal. Over the past six months, BIG has begun to transform so it can better engage and involve colleagues and partner the business on its transformation.

To better track sentiment, we have moved from an annual colleague survey to a monthly digital pulse. The results are shared with colleagues and give a regular read on morale. Ownership has moved from HR to leaders and an easy-to-use online action planning tool has been introduced to help managers respond to results and embed tracking of action plans into performance management. Every quarter, there is a 'deep dive' to look at cross-business unit patterns, and after the first full quarter of results in Q4,

engagement levels were at 81% and colleague Net Promoter Score (NPS) was at 12 – providing a baseline for the next quarter.

Developing our people has moved on this year. The Food business introduced Academies to develop core technical skills and courses to support behavioural and leadership skills such as resilience and emotional intelligence. However, progress has been too patchy and more needs to be done to standardise and improve our approach.

We have continued with the Marks & Start programme, which has supported 20,000 people on their journey to work. It benefits us in many ways, including the diversity of our workforce with 25% of participants having a disability and 20% from the BAME community. This year saw our biggest ever level of PRIDE support, and we became the first UK retailer to introduce sunflower lanyards into all stores, which helps customers and colleagues with hidden disabilities. We retained our recognition as a Times Top 50 Employer for Women for our promotion of gender equality. However, we need to do more on our approach to diversity and inclusion and this is an area of focus.

Data-driven decision-making

Becoming a data and digitally enabled business is at the core of our transformation and is covered on page 17. Tablets have now been rolled out to every store management team so they can access the information they need to run their stores – including store-level profit and loss accounts.

ACTIONS IN RESPONSE TO COVID-19

- Our colleagues' commitment to our customers, communities and each other in the crisis has been phenomenal. There has been a positive acceleration in our culture change and we have captured the lessons to ensure that old habits aren't reverted to.
- The business has taken care to support all colleagues. Every colleague who has needed to self-isolate, including those required to shield themselves for 12 weeks, has been able to do so on full pay. Store colleagues remaining at work supporting the business have been rewarded with 15% bonus pay for the duration of the lockdown period.
- Colleagues have shown great flexibility and teamwork with 4,500 colleagues moving overnight from hospitality and C&H operations to our Foodhalls, and 25,000 store colleagues voluntarily being furloughed in under a week. Colleagues have multitasked and taken on different roles and we will look to embed this way of working permanently.
- The focus on costs has driven clarity of purpose, decision-making and commerciality, and teams have been empowered to act and deliver plans regardless of hierarchy. Office-based colleagues have worked effectively from home and the roll-out of Teams has been accelerated so that most business units are now at over 90% usage and colleague events have been hosted virtually.

- Digital communication direct to the frontline has driven high levels of engagement and created a dialogue and momentum that we do not want to lose.

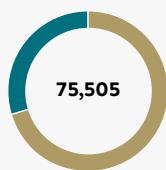
NEVER THE SAME AGAIN PRIORITIES

- Prior to results, we announced the business will be led by a smaller executive team to drive a faster pace of action and increased focus on transformation priorities.
- All decision-making bodies will be re-set following this shift and the role of the wider Transformation Leadership Team will be clarified and redefined.
- The re-set of our colleague communication will be embedded to support our aim of creating the most engaging, involving and dynamic place to work in UK retail. This will include designing and developing a new induction programme, graduate programme and leadership framework to attract, develop and retain top talent.
- Robust performance management and rewards frameworks will be launched to drive accountability, commerciality and pace. Underpinning this, a new People IT system is being developed to remove unnecessary process and move to a more self-service model for managers and colleagues.

COLLEAGUE REPRESENTATION MEASUREMENTS

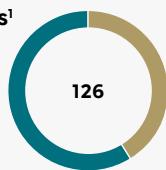
Total employees¹

Female	53,219
Male	22,286



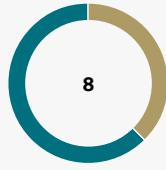
Total senior managers¹

Female	52 (41%)
Male	74 (59%)



Total Board^{1,2}

Female	3 (37.5%)
Male	5 (62.5%)



SENIOR MANAGERS FROM ETHNIC MINORITIES

8% (18/19: 5%)

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

ENGAGEMENT

81% (18/19: 81%)

The proportion of our colleagues who feel proud to work at M&S and enjoy what they do.

GENDER PAY GAP

12.9% (18/19: 12.5%)

Our Gender Pay Gap, the percentage difference between average hourly earnings for men versus women, increased this year but remained lower than the UK average.

COLLEAGUE NET PROMOTER SCORE

12

The first full quarter results of our new monthly digital colleague pulse, following the move away from an annual colleague survey to better track colleague sentiment throughout the year. We will continue to report against these revised measurements in future.

1. As at 28 March 2020.

2. For details on changes to Board gender diversity since year end see page 46.

SECTION 172(1) STATEMENT

ENGAGEMENT & DECISION-MAKING

S172(1) REPORTING

The directors are bound by their duties under the Companies Act 2006 (the "Act") and the manner in which these have been discharged, particularly their duty to promote the success of the Company for the benefit of its members as a whole, forms a core theme of this report.

The following pages comprise our Section 172 statement, setting out how the directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006. We have integrated our reporting on how our stakeholders have been considered in terms of our business model and governance throughout this report:

- ⊕ Board activities, see **p48 and p49**
- ⊕ Plan A, see **p22 to p24**
- ⊕ Our response to the Covid-19 crisis, see **p50 to p53**
- ⊕ Throughout the Strategic Report on **p2 to p43**

OUR APPROACH

The Board is responsible for leading stakeholder engagement, ensuring that we fulfil our obligations to those impacted by the business. We believe that considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term and to make M&S special again. Now, as we enter a new financial year in the midst of a global pandemic, balancing the needs and expectations of our stakeholders has never been a more important or challenging task.

On these pages, we have grouped our stakeholders into six key categories and have provided an overview of their interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions and shaping the transformation strategy throughout the year. These have been provided within the context of our nine strategic pillars to present more clearly how our stakeholders are integral to delivering our strategy.

COVID-19

The Covid-19 pandemic has had a significant impact on all of our stakeholders since it emerged towards the end of the financial year. This impact and how we have responded to protect our business and manage the expectations of our stakeholders is set out in full on pages 50 to 53.

STAKEHOLDER PRIORITIES

SHAREHOLDERS



Engagement with our institutional and private shareholders is an ongoing process, occurring through a range of channels including face-to-face meetings at investor days, calls with the management team, private shareholder panels, our AGM and through a range of shareholder specific communications issued by email. The transformation strategy has been shaped with M&S's long-term success in mind and for the benefit of our members as a whole. Examples of long-term planning include the growth opportunities presented by Ocado and the liquidity preservation measures taken as a result of Covid-19, including suspension of dividend payments (see page 43 for more detail).

Key priorities: Delivering sustainable, profitable growth over the longer term.

COLLEAGUES



Our colleagues are the heart and soul of the business and central to its success, so properly incorporating their views into Board decision-making is essential to our transformation, of which culture change is a key plank. To achieve this, the role of our Business Involvement Group (BIG) network has been redeveloped with a more regular presence at Board and Remuneration Committee meetings. Feedback, suggestions and concerns from colleagues across the business are also considered through channels such as our Monday trading calls, Talk Straight monthly colleague engagement and the Suggest to Steve initiative. The Board receives regular updates on these topics.

Key priorities: Providing an inclusive and diverse place to work; amplifying the colleague voice in company decision-making.

SUPPLIERS



Our long-term supplier partnerships are an important part of being able to innovate and offer trusted value to customers. In 2019, we focused on improving our supply chain; an essential facet of our strategy and one that can only be driven forwards through continuing, close engagement with our suppliers. Looking ahead, the launch of Ocado and our ambition to grow online to one third of sales presents significant, mutually beneficial volume growth opportunities that we will continue to work with our suppliers to achieve.

Key priorities: Prompt and accurate payment for goods and services; driving mutually beneficial volume growth.

CUSTOMERS



Ensuring the customer is at the heart of every decision is crucial to the Board's strategy. This year, we have focused on our customers by offering trusted value and a wider range in Food, moving to a first price, right price approach with improved availability in Clothing & Home, reshaping our store estate and improving our website to serve customers however they want to shop. We engage directly with customers through social media and have implemented a range of measures to protect their safety and promote social distancing to minimise the risk of Covid-19 spread.

Key priorities: Great quality and value products; having good availability across product lines in the right sizes; a store estate and online offer that are easy to shop.

COMMUNITIES



Preserving the links we have established with the communities we serve is an important factor in the Board's discussions and has helped shape, for example, our approach to reducing plastic packaging, food waste, charitable initiatives that our customers can support and, in particular, the store renewal programme. While the benefits of new store openings are clear, we recognise that closures are a sensitive, albeit necessary, course of action for a business increasing the proportion of sales it delivers online. Careful management of this process has been a significant area of focus for the Board.

Key priorities: A fair contribution to society and the economy; a socially responsible business; a strong presence in the community through a properly shaped store estate.

PARTNERS



Our digital, franchise and JV partners have been an important feature of Board discussions, from the participation of senior members of the Ocado team at Board meetings to leveraging the expertise of our digital partners to make better use of technology in our transformation. Into 2020/21, we have worked in partnership with the UK government, banks and other food retailers to secure both the continuity of UK food supplies and the future liquidity of our business.

Key priorities: A corporate partner that responds to concerns and acknowledges jurisdictional and technical expertise.

STRATEGIC DECISIONS

During the year, as the Board made decisions implementing our strategy, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered.

The following page provides an overview of how decisions taken in furtherance of each of our strategic pillars, primarily prior to the Covid-19 outbreak, were influenced by, and impacted, our six stakeholder groups. While not an exhaustive list, these examples give a flavour of how integral our stakeholders are in the Board's decision-making process.

1 TRANSFORMING OUR LEADERSHIP

● ● New appointments at senior levels and our work to improve the flow of incoming talent with expertise in key areas such as design, digital and data will enhance our ability to deliver sustainable growth for investors and colleagues.

● ● Colleagues told us that their role in delivering the transformation was often unclear, so we developed a set of clear, relatable behaviours, with supporting training to help them – the benefits of which are now being realised.

● ● ● Our new Code of Conduct strengthens the governance processes that underpin key Group-level policies, standards and technical procedures that support and protect our colleagues, suppliers and partners.

2 BUILDING GREATER ACCOUNTABILITY

● ● ● A new framework of delegated authorities, including P&L accountability, for each of the family of businesses was established to remove bureaucracy and better serve customers, suppliers and partners at business unit level.

● ● ● The Board oversaw support for suppliers by ensuring compliance with our ethical and environmental principles through training, conferences, workshops and other development opportunities.

● ● ● Engaging with colleagues directly shaped the reset of the role of BIC and strengthened the colleague voice at M&S, with BIC attendance at three Board meetings and one Remuneration Committee meeting during the year.

3 BECOMING A DIGITAL FIRST RETAILER

● ● ● Improving the technology available to colleagues, such as the Honeywell devices supplied in stores, has helped equip colleagues with the necessary insight to play a greater part in commercial decision-making. We intend to continue to invest in technology and leverage our new digital partnerships to drive further improvements in this area.

● ● ● Invested in our digital capabilities, including speed and functionality improvements to our app and websites, to grow online to one third of Clothing & Home sales and deliver shareholder value over the longer term.

4 RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME

● ● We reset the vision for our future target Clothing & Home operating model, with a new governance model and programmes of work providing clarity for colleagues on where we want to be as a business and how we plan to get there.

● ● ● Through reshaping our buy and becoming more digital and data driven in doing so, we provided colleagues with tools to improve buying from suppliers, achieving double-digit reductions in options across Clothing & Home.

● ● Working with suppliers to implement logistical improvements, including more frequent, better planned deliveries and moving to a single-tier network, will improve product availability for customers.

5 PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD

● ● Improved our range and value proposition for customers through continued price investment in high-volume lines and improving our product innovation pipeline.

● ● ● Completion of the acquisition of 50% of Ocado Retail brought significant opportunities for growth in volumes and sales, as well as synergy-linked savings. Each will benefit our customers, suppliers and shareholders over the longer term.

● ● The restructuring of the marketing team to sit within Food has resulted in a new family-focussed programme to broaden customer appeal, including sponsorship of Britain's Got Talent.

6 REBUILDING PROFITABLE GROWTH IN INTERNATIONAL

● Completion of the roll-out of market right pricing and launch of local flagship websites has improved our value and availability propositions internationally.

● ● Board directors and members of the International leadership team regularly meet with key international partners to discuss progress and any areas of concern.

● ● Worked closely with our key international partners and suppliers to agree appropriate supporting measures during times of significant economic difficulty, including the ongoing Covid-19 crisis.

7 CREATING A HIGH-QUALITY STORE ESTATE FIT FOR THE FUTURE

● ● A key area of Board focus has been shaping our estate so that our store formats are right for the communities we serve. The Board ensures our geographic reach is such that customers across the UK don't have to travel too far to shop with us.

● ● The impact of our stores programme on colleagues and communities is significant. Where possible, we aim to redeploy colleagues to other stores in the event of a closure, while new stores provide great employment opportunities in local communities.

● ● Customer data was crucial to shaping the Food renewal programme and the 'test and learn' store format trialled to date.

8 MODERNISING OUR FOOD AND CLOTHING & HOME SUPPLY CHAINS

● ● Growing online to one third of Clothing & Home sales depends on the capacity and capability of our network to deliver. We have invested in our key sites, upskilled colleagues and stress-tested our supply chain, but recognise there is more to do.

● ● Ocado will add significant volume into the supply chain, challenging the business and our suppliers while being beneficial over the longer term and improving opportunity for customers.

● ● We continue to ensure that our global supply chain is robust, with viable business continuity plans in place, including no over-reliance on one supplier or geography.

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

● Prior to Covid-19, we were on track to deliver our planned cost savings, a leaner cost base and better operational efficiency in the interests of our investors.

● ● Simpler store management structures, tailoring staffing to activity and investment in new technologies have improved colleague productivity and the customer experience while reducing cost.

● ● ● Achieved efficiencies in the e-commerce carrier network, office and warehouse space closures and other property savings. While beneficial, these have a significant impact on our colleagues and suppliers and need to be managed sensitively.

PLAN A

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

PERFORMANCE THIS YEAR

Our transformation programme aims to return M&S to sustainable, profitable growth and to deliver long-term value for all stakeholders. Our priority has been to evolve Plan A to reflect our new operating model and to embed the programme into the core strategy rather than continuing to exist in parallel with our operations. Over the past year we have:

- Begun the transition to a new Plan A operating model to embed sustainability into our business units.

- Conducted a detailed review of Plan A considering the views of colleagues, customers, shareholders, pressure groups and campaign bodies, and conducted a benchmarking exercise against the wider consumer goods and retail sector.
- Created a simplified framework that:
 - Is aligned to the business strategy;
 - Has clear deliverables owned and actioned by each business unit;
 - Maintains our position as a committed sustainable retailer; and
 - Provides a programme to build competitive advantage in selected areas and to engage our customers on the issues that matter to them.

Towards the end of this process, the business's focus was rightly on managing the impact of Covid-19 on colleagues, customers and communities – particularly the most vulnerable and healthcare workers – through the pandemic. Therefore, confirmation of Group-level governance and sign-off on targets will now be completed in 2020/21. Supplementary information detailing our performance on a range of environmental and social issues is included in our 2020 Plan A report available here corporate.marksandspencer.com/sustainability.

PLAN A FRAMEWORK



PEOPLE

Everyone can belong, and get on

We want the people working in our business and our supply chains to have a voice, and to progress. We support the causes our customers care about, and the communities where we trade.

Areas of focus

- Human rights and combating modern slavery
- Access to employment
- Colleague health and wellbeing
- Diversity and inclusion
- Accessibility
- Ethical trading standards
- Improving lives of workers in supply chains
- Community engagement

Relevant Sustainable Development Goals



PRODUCT

We source with care and nothing we make will go to waste

We source our products responsibly, working closely with our suppliers to ensure high standards. We ensure no food or clothing goes to waste.

Areas of focus

- Sustainable raw materials
- Reducing food waste
- Animal welfare
- Farming standards
- Health and nutrition

Relevant Sustainable Development Goals



PLANET

Our actions today protect the planet for tomorrow

We are driving down greenhouse gas emissions. We reduce, reuse and recycle. We work with the factories we source from to take good care of the planet's natural resources, while being open about the progress we've made.

Areas of focus

- Net zero emissions
- Sustainable manufacturing
- Reducing, reusing and recycling packaging
- Zero waste to landfill

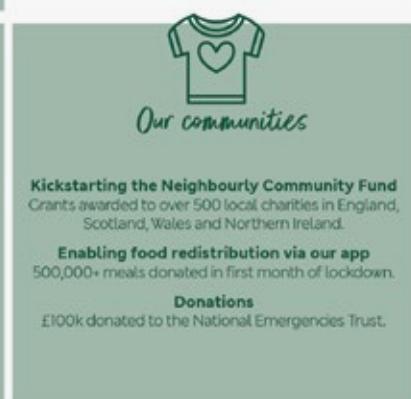
Relevant Sustainable Development Goals



ALL IN THIS TOGETHER



ALL IN THIS TOGETHER
how we're doing our bit
to support everyone
across the M&S family



We're also making it easier for customers to support communities and causes

Added Covid-related causes to our Sparks charities, launched limited-edition bags for life and #allinthis together T-shirts with 100% of profits going to NHS Charities Together

ACTIONS IN RESPONSE TO COVID-19: ALL IN THIS TOGETHER

Last year, we agreed that one of M&S's core behaviours was to be "all in for the customer"; working as one M&S team, giving all of our effort all of the time and being guided in everything we do to deliver for the customer. In response to Covid-19, this didn't feel quite enough to reflect the huge challenge faced across the entire M&S family – our colleagues, customers and communities. To reflect this, we brought together our response under the banner 'All In This Together' as a way of sharing what we were doing with our stakeholders and directly across the whole M&S family.

The simplified structure of our new Plan A operating model helped us to deliver a quick and coordinated response to the crisis. As set out on page 50, the Operating Committee took ownership for decision-making and set the direction for the Company's collective response, and each business unit was represented within the CMT by an operational lead who took accountability for delivery. The central Plan A team provided the consistent link to charity partners and recipients of our support – such as the NHS – and reported the needs and requirements of each beneficiary to the operational teams.

Quick decision-making, supported by the extraordinary efforts and attitudes of all members of the M&S family, enabled us to launch new services and initiatives to support our customers, support our suppliers, help the most vulnerable in our communities and do our bit for the UK's NHS heroes. The graphic above provides a snapshot of that support.

NEVER THE SAME AGAIN PRIORITIES

As we emerge from the Covid-19 crisis, there will be many uncertainties, but we believe customers will be looking even more to brands they can trust and have confidence in to offer value through trading ethically. As a result, we will use the new Plan A framework to build a programme to engage customers and demonstrate that M&S understands – and is taking action on – the issues that matter to them most.

The first priority is to embed the new framework and set the new targets that will drive change and a more sustainable future for M&S.

PLAN A CONTINUED

PLAN A MEASUREMENTS

	Measurement	Progress	
RAISING MONEY FOR CAUSES THAT MATTER TO OUR CUSTOMERS*	Donations raised with our customers and employees.	£6.6m	-33% on 2018/19 (against restated figure)
VOLUNTEERING HOURS	Paid hours of volunteering provided by M&S colleagues.	46,398	-2% on 2018/19
MARKS & START	Number of UK work experience placements offered to people from disadvantaged groups in the community.	1,863	-27% on 2018/19
DONATIONS OF SURPLUS FOOD	Equivalent number of meals donated to charities.	5.2 million meals	+86% on 2018/19
RECYCLABLE PACKAGING	% M&S product packaging classified as easily recyclable in the UK.	77%	+7% on 2018/19
WASTE TO LANDFILL	% of operational waste from UK operated stores, offices and warehouses sent to landfill.	Zero	Zero in 2018/19
M&S GREENHOUSE GAS EMISSIONS (CO₂e)	The gross carbon dioxide emissions from M&S operated stores, offices, warehouses and delivery fleets worldwide.	338,000 tonnes CO₂e	-6% on 2018/19

* Funds raised with our customers and colleagues in 2018/19 have been reduced by £1.6m due to one of the fundraising lines being incorrectly counted twice in last year's calculation. Figures are reported in our 2020 Plan A report.

STREAMLINED ENERGY AND CARBON REPORTING

ENERGY AND TRANSPORT FUEL CONSUMED			GREENHOUSE GAS (GHG) EMISSIONS				
	This year 2019/20 (MW/hs)	Last year 2018/19 (MW/hs)	% Change		This year 2019/20 (000 tonnes)	Last year 2018/19 (000 tonnes)	% Change
UK operations	827	864	-4%	Direct emissions (scope 1)	173	167	+4%
International operations	19 ¹	19	Level	In-direct emissions from electricity (scope 2)	165	193	-15%
Group	846	883	-4%	Total gross/location-method scope 1+2 GHG emissions	338	360	-6%

1. 2019/20 data for our International operations is estimated.
The principle measures taken to improve energy efficiency in 2019/20 include new refrigeration shelf-edge technology, conversions to LED lighting and the trialling of new fan technologies.

+ Subsequent reporting on environmental and social performance is available here corporate.marksandspencer.com/sustainability

GHG emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2019 BEIS conversion factors. The reduction in Gross/location-method figures are due to the lowering of UK grid electricity carbon intensity. Whilst the higher market-based figure is due to the electricity at some locations no longer being classified as renewable. For full details, please see 2020 Plan A Report .
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NON-FINANCIAL INFORMATION STATEMENT

During the year, a new Code of Conduct was developed and this is effective from 1 April 2020. Further details can be found on page 60. The statements below reflect our commitment and management of People, Human Rights and Anti-Bribery and Anti-Corruption in the last 12 months.

PEOPLE

We are committed to providing our colleagues in the UK and overseas with a safe and healthy working environment and an organisational culture which promotes diversity, inclusivity, personal development and mutual respect. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. We have a Board Diversity Policy as set out on page 58.

- + Read more on our commitment to people:
- People Principles **corporate.marksandspencer.com/people-principles**
- Code of Ethics and Behaviours **corporate.marksandspencer.com/code-of-ethics**
- Responsible Marketing Principles **corporate.marksandspencer.com/responsible-marketing**
- Equal Opportunities Policy **corporate.marksandspencer.com/equal-opportunities**

HUMAN RIGHTS

M&S has a long history of respecting human rights in the UK and standing up for those values internationally. Our commitment to human rights is reinforced in our Human Rights Policy and Code of Ethics and Behaviours and, for all suppliers and business partners, in our Global Sourcing Principles. We are also a signatory to the principles of the United Nations Global Compact. We strive to be a fair partner by paying a fair price to

suppliers, supporting local communities and ensuring good working conditions for everyone working in our business and supply chains. We are committed to building knowledge and awareness on human rights for all of our colleagues and suppliers; encouraging them to speak up about any concerns without fear of retribution, the outcomes of which also enable us to comply with legislation and meet the expectations of shareholders.

- + Our Modern Slavery Statement is published here **corporate.marksandspencer.com/modern-slavery-statement**
- + Read more on our commitment to human rights:
 - Human Rights Policy **corporate.marksandspencer.com/human-rights**
 - Code of Ethics and Behaviours **corporate.marksandspencer.com/code-of-ethics**
 - M&S Global Sourcing Principles **corporate.marksandspencer.com/global-sourcing-principles**
 - Code of Practice on Ethical Trading **corporate.marksandspencer.com/ethical-trading**
 - Child Labour Procedure **corporate.marksandspencer.com/child-labour-procedure**
 - M&S grievance procedure for Food and Clothing & Home supply chains **corporate.marksandspencer.com/grievance-procedure**
 - Confidential Reporting Procedures **corporate.marksandspencer.com/whistleblowing-policy**

ANTI-BRIBERY AND ANTI-CORRUPTION

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

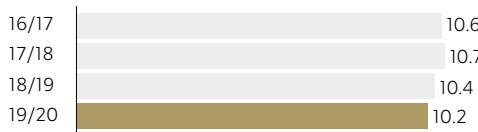
- + Read more on our commitment to Anti-Bribery and Anti-Corruption:
 - Anti-Bribery and Anti-Corruption Policy **corporate.marksandspencer.com/anti-bribery-policy**
 - Code of Ethics and Behaviours **corporate.marksandspencer.com/code-of-ethics**
 - Confidential Reporting Procedures **corporate.marksandspencer.com/whistleblowing-policy**

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

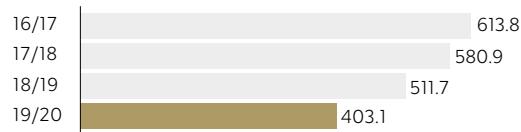
£10.2bn -1.9%



Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales. It is estimated that Covid-19 impacted Group revenue by £83.5m in March 2020 relative to forecast.

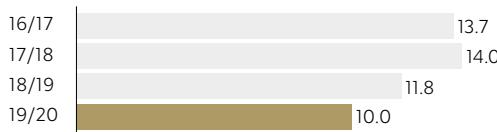
GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

£403.1m -21.2%



RETURN ON CAPITAL EMPLOYED (ROCE)

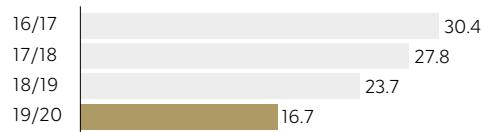
10.0%



The decrease in ROCE largely reflects the decrease in earnings before interest, tax and adjusting items.

ADJUSTED EARNINGS PER SHARE (EPS)

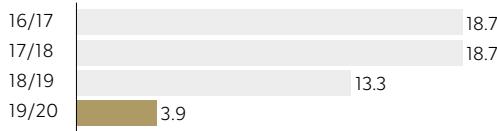
16.7p -29.5%



Adjusted basic earnings per share decreased 29.5% to 16.7p largely due to lower adjusted profit year on year and the increase in weighted average shares outstanding.

DIVIDEND PER SHARE

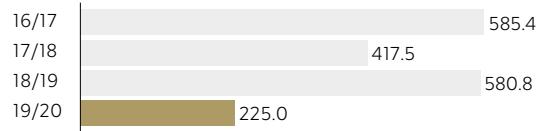
3.9p -70.7%



We paid an interim dividend 3.9p on 10 January 2020. The Board has announced the decision not to pay a final dividend for 2019/20 and that it does not anticipate paying a dividend for the 2020/21 financial year.

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

£225.0m



The business generated free cash flow before shareholder returns of £225.0m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure.

Prior year comparatives have been restated for the adoption of IFRS 16 Leases. Refer to note 29 of the financial statements for detailed restatement tables and associated commentary.



Alternative performance measures as outlined on page 01.

FINANCIAL REVIEW

GROUP REVENUE IN GROWTH IN Q4, PRIOR TO COVID-19 EFFECT IN MARCH

Q4 group revenue declined 2.6% at constant currency largely reflecting the increasingly adverse impact of Covid-19 on revenue in March relative to forecast. For the 8 weeks ended 22 February group revenue increased 2.8% with UK Food like-for-like revenue up 3.7% with strengthening volume growth and UK Clothing & Home like-for-like revenue up 0.3%, driven by stronger trends at M&S.com. International growth in the 8-week period largely reflected the timing of shipments as franchise partners called summer product earlier than last year.

% change at constant currency	FY	Q1	Q2	Q3	Q4 Jan/Feb
Food	2.1	0.8	1.5	1.5	4.8 4.1
Like-for-like	1.9	0.4	1.4	1.4	4.6 3.7
Clothing & Home	-8.3	-7.8	-8.2	-3.8	-15.7 -1.7
Like-for-like	-6.2	-5.5	-5.9	-1.8	-13.8 0.3
Total UK sales	-1.8	-2.3	-2.2	-0.6	-2.2 2.2
Like-for-like	-1.1	-1.8	-1.4	0.1	-1.6 2.6
International	-2.5	2.8	-4.4	-1.8	-6.4 8.9
Total Group	-1.8	-1.9	-2.5	-0.7	-2.6 2.8
Total M&S.com (Memo only)	1.2	0.8	-0.4	2.5	1.3 11.1
UK Clothing & Home online (Memo only)	-0.2	-0.5	-0.6	1.1	-1.3 12.1

See glossary for definitions. Prior year revenue has been restated for the reclassification of localised websites from Clothing & Home to International.

FULL YEAR FINANCIAL SUMMARY

52 weeks ended	28 March 20 £m	30 March 19 Restated ¹ £m	Change %
Group revenue	10,181.9	10,377.3	-1.9
UK Food	6,028.2	5,903.4	2.1
UK Clothing & Home	3,209.1	3,499.8	-8.3
International	944.6	974.1	-3.0
Group operating profit before adjusting items²	590.7	725.6	-18.6
UK Food	236.7	212.9	11.2
UK Clothing & Home	223.9	355.2	-37.0
International	110.7	130.5	-15.2
Other	19.4	27.0	-28.1
Interest on leases	(133.4)	(147.2)	9.4
Net financial interest	(54.2)	(66.7)	18.7
Profit before tax & adjusting items	403.1	511.7	-21.2
Adjusting items	(335.9)	(427.5)	21.4
Profit before tax	67.2	84.2	-20.2
Profit after tax	£27.4m	£45.3m	-39.5
Adjusted basic earnings per share ²	16.7p	23.7p	-29.5
Basic earnings per share ²	1.3p	2.5p	-48.0
Dividend per share ²	3.9p	13.3p	-70.7
Net debt	£4.03bn	£4.08bn	-1.2

Notes

- Prior year comparatives have been restated for the adoption of IFRS 16 'Leases'. Refer to note 29 of the financial statements for detailed restatement tables and associated commentary.
- Earnings per share and Dividend per share have been restated to reflect the bonus factor adjustment resulting from the rights issue (refer to notes 1 and 8 of the financial statements for further information).

There are a number of non-GAAP measures and alternative profit measures "APM", discussed with this announcement and a glossary and reconciliation to statutory measures is provided on page 180. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

FINANCIAL REVIEW CONTINUED

COVID-19 IMPACT

Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales, including an adverse revenue impact of c.£83.5m in March which we largely attribute to Covid-19. Group statutory profit before tax declined 20.2% to £67.2m. This was largely driven by a decline in Clothing & Home operating profit as a result of lower sales. Statutory profit before tax includes an estimated total impact of £264.7m for Covid-19. This comprises a trading impact of £51.9m in March which we largely attribute to the pandemic, in addition to £212.8m of charges in adjusting items which includes the recognition of additional inventory provisions of £157.0m and the impairment of stores and goodwill of £49.2m.

As part of its scenario planning to mitigate the effects of Covid-19 the Group is planning a significant reduction in costs and a number of cash management initiatives, which are detailed on page 05 of this report.

REPORTING OF ACCOUNTABLE BUSINESSES

During the year, the Group completed a comprehensive review of the way operating costs are allocated between the businesses, allowing management to review the operating profit of each business. As a result, the Group now recognises three operating segments, being UK Clothing & Home, UK Food and International (previously UK and International). This allows the financial information to align to the way the business is managed and holds leadership appropriately to account. The review has resulted in a reallocation of £13.3m of central costs from the previous UK segment to International (£12.6m) and M&S Bank (£0.7m). In addition, certain M&S.com flagship websites, which last year generated £37.5m of revenue and £2.9m of operating profit before adjusting items have been reclassified from UK Clothing & Home to International.

UK: FOOD

	28 March 20 £m	30 March 19 Restated £m	Change %
52 weeks ended			
Revenue	6,028.2	5,903.4	2.1
Operating profit before adjusting items	236.7	212.9	11.2
Operating profit margin	3.9%	3.6%	

UK Food revenue increased 2.1% and operating profit before adjusting items increased 11.2%, due to lower costs. We estimate a positive effect on March revenue of £17.7m and operating profit of £3.7m, largely related to Covid-19.

Like-for-like revenue was up 1.9%. Performance was particularly strong in quarter four with growth of 3.7% in the two months to February before increased demand related to Covid-19 in March. As we executed our strategy to broaden appeal and make M&S more accessible to more customers by removing promotions and lowering prices, total full year volumes were up 3.3%. As expected, the contribution from new space was largely offset by full line store closures.

The table below sets out the drivers of the movement in operating profit margin before adjusting items, which increased 0.3%:

	%
2018/19 operating profit margin	3.6
Gross margin	-0.5
Store staffing	0.3
Other store costs	0.3
Distribution and warehousing	-0.2
Central costs	0.4
2019/20 operating profit margin	3.9

Gross margin decreased 50bps which was more than expected, as continued investment in price and inflationary headwinds were not fully offset by reduced promotions and the programme to lower costs.

The reduction in gross margin was more than offset by operating costs, which reduced overall and as a percent of sales. Store staffing and other store costs were slightly down as efficiencies more than offset the pay review and cost inflation. Distribution costs increased largely due to cost inflation, impacting margin. The reduction in central costs was largely driven by lower depreciation, partly due to a system write off in the prior year.

UK: CLOTHING & HOME

	28 March 20 £m	30 March 19 Restated £m	Change %
52 weeks ended			
Revenue	3,209.1	3,499.8	-8.3
Operating profit before adjusting items	223.9	355.2	-37.0
Operating profit margin	7.0%	10.1%	

UK Clothing & Home revenue declined 8.3% and operating profit before adjusting items was down 37.0%. We estimate an adverse effect on March revenue of £78.1m and operating profit of £43.8m, largely related to Covid-19.

Like for like revenue declined 6.2%, of which an estimated 2.2% related to the adverse movement in March, largely due to Covid-19. After a disappointing first half, revenue performance both in store and online began to improve in the second half, supported by better availability and growth in key categories in Womenswear and Kidswear. Menswear experienced some initial problems as the range moved towards a more contemporary style and fit.

The table below sets out the drivers of the movement in Clothing & Home operating profit margin before adjusting items which was down 3.1%:

	%
2018/19 operating profit margin	10.1
Gross margin	-1.2
Store staffing	-0.5
Other store costs	-0.6
Distribution and warehousing	-0.3
Central costs	-0.5
2019/20 operating profit margin	7.0

Gross margin decreased 120bps which was more than planned, as a result of sourcing headwinds including raw materials and labour and the adverse impact of higher than expected promotional sales and shorter clearance periods.

Operating costs were down in all areas, although increased as a percent of sales. The decline in store staffing costs was largely driven by efficiency programmes, which more than offset the pay review. Other store costs were driven by lower depreciation and cost savings such as the move to a single maintenance vendor. In distribution, reduced costs from the move to a single tier network and in our online operations more than offset inflation and channel shift. Central cost declines were largely driven by lower depreciation with efficiencies reinvested in increased marketing and the build out of digital operations.

M&S BANK AND SERVICES

M&S Bank and services income before adjusting items was down £10.2m to £16.8m. This was predominantly the result of an increase in bad debt provisioning due to a higher risk of customer default. M&S Bank income after adjusting items decreased £1.9m to £4.2m.

OCADO RETAIL

On 5 August 2019, the acquisition of 50% of Ocado Retail was completed. Ocado Retail Limited is an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition.

The investment in associate is recognised at a cost of £769.0m. This incorporates initial consideration of £560.9m paid in cash on acquisition, contingent consideration of £202.4m and transaction costs of £5.7m. The contingent consideration is conditional on reaching agreed earnings and capacity targets.

The M&S share of Ocado Retail Limited profit for the period from acquisition to 1 March 2020 is £2.6m. Summarised financial information in respect of Ocado Retail Limited is below:

	7 months to 1 March 20 £m
Revenue	979.7
EBITDA before exceptional items	25.7
Operating profit	10.9
Profit after tax	5.1
M&S 50% share of profit	2.6

On 6 May 2020, Ocado Retail Limited reported 40.4% revenue growth for the 9 weeks to 3 May 2020.

For further detail on Ocado Retail Limited please see note 30 to the financial statements.

INTERNATIONAL

52 weeks ended	28 March 20 £m	30 March 19 Restated £m	Change %	Change cc %
Revenue	392.6	409.2	-4.1	-3.8
Franchise	552.0	564.9	-2.3	-1.6
Total	944.6	974.1	-3.0	-2.5

Operating profit before adjusting items

Franchise	64.9	72.3	-10.2
Owned	56.7	70.8	-19.9
Corporate costs	(10.9)	(12.6)	13.5
Total	110.7	130.5	-15.2

International revenue decreased 2.5% at constant currency with operating profit before adjusting items down 15.2%. We estimate an adverse effect on March revenue of £23.1m and operating profit of £11.8m, largely related to Covid-19.

In owned markets, a weak trading performance in the Republic of Ireland was partly offset by continued growth in India driven by 17 new store openings, although opening costs impacted profit. Franchise shipments declined as a result of investment in lower prices, partner driven stock efficiencies and political unrest in Hong Kong, although trends improved in the second half.

NET FINANCE COST

52 weeks ended	28 March 20 £m	30 Mar 19 Restated £m	Change £m
Interest payable	(80.5)	(80.3)	(0.2)
Interest income	8.6	8.0	0.6
Net interest payable	(71.9)	(72.3)	0.4
Pension net finance income	23.6	25.8	(2.2)
Unwind of discount on Scottish Limited Partnership liability	(6.9)	(8.8)	1.9
Unwind of discount on provisions	(4.9)	(7.9)	3.0
Ineffectiveness on financial instruments	5.9	(3.5)	9.4
Net financial interest	(54.2)	(66.7)	12.5
Net interest payable on lease liabilities	(133.4)	(147.2)	13.8
Net finance costs	(187.6)	(213.9)	26.3

Net finance costs decreased £26.3m to £187.6m. This was primarily due to a reduction in net lease financing costs and the reversal of ineffectiveness on a currency swap. In July we issued a £250m bond partially refinancing a £400m redemption in December. In March 2020, in response to Covid-19, the Group's long-term credit rating was lowered by Moody's Investors Service and Standard & Poors to Ba1/BB+ respectively. This should result in an additional c.£15m of annual interest costs, payable following the next coupon payment, on Bonds issued under the Group's EMTN programme.

GROUP PROFIT BEFORE TAX

Group profit before tax declined 20.2% to £67.2m. This includes adjusting items of £335.9m.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group profit before tax and adjusting items was £403.1m, down 21.2% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March. The profit decrease was largely due to the decline in Clothing & Home operating profit.

FINANCIAL REVIEW CONTINUED

ADJUSTMENTS TO PROFIT BEFORE TAX

Consistent with previous years, the Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. For further detail on these charges and the Group's policy for adjusting items please see Notes 1 and 5 to the financial statements.

52 weeks ended	Covid-19 related*	28 March 20 £m	30 Mar 19 Restated £m	Change £m
Strategic programmes				
- UK store estate	(11.6)	(29.3)	(216.5)	187.2
- Organisation	-	(13.8)	(4.9)	(8.9)
- Operational transformation	-	(11.6)	(16.4)	4.8
- UK logistics	-	(10.2)	(14.3)	4.1
- Changes to pay and pensions	-	(2.9)	(6.2)	3.3
- International store closures and impairments	-	(2.2)	(5.3)	3.1
- IT restructure	-	(0.4)	(15.6)	15.2
Directly attributable to Covid-19	(163.6)	(163.6)	-	(163.6)
Store impairments and other property charges	(24.2)	(78.5)	(103.5)	25.0
Goodwill impairment – per una	(13.4)	(13.4)	-	(13.4)
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	-	(12.6)	(20.9)	8.3
Amortisation and fair value arising from the investment in Ocado Retail	-	(16.8)	-	(16.8)
Establishing the investment in Ocado Retail Limited	-	(1.2)	(3.4)	2.2
Remeasurement of contingent consideration including discount unwind	-	(2.9)	-	(2.9)
Other	-	23.5	-	23.5
GMP and other pension equalisation	-	-	(20.5)	20.5
Adjusting items	(212.8)	(335.9)	(427.5)	91.6

* Included within the total.

A number of charges have been recognised in the period relating to the implementation of previously announced strategic programmes including:

- A charge of £29.3m (of which £11.6m represents the directly attributable incremental impairment due to Covid-19) in relation to store closures identified as part of transformation plans reflecting an updated view of latest store closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years.
- A charge of £13.8m in relation to the redundancy costs associated with the review of the support centre organisational structure and an updated view of ongoing costs associated with centralising the Group's London support centres.
- A charge of £11.6m in relation to the transformation and simplification of supply chain and operations across Clothing & Home and Food.
- A net charge of £10.2m as we continue to transition to a single tier Clothing & Home UK distribution network, including the cost of closure of two distribution centres. In February 2020 next steps were announced with a further two sites expected to close in the next two years, resulting in an expected additional charge of c.£13m.

Store impairment and other property charges of £78.5m (including £24.2m representing the directly attributable incremental impairment due to Covid-19) were recognised. In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme).

Charges of £12.6m have been incurred relating to M&S Bank, primarily relating to the insurance mis-selling provision, as well as further charges recognised in relation to forward economic guidance provisions recognised as a result of Covid-19. The Group's share of the total insurance mis-selling provisions of £327.6m exceeds the total offset against profit share of £242.7m to date. Further costs of c.£100m, predominantly relating to the estimated mis-selling liability are expected and will be deducted from the Group's future profit share from M&S Bank.

A charge of £16.8m has been recognised predominantly related to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail.

A credit of £23.5m has been recognised in the period relating to the release of a provision for employee related matters recognised in 2017/18 following settlement in the period for £0.6m.

COVID-19 ADJUSTING ITEMS

Following the declaration by the World Health Organisation of the Covid-19 global pandemic and the subsequent UK and International government restrictions, Clothing and Home has been unable to trade from full line stores, M&S outlet stores and a number of Food franchises have temporarily closed and trade in Food has had to continue with social distancing measures in place. As a result, charges of £212.8m have been recognised relating to the Covid-19 pandemic. The charges relate to stock provisioning, impairments of intangible assets, property, plant and equipment and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

The charges relate to:

- Stock provisioning: £157.0m.
- Incremental impairments of intangibles and PP&E: £49.2m.
- Onerous contract provisions, cancellations, one-off costs: £6.6m.

Following a detailed assessment of all retail inventory, a charge of £157.0m has been recognised (C&H: £145.3m; Food: £6.0m and International: £5.7m). The provision relates to items from previous seasons which are unlikely to be saleable when stores reopen; items in the summer sale that are likely to be cleared below cost and the cost associated with hibernating stock to Spring/Summer 2021. The provision in Food includes charges related to unsaleable seasonal goods as a result of the lockdown of activity in late March.

As a direct result of the Covid-19 pandemic, following a reperformance of all impairment assessments using the cash flows in the Covid-19 scenario, incremental impairment charges have been recognised of £49.2m (Store impairments: £24.2m, per una: £13.4m and UK store estate programme: £11.6m).

£6.6m of charges have been recognised relating to onerous contracts and other provisions, cancellation charges and impairment and write-off of intangible assets in the course of construction following project cancellations.

TAXATION

The effective tax rate on profit before tax and adjusting items was 20.7% (last year 20.7%). This was lower than the expected effective tax rate due to an increase in the estimated deferred tax assets of the Group which resulted from a change to the previously enacted UK corporate tax rate of 17% back to 19%. The effect of this increase is not expected to impact future years. The effective tax rate is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 59.3% (last year 46.2%) due to the impact of disallowable adjusting items.

EARNINGS PER SHARE

Basic earnings per share were 1.3p (last year 2.5p), due to the decrease in profit year-on-year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,894.9m (last year restated for the bonus factor related to the rights issue: 1,698.1m), reflecting the issuance of 325m shares following the completion of the rights issue.

Adjusted basic earnings per share decreased 29.5% to 16.7p largely due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

CAPITAL EXPENDITURE

	28 March 20 £m	30 Mar 19 £m	Change £m
52 weeks ended			
UK store remodelling	60.3	26.0	34.3
New UK stores	33.3	40.1	(6.8)
International	12.3	11.0	1.3
Supply chain	39.2	48.7	(9.5)
IT & M&S.com	84.5	88.2	(3.7)
Property asset replacement	102.4	69.0	33.4
Capital expenditure before disposals	332.0	283.0	49.0
Proceeds from property disposals	(2.7)	(48.1)	45.4
Capital expenditure	329.3	234.9	94.4

Group capital expenditure before disposals increased £49.0m to £332.0m.

UK store remodelling spend increased £34.3m largely reflecting the investment in five 'test and learn' trial stores. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Supply chain expenditure reflects investment in the expansion of the Bradford distribution centre. Spend has reduced due to the significant prior year investment in the Welham Green national distribution centre.

IT and M&S.com spend decreased largely due to the completion of the technology transformation programme. Property asset replacement increased £33.4m due to the initiation of an asset replacement programme in stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £3,708.5m at the year end, an increase of 50.2% on last year largely due to the investment in Ocado and the increase in the net retirement benefit surplus.

FINANCIAL REVIEW CONTINUED

CASH FLOW & NET DEBT

52 weeks ended	28 March 20 £m	30 Mar 19 Restated £m	Change £m
Adjusted operating profit	590.7	725.6	(134.9)
Depreciation and amortisation before adjusting items	632.5	702.6	(70.1)
Cash lease payments	(335.7)	(312.7)	(23.0)
Working capital	(48.5)	61.1	(109.6)
Defined benefit scheme pension funding	(37.9)	(37.9)	–
Capex and disposals	(325.9)	(264.8)	(61.1)
Financial interest and taxation	(171.1)	(184.7)	13.6
Investment in associate Ocado Retail Limited	(577.8)	–	(577.8)
Investment in Joint Venture	(2.5)	(2.5)	–
Employee related share transactions	9.7	14.3	(4.6)
Proceeds from rights issue net of costs	574.4	–	574.4
Share of profit from associate	(2.6)	–	(2.6)
Cash received on refinancing of derivatives	7.7	–	7.7
Adjusting items outflow	(88.0)	(120.2)	32.2
Free cash flow	225.0	580.8	(355.8)
Dividends paid	(191.1)	(303.5)	112.4
Free cash flow after shareholder returns	33.9	277.3	(243.4)
Decrease in lease obligations	201.4	170.1	31.3
New lease commitments	(204.1)	(150.4)	(53.7)
Opening net debt	(4,075.4)	(4,369.4)	294.0
Exchange and other non-cash movements	19.0	(3.0)	22.0
Closing net debt	(4,025.2)	(4,075.4)	50.2

The business generated free cash flow before shareholder returns of £225.0m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure. The working capital outflow relative to last year was largely a result of the timing of payments and increased inventory. This follows a planned reduction in inventories in the prior year, and higher than normal year-end inventory levels as a result of additional Food to meet stockpiling demand and lower than expected Clothing & Home sales in March.

Higher capital expenditure reflects the spend on ‘test and learn’ stores and the asset replacement programme in stores.

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

Adjusting items in cash flow during the year were £88.0m. These included £22.7m in relation to the store closure programme, £20.9m for organisational change, £15.4m for operational transformation, £12.6m for M&S Bank, £4.3m for the technology transformation programme and £3.7m relating to distribution and warehousing.

During the year, a Rights Issue was completed, raising proceeds net of costs of £574.4m, for the purpose of funding the acquisition of 50% of Ocado Retail which completed on 5 August 2019. The cash paid for the investment in Ocado Retail and associated transaction costs of £577.8m does not include the adjustment to the consideration on the finalisation of the completion statement currently held as a receivable of £11.5m.

After the payment of the final dividend from 2018/19, the interim dividend for 2019/20 and the reduction in outstanding discounted lease commitments due to capital repayments, net debt was down £50.2m from the start of the financial year.

DIVIDEND

We paid an interim dividend 3.9p on 10 January 2020. The board has announced the decision not to pay a final dividend for 2019/20 and that it does not anticipate paying a dividend for the 2020/21 financial year.

PENSION

At 28 March 2020, the IAS 19 net retirement benefit surplus was £1,902.6m (£914.3m at 30 March 2019). The increase in the surplus is mainly due to a significant increase in longer dated credit spreads driven by market changes linked to Covid-19 resulting in a reduction in scheme liabilities. Additionally, the return on scheme assets increased due to a fall in gilt yields. It is currently anticipated that the increase in surplus will give rise to an increased pension credit next year.

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

The Strategic Report, including pages 33-43, was approved by a duly authorised Committee of the Board of Directors on 26 May 2020, and signed on its behalf by

Steve Rowe, Chief Executive

26 May 2020

RISK MANAGEMENT

Effective risk management is an essential tool for our business

to support the delivery of our transformation and to respond effectively to the challenges facing our company, the retail sector and the communities we serve.

APPROACH TO RISK MANAGEMENT

Our approach to risk management is simple and practical. The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including identification of the principal and emerging risks facing M&S. The Group Risk Policy was formally reviewed and revised during the year to ensure it remains fully aligned with business needs and our corporate governance responsibilities. An overview of the key features of the Policy and the principal risks and uncertainties are set out on the following pages.

The risk management process mirrors the M&S operating model with each business and functional area being responsible for the ongoing identification, assessment and management of their existing and emerging risks. The output of these assessments are ultimately aggregated to compile an overall Group-level view of risk. This process includes:

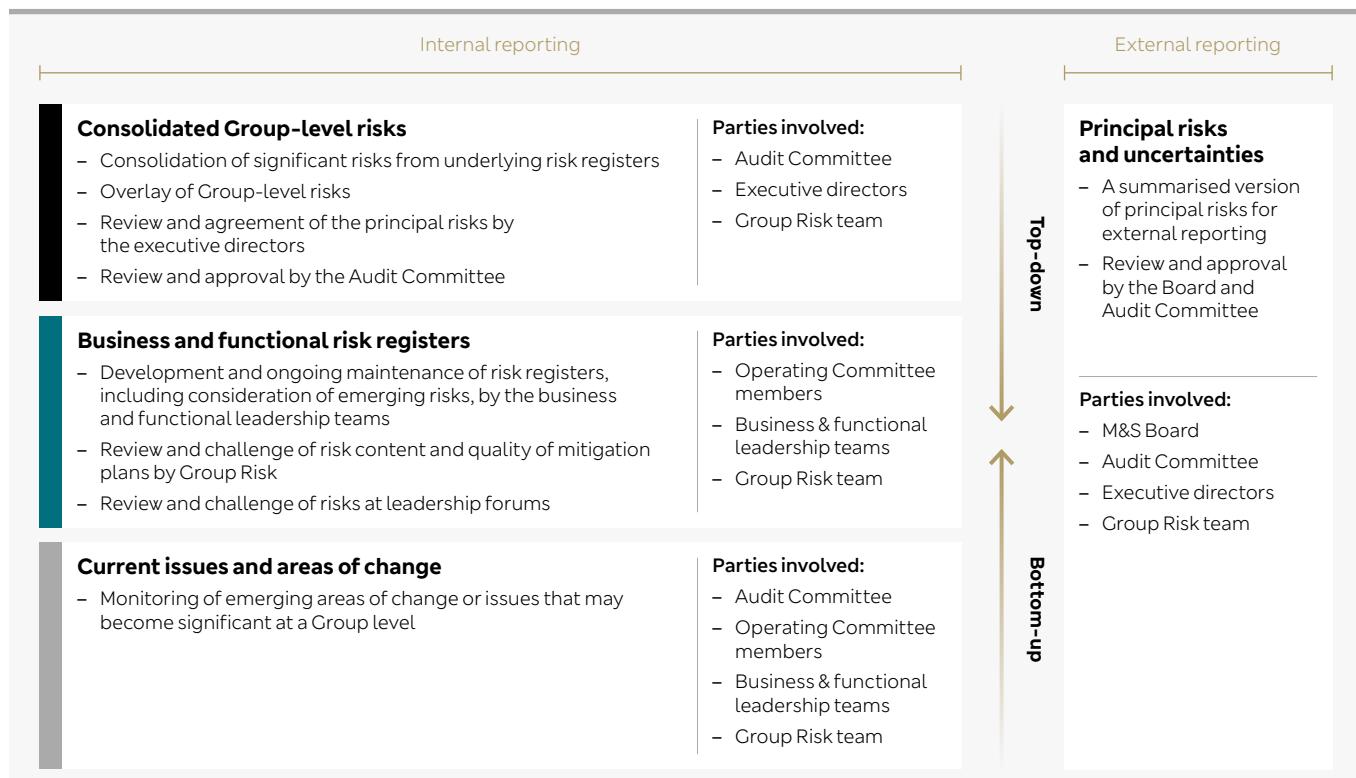
- Risks being consistently identified, measured and reported against set criteria which considers both the likelihood of occurrence and potential impact to the Group.
- Each business and functional area maintaining detailed risk registers and mitigation plans which are approved by their respective leadership teams and discussed with the executive directors.
- Direct reporting of risk and mitigating activities by each of our business and functional leadership teams to the Audit Committee on an annual basis.
- A formal half-yearly review of all risk registers by the Group Risk team.
- Development of an overarching summary of risks, combining both top-down and bottom-up perspectives, to provide a consolidated view of Group-level risks.
- A full review of the principal risks and uncertainties at least twice a year by the Audit Committee.
- Swift action to reassess risk across the business in response to significant changes or events, such as the Covid-19 pandemic.

The overall assessment considers the impact of changes in the external environment, our strategy and transformation programme, core operations and our engagement with external parties. It also includes proactive consideration of emerging risks where the full extent and implications may not be fully understood but need to be tracked.

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

The directors' assessment of the long-term viability of M&S is also reviewed annually, mindful of the principal risks faced. The approach for assessing long-term viability can be found on page 42.

RISK GOVERNANCE AND PROCESS OVERVIEW



PRINCIPAL RISKS AND UNCERTAINTIES

During the course of the year, the business has continued to develop and adhere to our risk management disciplines and managed risks in line with good practice, including adoption of the requirement to formally consider potential emerging risks.

Our established processes had operated to allow consideration of the principal risks and uncertainties to be completed in accordance with the methodology outlined on page 33, and in line with our year-end timetable prior to the outbreak of Covid-19 in the UK. The impact of the pandemic on the UK has, however, triggered the need to consider both the specific consequences of the virus and its impact on the underlying principal risks being managed by the business. The disclosure below has therefore been structured to provide an overview of the actions taken in response to the virus, the most significant risks associated with the pandemic and details of how it has impacted the broader set of principal risks and uncertainties.

COVID-19

The impact of Covid-19 on the business is explained in various parts of the Strategic Report. Consequently, the narrative included in the business updates should be read in conjunction with the disclosure below to provide an understanding of the risks and, in some instances, opportunities, facing M&S.

Our response

From the initial reports of the outbreak in China, the crisis management and business continuity protocols for the business were effectively invoked and have, since January, provided a framework to support our response. The following key actions have been undertaken to manage the impact of the pandemic on our business:

- Reacted immediately to government guidance by closing clothing outlets, Clothing & Home store sections, cafés and M&S Bank services.
- Introduced distancing and hygiene measures in stores and depots to keep customers and colleagues safe.

- At a leadership level, streamlined structures were implemented to accelerate decision-making by a group of the executive and managing directors of our family of businesses.
- The Board and Operating Committee have met at an increased frequency throughout the crisis, monitoring and responding to events on a daily basis.
- Daily meetings of the Crisis Management team are held with representatives from across the business.
- Each business and function has developed and maintains full response plans to both highlight and track actions for their immediate requirements and to identify what is required to restore operations.
- We are engaged with all relevant external stakeholders, including the government, retail organisations and specialist advisers.
- Operational activities have been amended, and continue to be updated, to comply with guidance provided by the government to prioritise the safety of colleagues, customers and others involved in the 'feed the nation' strategy. This included targeted initiatives to support the most vulnerable members of our communities.
- Successfully implemented home working for support centre colleagues on an unprecedented scale, benefitting from the recent investment in technology and digital capabilities.
- Proactively engaged with the Business Involvement Group to allow decisions impacting our colleagues, and their implications, to be considered in advance. Operational protocols, self-isolating, shielding, frontline colleague suggestions or concerns, furloughing of staff and the impact of changes to reward (such as the 15% premium for frontline colleagues and share award in support centres) have all been considered.
- Worked quickly with suppliers, initially in Clothing & Home from January 2020 and subsequently across the whole business as the scale of the virus became apparent, to both maintain continuity of supply and, where needed, to cancel or defer orders. In addition, we implemented extended payment terms for suppliers in Clothing & Home.
- Took decisive action to reduce our cost base, capital expenditure and cash commitments:
 - Discretionary spend was stopped.
 - Capital expenditure for the year ending March 2021 was significantly reduced from a planned £400m to a revised target of c.£140m.
 - Colleagues were furloughed in line with the Coronavirus Job Retention Scheme.
 - Updated our dividend guidance.
 - Implemented enhanced financial controls over approval of all spend.
 - Immediately reacted to government initiatives such as the business rates holiday, tax and VAT payment deferrals.
- Engaged with banks and lenders to proactively address the implications on our facilities and covenant compliance, obtaining formal agreement with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax covenant conditions for the tests arising in September 2020, March 2021, and September 2021.
- Obtained confirmation of eligible issuer status under the UK government's Covid Corporate Financing Facility (CCFF).
- Engaged with landlords to manage rent obligations and property costs.

Changes to our risk profile

The table below summarises the key potential risk implications of the pandemic and how these link to the core principal risks that remain in place.

Risk category	Risk description	Relevant principal risk
Protecting customers & colleagues	- An inability to maintain and, where needed, adapt operational protocols to safeguard customers, colleagues and other partners involved in running our business during extended lockdown or a period of transitional social distancing would impact the continued operation of stores and breach our responsibilities to all key stakeholders.	Legal & regulatory compliance
Clothing & Home inventory management	- A failure to effectively manage the implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management would adversely impact customer experience, trading performance, liquidity, operational efficiency and third-party relationships for an extended period.	Trading performance (Clothing & Home)
Liquidity	- Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, would impact the business's ability to operate within committed credit facilities.	Liquidity & funding
Store portfolio management	- An inability to increase the scale and pace of our plans to create a modern and appropriately shaped store estate during the retail property market downturn would impede our transformation objectives. - An inability to secure favourable agreements with landlords would impede cost control initiatives.	Business transformation
Post-crisis recovery	- An inability to successfully respond to the ending of lockdown (such as management of colleagues returning from furlough and re-establishing 'business as usual' process and control) would trigger operational challenges and inefficiencies for the business. - A failure to evaluate, fund and implement initiatives to improve business operations would be a missed opportunity.	Multiple risk implications
Strategy re-alignment	- An inability to define and successfully implement a revised strategy to rapidly respond to a post-Covid world and the associated changes in customer behaviours and operational requirements would significantly undermine the transformational imperatives of the business. - This would include, although not be limited to, the operation of our online Clothing & Home business, International operations, management of operating and capital expenditure and the portfolio of business transformation initiatives under way.	Multiple risk implications

In addition to the risks noted above, many of the principal risks prior to the pandemic remain the same in substance but have been amplified by the current events – for example, our ability to effectively respond to Brexit, the transformational improvements needed to the supply chain, maintaining controls over food safety, the potential risk of disruption to critical third-party relationships or readiness to execute the launch of M&S products with Ocado Retail. Where this is the case, the effect has been noted in the relevant section below.

Emerging risks

It is also important to note that, in many respects, the impact of Covid-19 has the characteristics of an emerging risk as well as changing the principal risk profile today, as future events, and their impact on our business and the global community we work within, cannot be determined with any certainty. We will therefore continue to monitor and respond to further changes as needed in the months ahead. As a consequence, the nature and magnitude of the ongoing events will continue to change the risk profile in currently unknown ways.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
1  	<p>TRADING PERFORMANCE RECOVERY</p> <p>A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including the impact of Covid-19, would adversely impact customer experience, operational efficiency and business performance.</p> <p>M&S competes with a diverse range of retailers – in both Food and Clothing & Home – in an increasingly challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and broader macroeconomic uncertainties. Delivering the right product ranges that appeal to our customers, clear and simple pricing architecture and availability are critical to the growth of our business.</p> <p>In addition, Covid-19 has had, and continues to have, a significant negative impact on our trading performance in line with UK retail more widely. Managing the growth in surplus stock resulting from the lockdown is an area of business focus.</p> <p>Delays in implementing the targeted transformational improvements, or the business recovery plans in response to Covid-19, across the business could negatively impact business performance.</p>	<ul style="list-style-type: none"> – Continued to strengthen capabilities of our senior leadership teams in both Food and Clothing & Home through targeted recruitment. – Established operating model consisting of a family of accountable businesses who share M&S brand values, colleagues and support functions, technology and customer data. – Managing directors for each of these businesses who have full accountability for their performance including for marketing, supply chain, finance and technology. – Individual Business Boards to enable executive oversight and effective governance of each business. – Continued delivery against business-specific transformation plans incorporating discipline around cost, prices, availability, value, ranges, broadening customer appeal and promotions across both businesses. – Development, ongoing update and monitoring of business-specific planning for the business restore as future stages of the lockdown are communicated. This includes development of a clear strategy to manage the wide-ranging implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management. – Planned improvements to online trading by delivering both the Ocado online launch in Food and our online ambitions for Clothing & Home.
2  	<p>BUSINESS TRANSFORMATION</p> <p>A failure to execute our business transformation and cultural change initiatives with pace, consistency and cross-business buy-in will impede our ability to improve operational efficiency and competitiveness.</p> <p>The business has continued to deliver the range of projects underpinning the transformation, including:</p> <ul style="list-style-type: none"> – The reshaping, modernising and effective management of a UK store estate that is fit for the future, with the right stores in the right space, improved integration between online and store sales and shopping facilities expected by our target customer groups. – Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs. – Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business. <p>In response to Covid-19, we will need to re-evaluate priorities and their delivery, including acceleration of initiatives to respond to permanent changes in customer behaviours or to change our own working practices, balancing delivery of the transformation with strict cash management disciplines and rapidly reacting to the consequences of the pandemic.</p> <p>A pause or delay to key components of the business improvement programme because of the virus response or other reasons may delay delivery of the transformation objectives.</p>	<ul style="list-style-type: none"> – Adoption of a 'Never the Same Again' approach to all aspects of business operations and prioritisation of the most critical improvement initiatives. – Comprehensive review of all operational and capital expenditure to allocate spending to those activities aligned to the transformation agenda and stop others in view of Covid-19 priorities and recovery. – Maintenance of programme governance principles for all ongoing projects. – Periodic independent audit reviews of key programme delivery and reporting to the Audit Committee. – Maintaining momentum to deliver ongoing initiatives to transform our supply chain capabilities in all parts of the business. For example, in Food the Vangarde supply chain programme has demonstrated improvements to food waste levels and availability. – Continued focus on the store estate transformation with new initiatives like redevelopment of existing sites to make effective use of space, resetting rental rates with landlords and delivery of new format stores.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
3 C	<p>LIQUIDITY AND FUNDING</p> <p>Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, could impact the business's ability to operate within and secure additional committed credit facilities.</p> <p>Availability of, and access to, appropriate sources of funding is required for core business operations and the successful and timely delivery of our transformation plan. In addition, cash management has additional complexity as a consequence of the ongoing trading restrictions during lockdown, the associated reduction in cash generation and planning for the impact of furloughing, deferral of tax payments and other emergency measures.</p> <p>Brexit adds a further dimension to this risk because of the potential impact on currency movements, corporate bond rates, changes in credit regulations and the extent of government support of credit markets.</p> <p>An inability to maintain appropriate short- and longer-term funding to meet business needs (both operational and strategic), make payments on debt and to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rate changes, may have an adverse impact on business viability and performance.</p>	<ul style="list-style-type: none"> - Continued use of the existing committed facilities available to the business, including the £1.1bn revolving credit facility. - Immediate measures implemented to manage cash and liquidity, including: <ul style="list-style-type: none"> • Freezing of discretionary spend • Significant reduction in capital spending • Dividend deferral • Temporary furlough of colleagues • Enhanced controls over spending • Confirmation of our eligibility under the UK government's CCCF scheme • Use of the business rates holiday, tax payment deferral and other government support measures - Formal agreement received from the syndicate of lending banks to relax or waive covenant conditions for our revolving credit facility. - Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics. - Regular dialogue with the market and rating agencies. - Review of counterparty credit risk and limits in line with our risk appetite and treasury policy.
4 C	<p>BREXIT</p> <p>An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.</p> <p>The potential implications of the UK's exit from the European Union are significant and include:</p> <ul style="list-style-type: none"> - Deterioration in customer sentiment. - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls (including the movement of goods between Great Britain and Northern Ireland). - Costs passed through from our suppliers. - Continuity of supply and supplier viability. - Import and export duties. - Volatility in currency and corporate bond rates. - Tightening of the labour market. - Additional regulatory responsibilities and costs. - Increased complexity and cost in our international operations, including our franchise activities. <p>While an orderly exit following the end of the transitional period would allow business planning to more effectively address the consequences of change against a defined timeframe, the level of change required as part of any deal is yet unclear. A no deal outcome would have a more immediate and negative impact.</p> <p>The focus on the response to Covid-19 and the possibility that the government may not seek an extension of the transitional period may mean there is an increased risk of a 'no deal' departure and the consequential ability to implement the necessary measures on a timely basis.</p>	<ul style="list-style-type: none"> - A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive readiness requirements. - Each of our family of businesses has undertaken a risk assessment to prioritise and plan for the operational changes they will need. Teams have continued to progress planning during the current pandemic lockdown. - Updates are provided to the Board and Audit Committee outlining risks and actions being undertaken. - We are engaged with the government and industry bodies to represent M&S's views, including the UK Border Development Group with access to the Department for Environment, Food & Rural Affairs (Defra), HM Revenue & Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
5 S C	<p>FOOD ONLINE</p> <p>A failure to effectively execute the launch of M&S products for Ocado Retail would significantly impact the achievement of our strategy to take our food online in a profitable, scalable and sustainable way.</p> <p>The investment in Ocado Retail is part of our strategy for improving our online reach and capability. To achieve this, we are committed to providing M&S product ranges and to have established new product development capabilities for Ocado Retail by the beginning of September 2020. Activities include:</p> <ul style="list-style-type: none"> - Finalisation of all commercial agreements with suppliers. - Delivery of a range of M&S products to allow a seamless transition for Ocado customers on launch. - Establishing data and technology interfaces with Ocado Retail. - Developing operating procedures and ways of working between the two businesses. <p>An inability to establish effective operating protocols in advance of the launch date, whether related to the impact of Covid-19 or other factors, could delay delivery of the expected benefits from our investment in Ocado Retail.</p>	<ul style="list-style-type: none"> - M&S nominated directors are part of the Ocado Retail Board and participate in leadership forums. - The establishment and continued operation of a dedicated M&S programme team, supported by senior leadership, to oversee all aspects of project delivery including commercial agreements, product range, and establishment of ongoing operating processes. - Joint working group in place with Ocado Group Plc and Ocado Retail to establish the systems, processes and ways of working to coordinate sourcing, product development, product ranging, customer data and marketing. - Regular remote communication continues under lockdown with the Board, senior management and the delivery teams.
6 C	<p>FOOD SAFETY & INTEGRITY</p> <p>Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.</p> <p>Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers. This includes considering how external pressures on the food industry and wider economic and environmental changes could impact the availability and integrity of our food, the ability to operate all routine controls, our reputation and shareholder value.</p> <p>Many of these external pressures, including the impact of Covid-19, inflationary costs, labour quality and availability, increased regulatory scrutiny, animal disease, and the unknown impact of Brexit, are, to a large degree, outside our control but are nevertheless monitored.</p>	<ul style="list-style-type: none"> - Oversight from Customer and Brand Protection Committee. - Food Safety Policy and Standards are in place, with clear accountability set at all levels. - Defined Terms of Trade, manufacturing standards, specifications for "from farm to fork" and standard operating procedures (stores, support centre and supply chain). - New food initiatives assessed for food safety risks. - Qualified and capable technical team, with continuing professional development programme. - Store, supplier and depot audit programmes, including unannounced visits and raw material testing, adapted to be managed remotely where site visits are not possible. - Introduction of modified processes, including enhanced monitoring of quality and customer complaints, to mitigate risk during the Covid-19 lockdown and ongoing assessment of the need for further change. - Quarterly review of our control framework. - Established processes for the development and legal sign-off for product packaging. - Documented and tested crisis management plan. - Membership of the Food Industry Intelligence Network at Board and Operating Committee level. - Periodic Internal Audit reviews to consider process design and operating effectiveness.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
7 c	<p>CORPORATE COMPLIANCE & RESPONSIBILITY</p> <p>Failure to deliver against our legal, regulatory, social and environmental commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers.</p> <p>The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on both business performance and market sentiment requiring continual improvements in how we operate as a business to maintain compliance.</p> <p>More recently, the requirements triggered by the Covid-19 outbreak, including in relation to safety and social distancing, have in a short time frame necessitated immediate changes to operating procedures in our distribution network, stores and support centres.</p> <p>In addition, the expectations of our customers and other stakeholders (including regulators) are increasingly demanding. The environmental impact of food, packaging and the sustainability of clothing are all increasingly relevant. Speed in responding to evolving expectations is vital to maintaining a positive business perception.</p> <p>Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as have an impact on our reputation and financial results.</p>	<ul style="list-style-type: none"> - A Code of Conduct is in place and has recently been reviewed and updated. This is underpinned by policies and procedures, including human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health & safety, food safety, national minimum wage, equal pay, cyber and data security. An annual self-assessment compliance process is also in place. - Immediate crisis response capability (via the Crisis Management team) when required on a reactive basis – more recently for Covid-19. - Mandatory induction briefings and annual training for relevant colleagues on key regulations. - Oversight from committees and steering groups such as for fire, health and safety or food safety. - In-house regulatory legal team, including specialist solicitors, which conducts 'horizon scanning' on new and emerging regulatory and legislative changes. - Dedicated non-legal regulatory issue leaders and advisers to drive compliance against key risk areas within the business. This includes, for example, CSCOP (Groceries Supply Code of Practice) compliance in Food or ethical sourcing in Clothing & Home. - Proactive engagement with regulators, legislators, trade bodies and policy makers. - Simplified Plan A operating model with a lean central team responsible for setting the framework and establishing sustainability priorities in each of our family of businesses. - Published, monitored and reported commitments in relation to environmental and social issues in line with regulatory requirements. - Established auditing and monitoring systems. - Customer contact centre insight and analysis of live social media issues.
8	<p>BUSINESS CONTINUITY & RESILIENCE</p> <p>Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders. More broadly, an inability to effectively respond to global events, such as pandemic or supply chain disruption, would significantly impact business performance.</p> <p>As our sole online Clothing & Home fulfilment centre, the effective operation of our Castle Donington depot is vital. A major incident leading to a sustained period offline would impact sales and potentially hinder the growth of M&S.com.</p> <p>In addition to Castle Donington, the loss of other locations such as the dedicated warehouses that store beers, wines & spirits or frozen goods in the UK or support facilities, such as for IT, could impact business operations.</p> <p>While the response to Covid-19 has highlighted positives in the business's ability to continue operating in extreme circumstances, it has also underlined the risk associated with our global supply chains. The reliance on China and the interdependency of sourcing locations, in addition to the concentration of supply from individual countries such as Bangladesh, highlight the potential impact of globally disruptive events. Beyond supply chain, the implications on trading both in the UK and International are also a risk.</p>	<ul style="list-style-type: none"> - A dedicated Business Continuity team. - An established Group Crisis Management process – which was invoked and has operated throughout the Covid-19 outbreak. - Business continuity plans, incorporating remote working requirements, are in place for key activities across our operations, including offices, depots and IT sites. These were invoked and, where needed, refined during lockdown. - Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties. - Store and sourcing office business continuity assessments and visits, where appropriate. - Insurance cover to mitigate the impact of remediation and business interruption. - Mechanisms to validate the existence of key supplier arrangements. - Ongoing contingency planning for Brexit. - Enhanced capabilities at Castle Donington to manage technology failure. - Engagement with external stakeholders including Retail Business Continuity Association and government-led initiatives. - Membership of the National Counter Terrorism Information exchange.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
9 C	<p>INFORMATION SECURITY</p> <p>Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of stakeholder confidence, and/or loss of information for our customers, employees or business.</p> <p>The increasing sophistication and frequency of cyber-attacks in the retail industry, coupled with the Data Protection Act (DPA), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties hosting critical services and holding M&S and customer data also means the information security risk profile is changeable.</p> <p>This risk also increases as we develop our digital capabilities. For example our dependency on the availability of, and access to, insightful data across our business and/or with the increasing shift online.</p> <p>In addition, the risk of a data breach or misuse is impacted by Covid-19 as there is the potential for:</p> <ul style="list-style-type: none"> • An increase in targeted phishing campaigns. • New risks linked to working from home and the usage of personal devices. • Increased reliance on third parties supporting critical support services. 	<ul style="list-style-type: none"> - Dedicated Information Security function, comprising a multi-disciplinary operation of information security specialists and support services and capabilities, with a 24/7 Security Operation Centre. - Continued focus on improving controls, policies, and procedures in line with our environment and threat landscape, including heightened areas of risk due to Covid-19. - Maintained focus on scanning our threat environment. - Established third-party assurance programme. - Focused security assurance, overall operational rigor and security hygiene around significant change activities. - Network of Data Protection Compliance Managers in priority business areas to oversee and address compliance. - Mandatory information security and data protection training for colleagues, including responsibilities for the use of personal data. - Corporate Security team with a focus on improving the physical security environment.
10 S	<p>TECHNOLOGY CAPABILITY</p> <p>A failure to improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably.</p> <p>The digital world continues to evolve at an unrelenting pace, enabling competitive advantage, influencing consumer behaviours or expectations and increasing demands on IT infrastructure. As demonstrated during the Covid-19 lockdown, our business resilience is increasingly dependent on the reliability and effectiveness of our technology infrastructure and capability.</p> <p>We are clear on our aim to be Digital First and continue to plan and invest to support this objective.</p> <p>While a focus on improving the existing IT infrastructure has begun to deliver improvements in capability, flexibility and cost efficiency, further work is required to enable the business to move with pace to meet customer and colleague needs.</p> <p>We also need to continue to develop the skills and capabilities of our colleagues in order to drive beneficial and effective use of the technological changes that are made.</p>	<ul style="list-style-type: none"> - Delivery against our technology transformation programme continues and is underpinned with a defined technology operating model, project governance principles and agile methodology. - Cross-channel technology investment strategy in place and aligned to the family of businesses, reviewed quarterly to track benefits realisation of core projects. - Improvements to our IT infrastructure, increased bandwidth and deployment of a unified communication and collaboration tool, which underpinned the rapid move to remote working during the Covid-19 lockdown. - Continued investment in in-store technology and digital capabilities to enhance both customer and colleague experience. - Prioritisation of technology initiatives which is fully aligned with our operating and capital expenditure targets. - Continued collaboration with our principal technology services partner, TCS, and other strategic partnerships, such as Microsoft, to drive our Digital First ambition. - Expansion of the Decoded programme and investment in data analytics expertise to improve digital people skills. - Investment in dedicated resource focused on technology risk and assurance maturity and roll-out of a structured IT control methodology.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
11  	<p>THIRD-PARTY MANAGEMENT</p> <p>An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, could impact delivery of our transformation initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.</p> <p>Our business is dependent on a range of significant third-party relationships that span products and services, franchise operations, joint ventures, investments and our banking and services partners. A critical failure of a key supplier or partner could have a significant impact on operational activities, our transformation and/or customer experience – any of which could negatively impact operating profit.</p> <p>The scale and impact of Covid-19, both in the UK and internationally, has heightened the possibility of disruption or failure in the important group of third-party companies that form part of the extended operations of our business.</p>	<ul style="list-style-type: none"> - Inclusion of third-party management risks as part of the Crisis Management team oversight of the Covid-19 response. - Clear procurement and supplier management policies in place, including dedicated relationship partners for strategic suppliers. - Defined service level agreements and key performance indicators for key contracts. - Dedicated procurement and commercial teams. - Key supplier business contingency planning including targeted reviews by our Business Continuity team. - Structured governance and business monitoring processes for investments, other partnering and franchise agreements. - Integrated business planning processes to support franchise and joint venture reviews. - Regular review of franchise and joint venture markets and new opportunities. - Third-party self-assessment processes to confirm compliance with expected standards and policies.
12 	<p>TALENT, CULTURE & CAPABILITY</p> <p>An inability to maintain efficient processes and complete, accurate people metrics could impact our ability to effectively target our resources and people agenda to focus on attracting, engaging, developing and motivating colleagues and developing skills for the future. This could also impact the pace of operational and cultural transformation across the business.</p> <p>The need to engage, motivate and connect with our colleagues across a multi-generational, diverse workforce and drive Digital First skills and mindset is key to delivering productivity and supporting the transformation of our business while driving customer loyalty through a differentiated service proposition.</p> <p>An inability to maintain the necessary change management capabilities could constrain our transformation objectives. This, combined with the cultural challenge of managing talent, performance and succession could result in increased resource management and development costs.</p>	<ul style="list-style-type: none"> - Investment in external hires to strengthen capability and address identified skills gaps. - Investment in internal talent through structured identification of critical and senior roles. - Leadership development programmes to enhance leadership capability and colleague engagement. - Improved new starter experience to ensure effective onboarding, engagement and retention of new colleagues. - A Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including at Board meetings. - Development of a robust performance management system that will measure achievement against business objectives and behaviours, with a clear link to reward. - A total reward review, with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age. - Creation of a network of external allies to champion our inclusion and diversity agenda. - Change management capability considered a specific leadership skill requiring investment through training, toolkits and methodology. - Planned investment in an HR information system. - Delivery of a digital-specific apprenticeship programme driving digital literacy and capability building.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
13  	<p>BRAND, LOYALTY & CUSTOMER EXPERIENCE</p> <p>An inability to evolve our brand appeal, customer experience and Sparks loyalty programme will impact our success in retaining and attracting customers and expanding the business.</p> <p>Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. A failure to anticipate and keep up with customer expectations would impact future trading performance.</p> <p>In addition, the uncertainty of the duration of Covid-19 and its longer-term impact on consumer behaviour, shopping habits and spending power, is unknown, making our ability to plan and rapidly react more important than ever.</p> <p>Evolving our Sparks programme in a way that resonates with our customers and helps inform business decisions remains a key objective. Combined with coordinating improvements across customer experience and personalisation through meaningful measures of customer experience, data-driven marketing strategies and embedding Digital First behaviours, these are key enablers to being a customer-centric business.</p>	<ul style="list-style-type: none"> - Chief Digital & Data Officer in post to head Insights and Loyalty programmes and the recently created Digital & Data team focusing on loyalty, data science, digital product, customer growth and innovation. - Brand, marketing and product teams aligned with the operating model to better address the specific needs of our family of businesses. - Improved online search functionality, enhanced end-to-end journey across M&S.com and stores for Click & Collect, and greater personalised digital products and marketing. - Investment in capability to measure customer experience through introduction of an end-to-end and multichannel net promoter score programme, supported by third-party expertise. - Completion of a review of our Sparks loyalty programme to inform next steps. - Proactive monitoring of social media to observe and respond to trends in customer experience. - Initiatives launched in response to the Covid-19 lockdown to continue making product available safely to customers, for example the range of M&S food boxes, expansion of Mobile Pay Go payment facility, introduction of M&S E-Gift Cards and shifting focus to contactless home delivery. - Targeted use of celebrity engagement and high-impact sponsorship of ITV's 'Britain's Got Talent'.

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

The UK Corporate Governance Code requires us to issue a 'viability statement' declaring whether we believe the Company can continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls. In assessing viability, the Board considered a number of key factors, including our business model (see page 09), our strategy (see page 07), risk appetite (see page 33) and our principal risks and uncertainties (see pages 34 to 42).

The Board is required to assess the Company's viability over a period greater than 12 months, and in keeping with the way that the Board views the development of our business over the long term, a period of three years is considered appropriate for business planning, measuring performance

and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast-paced changes taking place across the retail sector, we expect to see significant volatility and business disruption reducing our expected performance in 2020/21. We have already felt the impact of the government's guidelines on lockdown, with our Food stores open and trading (albeit with social-distancing measures in place), but with Clothing & Home unable to trade from stores, and all sales therefore predominantly coming from online sales and Click & Collect in stores. Measures have already been taken to protect the health and safety of our customers and our colleagues, to manage our supply chain, to cut costs, and to redeploy our Clothing &

Home colleagues to Food to meet the demand and increased safety practices. These measures will help to mitigate the impact of the volatility, and we believe that trading conditions will recover as we move into 2021/22.

In assessing viability, the directors considered the position presented in the Budget and Three-Year Plan recently approved by the Board. In the context of the current challenging environment highlighted above, a "Covid-19 scenario" was applied to the plan, as well as the modelling of additional severe, yet plausible, sensitivities. These were based on the potential financial impact of the Group's principal risks and uncertainties and the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment.

The Covid-19 scenario and how it corresponds to the principal risks, including the pandemic (pages 34 - 42) has been assumed to occur over the

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY CONTINUED

same three-year period in order to assess the Group's ability to withstand multiple challenges. The potential impacts of the pandemic have been built into the Covid-19 scenario and additional sensitivities, but the potential impact of a further "black swan" event that cannot be reasonably anticipated, or is considered remote, is not included.

The Covid-19 scenario assumes that the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

- On average, a 70% decline in Clothing & Home sales vs budget for the four months to July 2020, followed by a slow recovery back to budget by February 2021, reducing expected revenue by £1.5bn for the financial year.
- A 20% decline in Food sales vs budget for the four months to July, impacting annual revenue by £384m.
- International sales following a similar profile to Clothing & Home, with a significant decline in April due to closures, and a recovery extended to March 2021, impacting annual revenue by £214m.

Given the Covid-19 scenario is most sensitive to changes in the length of the Covid-19 impacting period and the depth of the impact, and without firm guidance from the government on a possible 'exit strategy', a prudent approach has been taken to stress test this Covid-19 case with further downside sensitivities, which extend the length of the social-distancing measures or increase the depth of the impact on sales and margin as follows:

- Sensitivity 1 – The Covid-19 scenario above, but with a much slower recovery, thereby impacting Clothing & Home and Food sales for longer and including a recession for the duration of the Three-Year Plan period (modelled as a 5% decline vs plan in Clothing & Home and Food sales on an ongoing basis through-out the three years). The incremental impact on Clothing & Home and Food revenues is £251m and £281m respectively for the financial year.

- Sensitivity 2 – as per sensitivity 1, plus a deeper sales decline over the first six-month period, with Clothing & Home on average c.80% down on budget. The incremental impact on Clothing & Home and Food revenue is £424m and £99m respectively, over and above sensitivity 1 for the financial year.

Reverse stress testing has also been applied to the model, which represents a further decline in sales compared with sensitivity 2. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

The impact of the Covid-19 scenario and sensitivities has been reviewed against the Group's projected cash flow position and financial covenant over the three-year viability period. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable. These actions were identified as the Covid-19 pandemic emerged as part of the contingency planning that the Group has been undertaking, which considered both feasibility and timeframe to execute.

Mitigating actions taken include, but are not limited to, reducing planned capital and marketing spend, freezing pay and recruitment, making technology and operating expenditure cuts, reducing the supply pipeline of Clothing & Home stock by c.£560m, and lengthening payment terms, and ceasing to pay the final dividend payment for 2019/20 and for the current financial year, resulting in a total anticipated cash saving of c.£340m.

The Group also expects to benefit from c.£172m of business rates relief in 2020/21 and the government's Coronavirus Job Retention Scheme to help meet the cost of furloughed roles in store, distribution and support centres, which should generate cash savings of c.£50m up to 30 June 2020.

In addition, in order to maximise liquidity for the likely duration of the crisis and the recovery period beyond, the following further steps have also been taken:

- Formal agreement has been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group has confirmed its eligibility under the UK government's CCFF and allocated an issuer limit of £300m, providing additional further liquidity headroom.

The agreement with the banks combined with the other measures taken means that, even under the Covid-19 scenario and the sensitivities, the business would continue to have significant liquidity headroom on its existing facilities and against the revolving credit facility financial covenant.

Neither the Covid-19 scenario, nor the sensitivities individually threaten the viability of the Company. In all assessments, there is an option to extend the potential mitigations available, such as further reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board. The directors have also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Board has a reasonable expectation that the Group has adequate resources to continue in operation, meets its liabilities as they fall due, retain sufficient available cash across all three years of the assessment period and not breach any covenant under the revolving credit facility. The Board therefore has a reasonable expectation that the Group will remain commercially viable over the three-year period of assessment. The Viability Statement can be found on page 96.

CHAIRMAN'S GOVERNANCE OVERVIEW

"The Board's primary objective remains to drive and accelerate our strategy of transformation."

Archie Norman, Chairman



The delivery of our transformation strategy this year has continued to be challenging, not least due to the ongoing uncertainty resulting from the Covid-19 pandemic. Nonetheless, we remain confident in the strength and relevance of our transformation programme and in our ability to accelerate this beyond the current crisis. This is in no small part due to the enthusiasm and vigour with which our colleagues have faced this crisis.

The Board's primary objective remains to drive our strategy of transformation, ensuring the long-term, sustainable success of the business. In doing so, it is essential for us to be highly engaged, able to support and challenge senior management and committed to making the hard decisions required to transform the business. We also continue to fulfil our other core duties to oversee M&S's culture, governance, financial controls, risk and change management.

The Governance section that follows is by intention concise, in keeping with our approach in previous years. Further detail on the Board, its Committees and our governance framework are available at marksandspencer.com/thecompany.

A REFRESHED BOARD

Last year, we completed a substantial refresh of the Board's structure; this year, our refreshed Board has worked cohesively in its duties to the Company, guiding senior management in the delivery of our strategic priorities.

For the year ahead and the challenges that this inevitably brings, we have reviewed the balance of the Board and believe we have put in place a strong non-executive team with a breadth of skills, experience and perspectives for 2020/21. Katie Bickerstaffe has taken on a new role within the Company as Chief Strategy and Transformation Director and steps down from the Board in July alongside Alison Brittain. Two new non-executives, Tamara Ingram and Sapna Sood, and our new Chief Financial Officer, Eoin Tonge, join us in June. Humphrey Singer resigned as Chief Finance Officer and left the Board in December, while David Surdeau joined as Interim Chief Finance Officer in January 2020.

Full details of these changes are provided in the Nomination Committee Report on pages 57 to 58.

BOARD ACTIVITIES

The Board's focus during the year had been to increase the pace of the Company's transformation. It has received updates from all areas of the business on each of the strategic components comprising this transformation in detailed "strategic deep dives", which it has then considered, debated and challenged.

In recent months, this focus has shifted towards addressing the escalating Covid-19 crisis, and has seen the Board's activities and meetings rapidly increase in frequency to address the constantly changing situation.

An overview of the range of matters that the Board discussed and debated at its meetings during the year can be found on pages 48 to 49.

The reports of the Audit and Remuneration Committees for 2019/20 are available on pages 59 to 65 and 66 to 92 respectively.

COVID-19 RESPONSE

The Board has met at least weekly, by phone or online, since the World Health Organization declared the Covid-19 virus a pandemic, ensuring it was well placed to respond when the UK government later began its daily press briefings. It has worked with leadership to review in-depth scenario planning, and engaged teams throughout the business, while setting its expectations for M&S's approach to each of its stakeholder groups, mindful of their respective needs.

The scale and pace with which the Company's response has been coordinated by the Board is significant, and provides a valuable snapshot of M&S's governance in action. A detailed overview of this governance, the teams involved and the individual decisions comprising our overall response to the Covid-19 pandemic can be found on pages 50 to 53.

INVESTMENT IN OCADO

In the early part of the year we worked until the execution to purchase 50% of the share capital of Ocado Retail Limited, combining the strength of M&S's brand and its leading food quality and innovation with Ocado's unique and proprietary technology to create an unrivalled online offer for our customers.

From the outset of the transaction, we strongly believed that this investment would create significant, sustainable shareholder value over the long term, and would be a key component in our drive to become a truly digital retailer. Our belief in this is now stronger than ever in the wake of Covid-19. The successful launch of M&S products on the Ocado platform in September 2020 has therefore been a key priority for the Board during the year, and continues to be moving into the next.

DIVIDEND

In March, as part of our update on the impact of Covid-19, we announced that we did not anticipate making a final dividend payment for the 2019/20 financial year. We later announced in April that we also did not anticipate paying a dividend for the 2020/21 financial year. While this was a difficult decision, this is one of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for the likely duration of the crisis and recovery period beyond.

STAKEHOLDER ENGAGEMENT

While engagement with our customers and colleagues has been a key focus during these recent turbulent weeks, so that they can continue to shop and work safely, maintaining dialogue with all of our stakeholders has also been forefront of the Board's mind.

Through our market announcements, we have ensured that all investors are informed of the impact the virus is having on our business, and those of our retail shareholders who signed up for email communications also received a personal update from me to thank them for their support and understanding.

Supplier engagement has been crucial for our Clothing & Home and Food suppliers, maintaining close contact to ensure that we can support them through this difficult period and maintain continuity of food supplies.

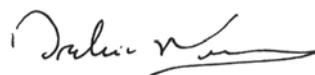
Further information on our stakeholder considerations and activities during the Covid-19 pandemic can be found on pages 50 to 53.

Prior to the Covid-19 outbreak, 2019/20 had already been a year of proactive engagement with our investors. Our rights issue in June 2019, funding our acquisition of 50% of Ocado Retail, was delivered in line with our Digital First strategy. This was the first substantial UK digital rights issue undertaken, allowing digital participation by c.180,000 shareholders. We also engaged with our largest institutional shareholders throughout the triennial review of our Remuneration Policy and have responded to their feedback on our proposals.

We know our Annual General Meeting (AGM) provides investors with another valuable opportunity to communicate with us. In recognition of this, we will be

conducting this year's AGM digitally, despite current lockdown measures, again supporting our digital strategy. In addition to being able to vote and submit questions electronically in advance, all shareholders will be able to join the meeting online to hear from Steve and me, ask questions and vote on our resolutions. Information on how to participate electronically, both in advance and on the day, can be found on pages 194 to 197.

Details of our engagement with stakeholders and our full response to s.172 of the Companies Act 2006 can be found on pages 20 to 21.



Archie Norman, Chairman

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2018 (the "Code") is the standard against which we measured ourselves in 2019/20. The Code is available to view on the Financial Reporting Council's website.

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

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

– Independence

Over half of our Board (excluding the Chairman) comprises independent non-executive directors and the composition of all Board Committees complies with the Code. Additionally, the Chairman was considered independent on his appointment. More information about the Board is available on pages 46 to 47.

– Senior Independent Director

Our Senior Independent Director is Andy Halford.

– Accountability and election

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

– Evaluation

An externally facilitated performance evaluation of the Board and its Committees was undertaken during the year in accordance with the requirements of the Code, details of which can be found on page 56.

– Attendance

The directors have all attended an acceptable level of Board and Committee meetings, details of which are available on page 54.

– Committee Chair Experience

1. The Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience throughout 2019/20.

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

– Governance Framework

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

– Auditor tenure

We changed our auditor in 2014/15, following a thorough tender process. Our lead audit partner, Richard Muschamp, has been in place since the start of the 2019/20 financial year.

– Non-audit policy

This is disclosed on our website, along with the limited non-audit work undertaken during 2019/20. Details of non-audit fees can be found on page 64.

– Auditor appointment

We disclose our external auditor appointment policy on our website.

– Internal Audit

Details of the Internal Audit function are provided within this report on page 65.

– Culture

Information about how the Board has assessed and monitored culture can be found on pages 18 to 19 of the Strategic Report.

– Performance-related pay

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

More information on our approach to investing in and rewarding our workforce is available in the report of the Remuneration Committee from page 66.

– Workforce engagement

The Chair of the Company's workforce advisory panel, the Business Involvement Group (BIG), is invited to attend three Board meetings and one Remuneration Committee meeting each year. More detail on how M&S engages with its key stakeholder groups is presented on pages 20 to 21.

– Diversity

Information about the diversity of our Board, including its consideration of diversity in its succession plans and in developing senior management, can be found on pages 19, 46, 49 and 58.

OUR BOARD

CHAIRMAN



Archie Norman  Chairman

Appointed: September 2017

Key strengths and experience

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

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

EXECUTIVE DIRECTOR



Steve Rowe Chief Executive

Appointed: April 2016 (as Chief Executive)

Key strengths and experience

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

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

NEWLY-APPOINTED EXECUTIVE DIRECTOR



Eoin Tonge Chief Financial Officer (Designate)

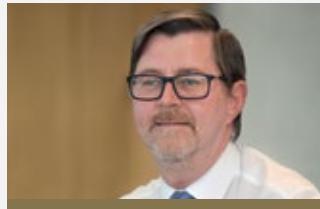
Appointed: Incoming June 2020

Key strengths and experience

- Strong financial background and extensive supply chain expertise.
- Significant experience in overseeing strategic programmes.

Eoin will join the business in June from Greencore, where he has been CFO since 2016. At Greencore, he oversaw the divestment of their US operations, strengthening the company's balance sheet, returning capital to shareholders and simplifying the business. Prior to that he was MD of Greencore's Grocery business and also worked in a variety of roles across finance, treasury and capital markets at Goldman Sachs.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Andy Halford  Senior Independent Director

Appointed: January 2013

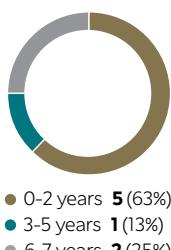
Key strengths and experience

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

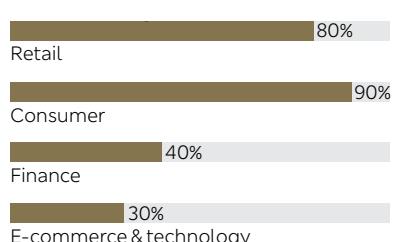
Andy's strong finance background and broad knowledge of the UK and international consumer market was gained from CFO positions held in global listed companies. He is Chief Financial Officer of Standard Chartered, which he joined after 15 years at Vodafone, nine of which were spent as Chief Financial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

BOARD AS AT 3 JUNE 2020 (DATE OF PUBLICATION)

Non-executive director tenure¹



Sector experience

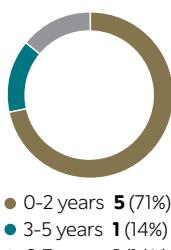


Gender diversity²

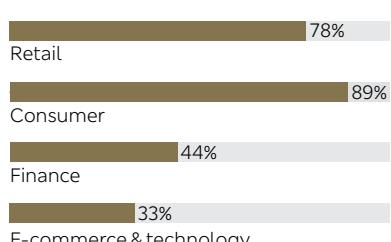


BOARD AS AT 3 JULY 2020 (FOLLOWING THE AGM)

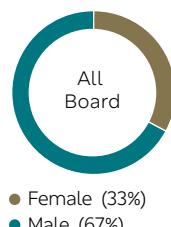
Non-executive director tenure¹



Sector experience



Gender diversity



1. Figures rounded to the nearest 1%.

2. Katie Bickerstaffe was an executive director with effect from 27 April 2020.

Key to Committees

Audit Nomination

Remuneration

Committee Chair

Key to role status

In the role currently Newly appointed Outgoing



Andrew Fisher OBE Non-Executive Director

Appointed: December 2015

Key strengths and experience

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

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



Justin King CBE Non-Executive Director

Appointed: January 2019

Key strengths and experience

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

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



Pip McCrostie Non-Executive Director

Appointed: July 2018

Key strengths and experience

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

Pip was a member of Ernst and Young's Global Executive Board from 2008 until her retirement in 2016. At EY she gained extensive financial experience and led and transformed the Global Corporate Finance business. She was founder and co-founder respectively of the Global Transaction Tax Network and UK Transaction Tax Group and a non-executive director of Inmarsat from 2016 to 2019.

GENERAL COUNSEL AND COMPANY SECRETARY



Nick Folland

Appointed: February 2019

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

NEWLY-APPOINTED NON-EXECUTIVE DIRECTORS



Sapna Sood
Non-Executive Director

Appointed: June 2020

Sapna is a Group Director at Compass Group PLC where she leads the International Clients and Market Development business. She has in-depth knowledge of running complex supply chains, including in food and clothing, as well as experience of leading large transformation programmes. She has held leading operational roles in the building materials and industrial gas sectors in Europe and Asia-Pacific, latterly as CEO and President of LafargeHolcim in the Philippines. She has been a non-executive director at Kering since 2016 with her term due to expire on 16 June 2020.



Tamara Ingram
Non-Executive Director

Appointed: June 2020

Tamara joins from a longstanding leadership career in advertising, marketing and digital communications, having held leadership roles at WPP since 2002. Prior to this, she worked at Saatchi and Saatchi where she held the roles of CEO and Chair. Tamara has led renowned marketing campaigns for household brands around the world and delivered cultural and business transformation at pace within her own businesses as well as on behalf of clients. She is Non-Executive Chair of Wunderman Thompson and a non-executive director of Marsh MacLennan.



Alison Brittain CBE Non-Executive Director

Appointed: January 2014

Key strengths and experience

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

Alison is CEO of Whitbread, a global organisation with a broad portfolio of hospitality brands, and was previously Group Director at the Retail Division of Lloyds Banking Group, with responsibility for its retail branch networks as well as its Retail Business Banking and UK Wealth businesses. Alison will be standing down at the 2020 AGM having served over six years on the Board.



Katie Bickerstaffe
Chief Strategy and Transformation Director

Appointed: April 2020 (as Chief Strategy and Transformation Director) July 2018 (as Non-Executive Director)

Key strengths and experience

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

Katie joined the leadership team as Chief Strategy and Transformation Director on 27 April 2020. As a result, she will step down from the Board at the 2020 AGM having served as a non-executive director for two years.

BOARD ACTIVITIES

WHAT WAS ON THE BOARD'S AGENDA IN 2019/20?

Board meetings are an important mechanism through which the directors discharge their duties, particularly under s.172 of the Companies Act 2006.

- + More information is available on pages 20 and 21

The following pages provide an overview of the content and structure of the Board's meetings and how consideration of the Group's key stakeholders is central to its discussions (see the key to the right).

Meeting agendas are agreed in advance by the Chairman, CEO and Company Secretary and are tailored to strike an

appropriate balance between regular standing items, such as reports on current trading and financial performance, with one or two detailed "deep dives". These enable the Board to exchange views and robustly debate elements of the Company's performance, specific projects or areas of strategic significance.

PRINCIPAL COMMITTEE UPDATES

The Chairs of the Audit, Remuneration and Nomination Committees provide regular updates to the Board on the key issues and topics raised at those meetings, as well as any recommendations for the Board's approval, ensuring that the Board as a whole is up to speed on a range of significant issues that fall outside of its own remit.

TRANSFORMATION PROGRAMME REVIEW AND KPI UPDATES

Updates on the progress of the transformation programme were provided at each meeting, supplemented by deep dives presented by the relevant business area as required. These updates enable the Board to keep a finger on the pulse of the transformation programme, providing guidance and challenge as needed and driving progress forwards.

STRATEGIC DEEP DIVES

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

Covid-19 ●●●●●

- Following the WHO's declaration of a pandemic, held weekly calls to discuss and monitor the impact of Covid-19 on our business and stakeholders and agreed to continue to do so for as long as needed.
- Received updates on measures imposed by the government in response to the crisis and directed the Company's response.
 - + For more detail, see p50-p53

Clothing & Home ●●●

- Received updates on progress towards resetting the Clothing & Home operating model, resolving outstanding issues with business unit profitability and re-accelerating growth in online.
 - + For more detail, see p12-p13

Food ●●●

- Reviewed progress of key elements of the Food transformation strategy, including lowering costs, delivering trusted value, reforming the supply chain, preparations for the Ocado launch and renewing the property estate.
 - + For more detail, see p10-p11

Home and Beauty ●●●

- Received progress updates on the Home, Furniture and Beauty strategies, discussing cost base, logistical operations and challenges, and considered the future operating models of these businesses.

Brexit ●●●●●

- Received updates on the Group's preparations in light of developing government guidance, focusing on management of operational risk, financial impact and potential strategic consequences.
- Considered the potential impact over the longer term on the Company's owned businesses in Ireland and the Czech Republic and its franchise business in France.
 - + For more detail, see p37

Investment in Ocado Retail Limited ●●●

- Discussed and approved matters relating to the rights issue, including timing and structure, the prospectus, launch communications and the impact of the rights issue on employee share plans.
- Received updates on the Ocado Retail Limited business plan, current activities and the key priorities and deliverables in preparation for transition by September 2020.
 - + For more detail, see p9-p11, p29

Business Involvement Group ●●●●●

- Discussed the review of the role of National BIG to improve the way it engages with the business.
- Received updates on the activities of National BIG during the year and insights into the views of colleagues across the business.

International ●●●

- Discussed the stabilisation of the International business, roll-out of the market right pricing model and driving growth in key markets, particularly India.
 - + For more detail, see p14-p15

Property ●●●

- Reviewed the property strategy and received updates on store renewals and the future shape of the estate.
 - + For more detail, see p16

Loyalty ●●●●

- Discussed options for a new Loyalty strategy, with work to conclude during the second half of 2020.
 - + For more detail, see p17

Culture ●●●

- Received updates on the development of the HR community within M&S and the key areas of focus for delivery, including modernising supporting technological infrastructure, investing in leadership capability across the business and improving talent planning and succession processes.
- Received updates and discussed colleagues' views and responses to changes in the business, including the re-launch of 'Our Behaviours' and organisation-wide communication from management.
 - + For more detail, see p18-p19



Shareholders



Colleagues



Suppliers



Customers



Communities



Partners

STRATEGY AND COMPANY PERFORMANCE

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

Business updates ●●●

- Received updates on progressive trading performance from each of the family of businesses.
- Considered a range of operational matters that had impacted the business and its supply chain during the year, including price investment in Food, volume growth, availability and waste.
- Discussed supply chain operations and performance, particularly over peak trading weeks and in light of the extreme pressures caused by the Covid-19-driven lockdown.

Transformation programme ●●●

- Received updates from the family of businesses on progress in delivering their key transformational programmes.
- Considered the significant strategic milestones reached during the year, challenges faced and solutions or mitigating actions identified.
 - + For more detail, see p7 to p9

Digital and Data ●●●

- Discussed development of the Digital First strategy to review Sparks, build a leading customer database and achieve one third of UK sales online.
 - + For more detail, see p17

Organisation ●●●●

- Received updates on director-level and senior leadership appointments and future resource requirements.
- Received updates on the development of the new HR operating model, including increased digitisation, recruitment activity, the leadership framework and store management succession.
- Discussed the ways in which the business was equipping and supporting colleagues to deliver the transformation strategy, including improvements to induction processes, reworked colleague surveys and the role of BIC.
 - + For more detail, see p18-p19

FINANCIAL UPDATES

Capital, costs and budget ●●●●

- Reviewed the Group's liquidity position, cost base and capital expenditure requirements for key projects, assessing opportunities for potential savings to deliver £350m in repeatable cost savings by 2020/21.
- Discussed performance vs budget during the year and agreed the budgets for each of the family of businesses for 2020/21.
- Discussed and agreed the Three-Year Plan.
- Considered the impact of Covid-19-driven changes to the consumer, economic, governmental and regulatory landscape on the 2020/21 financials, including realistic downside scenarios.
- + For more detail, see p5 and p27-p31

Cash flow and dividend ●●

- Reviewed cash flow, dividend cover and shareholder returns, particularly in the context of the rights issue and, later, the impact on the business of Covid-19, and agreed that no final dividend in respect of 2019/20 and no dividend in respect of 2020/21 would be paid.
 - + For more detail, see p32

Regulatory and reporting ●●

- Reviewed and assessed updated market guidance on company performance at key points throughout the year.
- Discussed the impact of IFRS 16 on the Company's financial reporting.
- Approved the rights issue prospectus.

Risk ●●●●

- Reviewed the Group Risk Profile twice during the year with a focus on the Group's key internal and external risks, particularly risks arising through changes to the business and areas in which new risks were emerging.
- Agreed the principal Group-level risks and the appropriate mitigating actions.
- Engaged in regular robust debate in respect of the Group's risk tolerance, the severity of the identified and agreed risks and the factors contributing to any subsequent re-evaluation of their placement in the Group Risk Profile.
 - + For more detail, see p33-p42

GOVERNANCE

Board Review ●

- Supported the externally facilitated Board Review, with findings in respect of the Board's effectiveness and actions to be discussed in depth on conclusion of the evaluation process.
- + For more detail, see p56

Board succession and diversity ●

- Considered and reviewed the Board's composition and succession needs and received updates on the search for a CFO.
- Approved the appointment of two new non-executive directors.
- Approved the revised Board Diversity Policy.
 - + For more detail, see p57-p58

Internal governance processes ●

- Approved a new Group-wide Code of Conduct.
- Approved changes to the Group Delegated Authorities to support the family of accountable businesses operating model.
 - + For more detail, see p60-p61

Regulatory disclosures ●●

- Reviewed and approved, according to the Audit Committee's recommendations, the Annual Report and Accounts, Notice of Meeting, Half and Full Year Results announcements, Modern Slavery Statement and annual Groceries Code Adjudicator (GCA) Compliance report.

AGM ●

- Approved the resolutions to be put to shareholders at the AGM.
- Agreed to deliver a Hybrid AGM in 2020 following the success of this approach in 2019 and in light of measures introduced by the government in response to the Covid-19 pandemic.
- Reviewed specific issues raised by shareholders throughout the year to be addressed in the Chairman's AGM statement.
 - + For more detail, see p183 to p197

Board Involvement Programme ●

- Agreed the Board Involvement Programme to enhance the directors' engagement with and understanding of different areas of the business.

COVID-19 RESPONSE

The Covid-19 pandemic has been unprecedented in scale and pace of impact and has changed the way people around the world live their lives. Significant decisions and adjustments have had to be made by organisations on a daily basis and M&S has been no exception, with quick actions required in each of its family of businesses to respond to a constantly changing and uncertain situation. These pages examine the governance behind M&S's response to Covid-19 to date, focusing on our response to four central issues: Colleagues; Customers and Business Continuity; Supply & Demand; and Balance Sheet Resilience.

HOW THE EVENTS UNFOLDED

Covid-19 emerges and reaches Europe

29 JAN

UK's first two patients test positive

30 Jan

WHO declares a global health emergency

23 FEB

Italy sees a major surge in cases and introduces strict measures to lock down towns in Lombardy

Early UK impact

28 FEB

UK confirms first case of the illness passed on inside the country, and the global stock markets have their worst week since the 2008 financial crisis

11 MAR

WHO declares the virus a pandemic

16 MAR

UK government begins daily press briefings on their Covid-19 response

20 MAR

M&S issues Regulatory News Service (RNS) announcement on its Covid-19 response

UK lockdown begins

23 MAR

UK lockdown measures announced

2 APR

Worldwide cases of Covid-19 passes 1 million

15 APR

Worldwide cases of Covid-19 passes 2 million

Extended lockdown

20 APR

UK lockdown measures extended by another 3 weeks

28 APR

M&S issues RNS announcement on strengthened liquidity

STAGE 1

STAGE 2

STAGE 3

STAGE 4

OUR RESPONSE TEAMS

Board

The Board has led the business's Covid-19 response – it has directed senior leadership to consider all scenarios associated with the pandemic, reviewed and considered potential response options, and set expectations for M&S's approach with each of its stakeholders and the community at large. The Board has called upon the M&S Crisis Management and Government Relations Teams to review and update them on the government's social-distancing requirements, business support measures, and policies affecting M&S as a listed business, and directed them on how to respond accordingly. Since the World Health Organization declared the virus a pandemic, the Board has had additional meetings by phone or online at least weekly to monitor the Company's ongoing response.

Operating Committee (OC)

As M&S's senior leadership team with responsibility for the day-to-day operation of the business, the OC has overseen the business's Covid-19 response under the guidance of, and as directed by, the Board. From reviewing immediate cost reduction plans to preserve liquidity, to consulting with BIG to determine colleague furloughing proposals, the OC has continued to take operational decisions in line with the Board's strategic approach, ensuring that the Board can remain focused on the long-term strategic issues and decisions associated with the pandemic.

Disclosure Committee (DC)

The DC exists to monitor the presence of inside information, ensuring that the Company adheres to the Market Abuse Regulations and fulfils its obligations as a listed Company to announce inside information as soon as possible. The DC has been instrumental in reviewing the financial impacts of the virus on the business as these become clearer alongside the potential price sensitivity of this information on the Company's listed securities, so that market announcements can be made promptly.

Business Involvement Group (BIG)

BIG is the mechanism by which the colleague voice is heard by the Board and senior leadership and has therefore ensured that colleagues are consulted and kept informed at every stage of the business's response. The National BIG Chair has attended CMT meetings throughout the crisis.

Crisis Management Team (CMT)

The CMT is a standing body with representatives from all areas of the business: Business Continuity; Corporate Communications; Clothing & Home; Food; International; Sourcing; HR; IT; Dotcom; Retail; Property; Legal; Insurance; Internal Audit; Finance. It has been responsible for determining and directing the actions required to minimise impact on the business's operations, and has provided the OC and Board with regular updates on its progress, which included the immediate closure of all Outlets stores and Clothing & Home sections of full-line stores in response to the UK's lockdown measures, and implementing social distancing and safety measures in all distribution centres and stores to ensure their continued operation. It has met regularly, often daily, to ensure that the business is reacting to the crisis in a timely manner.

Government Relations Team (GRT)

Initially, the GRT closely followed the government's position in relation to the virus, ensuring that the Board was well informed of all changes. As the pandemic progressed, the GRT's role has evolved to liaising directly with government departments to help shape virus-related policies impacting M&S as a retailer and as a listed company.

OUR RESPONSE IN NUMBERS

Board meetings	12
CMT meetings	51
Colleague announcements	70
Market updates	2
Value of product and cash donations	£928k
Charity T-shirts sold	65k
Meals donated to Neighbourly	1.29m
Charity bags for life sold	405k

* Figures as at 14 May 2020.

Covid-19 emerges and reaches Europe

29 JAN

Colleagues

● Crisis Management Team

When Covid-19 reports emerge and lockdown measures are imposed in China and Hong Kong, sourcing offices are closed and communications are issued to them, updating them on health and safety measures and thanking them for their efforts in mitigating the impact on the Clothing & Home supply chain while working from home to keep the chain moving.

● Government Relations Team

Begins to liaise with UK government to determine what their position is on travel, ensuring that we adhere to their advice and can make preparations for any impending changes.

● Crisis Management Team

Cancels all business travel of colleagues and suppliers to and from affected areas in Hong Kong and China.

Customers and Business Continuity

● Crisis Management Team

Reviews potential sourcing impacts and considers actions required to redirect sourcing from Southeast Asia to Turkey, to ensure continuity of availability for customers. Ensures that all support centre colleagues have appropriate and up-to-date remote working software on their laptops.

Supply & Demand

● Board

Considers potential Clothing & Home product supply issues from China when Covid-19 reports emerge in the press, and directs the senior leadership team to investigate.

● Crisis Management Team

When the team is established, it begins to take actions to review supply chain, inbound goods and raw materials sourcing, including alternatives from countries as yet unaffected.

Balance Sheet Resilience

● Crisis Management Team

Begins reviewing the financial impact of primary and secondary supplier and supply chain issues, and the costs associated with strategically pivoting sourcing away from Southeast Asia to Turkey.

Early UK impact

28 FEB

Colleagues

● Crisis Management Team & Operating Committee

First UK colleague communications are issued on 4 March informing them of initial steps the CMT has been taking: sanitiser gel units rolled out to colleague entrance and exit points across stores, support centres and distribution centres; business travel to high-risk countries restricted, and meetings with visitors from high-risk countries switched to take place digitally to prevent travel; all support centre colleagues requested to take laptops and chargers home daily in case they need to work from home at any point. A dedicated intranet site is also established to provide colleagues with all the latest guidance in one place.

● Government Relations Team & Operating Committee

Following closely the government guidance to ensure that the business can respond. When advice emerges on 12 March for individuals to self-isolate if they have any symptoms of the virus, colleague communications are issued immediately to notify colleagues that anyone needing to self-isolate will do so on full pay. Support centre colleagues are encouraged to start working from home.

● Board

Reviews all colleague communications and emphasises importance of clarity.

Customers and Business Continuity

● Government Relations Team

Begins daily meetings with the government and leaders of other major retailers to ensure that customers continue to get the food they need, and we can collaboratively speak to customers about the need to shop considerately. The M&S Legal team assists with coordination of activity across the food retail sector while remaining mindful of competition law.

● Crisis Management Team

As support centre colleagues are encouraged to work from home, the CMT works with senior leadership to ensure that plans are in place to enable remote working while continuing to trade and to support stores and the supply chain. Also looks at ways that stores can help vulnerable customers and NHS workers, and implements special shopping times.

Supply & Demand

● Disclosure Committee

Discusses on 4 March recent Covid-19-driven market volatility and challenging trading conditions, including a recent drop in demand, and the impact of these on the Company's forward guidance. An update is received from a broker noting that the market is reacting to high levels of uncertainty. The DC agrees that it does not currently have any certainty on trading conditions or outturn, to provide the market with a precise update.

● Board

Receives an update on Covid-19 from all areas of the business at its meeting on 12 March and directs the business to continue its focus on scenario planning, agreeing that it will now meet more frequently to receive updates:

- International business has experienced significant decreases in demand in February due to social-distancing measures, particularly in Hong Kong and Singapore, and is working with all franchise partners and joint ventures to ensure that social distancing and lockdown restrictions imposed in each country are adhered to.
- Clothing & Home has been working closely with suppliers to mitigate the impact of the virus on sourcing; China production for delivery in March and April has been delayed by 2-4 weeks and 30% of Bangladesh production for delivery between April and June has been delayed by 4-6 weeks. So far, no demonstrable impact on Clothing & Home sales, but customer behaviour is being monitored.
- Food has been reviewing the risks to packaging and raw material sourcing to understand contingency options. Again though, no evidence of impact to sales in February other than in sale of anti-bacterial products, but the first week of March saw an increase in sales of certain groceries and household goods.
- Ocado Retail has seen a spike in order volumes in the first week of March.

● Disclosure Committee

On 17 March, the DC continues its considerations of the recent impact on trading ahead of the Board meeting on 18 March, noting that the impact is not yet clear, but could be significant. A project list is created for individuals considering the financial impact of the virus on the business, and a broker update is received noting that all businesses are experiencing the same trading and earnings impact, and therefore the Company's liquidity and Business Continuity arrangements are of increased interest for the market.

Early UK impact continued

● Board

Receives an update on UK trading on 18 March, noting that there has been a material decline in sales in Clothing & Home, and improved trading in Food. The Board considers a draft RNS to update the market on these trading changes, noting that the impact on the forecast results is not yet clear, and therefore requests further clarity on trading impact and broker feedback. Delegates authority to the DC once impact is finalised to review and approve an RNS.

● Disclosure Committee

On the evening of 19 March, DC receives finalised figures for review on the impact of Covid-19 on the 2019/20 profit outlook and agrees that inside information now exists. Reviews an updated draft RNS and approves its publication on 20 March at 7am.

Balance Sheet Resilience

● Crisis Management Team & Operating Committee

At direction of the Board, the CMT and OC begins scenario planning exercises on the 2020/21 budget, looking at an anticipated lockdown and drop in demand – OC focuses on adjustments that can be made to anticipated expenditure in order to conserve liquidity in the near term.

● Board

Reviews on 18 March the CMT and OC's proposals for building resilience in the balance sheet for 2020/21 alongside a draft RNS to update the market on these changes:

- Capex: Significant reduction in the budgeted capital expenditure for 2020/21 from up to £400m down to c.£140m.



UK lockdown begins

23 MAR

Colleagues

● Government Relations Team

After the UK's Coronavirus Job Retention Scheme is announced on 20 March, the GRT reviews the applicability of the scheme to M&S colleagues.

● Crisis Management Team & Operating Committee

Following announcement of UK lockdown measures on 23 March and closure of non-essential stores, CMT works immediately to ensure all Outlets are closed from 24 March. All Simply Food stores, standalone Food Halls and distribution centres continue to operate, with new social-distancing measures in place. Full-line stores also remain open, but Clothing & Home sections are packed down, with all colleagues supporting Food teams.

● Government Relations Team & Crisis Management Team

At the direction of the OC and with assistance from the M&S Legal team, reviews the applicability of the Coronavirus Job Retention Scheme and conducts a week of consultation with colleagues through the BIG network to ensure that furloughing can take place on a voluntary basis as far as possible.

● Board

Having been reviewed and approved already by the OC, and following consultation with BIG, the Board reviews on 26 March the GRT and CMT's initial proposals for store colleague furloughing. 25,000 store colleagues are gradually placed on furlough on full pay over the next week, with colleagues continuing to work receiving a 15% uplift in pay.

● Government Relations Team & Crisis Management Team

At the direction of the OC, reviews the extent to which the Coronavirus Job Retention Scheme can be applied to support centre staff too, consulting with senior leadership to evaluate workloads and BIG to consider colleague concerns.

● Board

Reviews on 9 April the proposals for furloughing support centre colleagues. In stages starting from 14 April, c.1,000 colleagues are placed on furlough on 90% of salary. Those still working will receive an equity grant via the Company's Restricted Share Plan equivalent to 5% of their salary for the furlough period. This ensures consistent treatment of all colleagues, by maintaining a 15% differential in pay between those working and those on furlough.

Extended lockdown

Colleagues

Board

In its meeting on 20 April, reviews measures to date on Covid-19, particularly impact on colleagues – agrees that colleague communications should be issued to thank them for their efforts, wish those in hospital quick recoveries, and express condolences for colleagues who have passed away after contracting the virus.

Customers and Business Continuity

Crisis Management Team

Initiatives to support customers and communities continue:

- Launched a new bag for life design in support of the NHS, with a thank you message and all profits going to NHS Charities Together.
- “All In This Together” T-shirts are launched on 23 April and sell out in the same day, with one sold every second between 1pm and 5pm on launch day and all profits going to NHS Charities Together.

Supply & Demand

Crisis Management Team

Assesses the ongoing impact of a prolonged lockdown period on supply and demand and takes the following actions:

- In Clothing & Home – assesses warehouse capacity limits and long-term storage options for stock, while also ensuring that Donington is receiving a steady supply to continue trading online.
- In Food – commits to making immediate payment to smaller food suppliers, and launches a new marketing campaign in support of British farmers.

Balance Sheet Resilience

Board

Receives confirmation from GRT & CMT that the CCFF application has been successful. The teams have also successfully negotiated with the syndicate of banks providing the £1.1bn RCF to substantially relax or waive covenant conditions for tests arising until September 2021. Agrees that the market should be updated on these liquidity mitigations.

Disclosure Committee

On the evening of 27 April 2020, reviews a draft RNS and approves its publication on 28 April 7am.

Customers and Business Continuity

Crisis Management Team

Following announcement of UK lockdown measures on 23 March and closure of non-essential stores, CMT works immediately to ensure all Outlets are closed from 24 March.

Operating Committee

Directs the CMT and GRT to review ways in which M&S can support its communities and the NHS.

Crisis Management Team

Work continues with assistance from the M&S Legal team to ensure that appropriate social-distancing measures are in place in stores and distribution centres, to protect our customers and colleagues and ensure that they can continue to operate while complying with health and safety laws, government guidance and new social distancing legislation in Wales and Scotland: 2 metre queuing systems in place; sneeze screens installed at tills; extra cleaning; extended contactless limit and use of the Mobile Pay Go shopping app to additional stores.

Crisis Management Team

Implements measures to support communities and the NHS, using colleague suggestions from ‘Suggest to Steve’ and through the BIG network, in addition to advice from the GRT which has been consulting with the government on how M&S can help:

- Donating thousands of “We are the NHS” T-shirts for the uniform pack of the NHS Nightingale frontline team.
- Donating free clothing care packs for patients discharged from NHS Nightingale London.
- Donating 4,000 pairs of pyjamas to be used as scrubs to NHS Derbyshire, close to our Castle Donington distribution centre.
- Delivering nearly 5,000 prepared meals, sandwiches and treats for NHS workers at St Mary’s Hospital, Paddington and Great Ormond Street Hospital, every week for the next two months.
- Added NHS Charities Together, the National Emergency Trust and Neighbourly’s Covid-19 Community Fund as charities on our Sparks card programme, so that customers can select them as their Sparks charity and M&S will donate every time they shop.

Supply & Demand

Board

Continues to receive at least weekly updates on supply and demand issues. Demand continues to be the key focus:

- The closure of all Outlets and Clothing & Home sections of stores has significantly impacted Clothing & Home sales, and while sales online continue to operate this has not closed the gap.
- Food trading has been unpredictable and while this had initially been significantly up on the prior year, this was now beginning to decline.

Crisis Management Team

With demand now the Board's key concern in Clothing & Home, and with UK lockdown measures announced on 23 March, the CMT works immediately with the Clothing & Home sourcing teams to notify all suppliers to halt production of un-cut items on 24 March. All suppliers are engaged on measures to try and defer supply, while committing to support them:

- All product shipped before 24 March to be paid for on normal terms.
- Pledged that no fabric will go to waste and will be used at a later date.
- Efforts of the Ethical Trading Initiative and International Labour Organization to be supported – facilitating the distribution of emergency relief funds, and supporting safe working where manufacturing continues.
- Community projects within our supply chain to continue to be supported.

Balance Sheet Resilience

Government Relations Team & Crisis Management Team

Following the Board's direction, the teams commence the Company's application process for the CCFF and review additional liquidity and balance sheet strengthening options.

Disclosure Committee

Meets on 25 March to note that Standard & Poor's (S&P) and Moody's had notified the Company that they would be downgrading the ratings of Marks and Spencer plc's senior unsecured debt. Agrees that no market announcement is required, given that S&P and Moody's would make their own announcements, the impact of the downgrades would not be material to earnings and had already been outlined to the market in the rights issue prospectus issued in May 2019, and the significant volume of other rating actions being taken by S&P in the wake of Covid-19 rendering this less noteworthy.

BOARD COMPOSITION AND MEETING ATTENDANCE

BOARD MEETING ATTENDANCE AND DIRECTOR RESPONSIBILITIES IN 2019/20

CHAIRMAN	Attended	Max possible	Independent	Responsibility in 2019/20	Linked to remuneration
Archie Norman*	10	10		Board governance and performance, shareholder engagement	

* Considered independent on appointment.

EXECUTIVE DIRECTORS

Chief Executive	10	10	Strategy and Group performance	✓
Steve Rowe				
Chief Finance Officer	7	7	Group financial performance, IT, investor relations and data governance	✓

NON-EXECUTIVE DIRECTORS

Katie Bickerstaffe*	10	10	✓	Role at Board meetings
Alison Brittain	10	10	✓	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board.
Andrew Fisher	10	10	✓	As Board Committee members, they also review the integrity of the Company's financial information, recommend appropriate succession plans, monitor Board diversity and set the directors' remuneration.
Andy Halford	10	10	✓	
Justin King	10	10	✓	
Pip McCrostie**	6	10	✓	

* Katie Bickerstaffe became an Executive Director on 27 April 2020 and will step down from the Board at the 2020 AGM.

** Pip McCrostie was unable to attend the meetings in December 2019 and January, February and March 2020 due to medical reasons.

STANDING ATTENDEES

Nick Folland – General Counsel and Company Secretary	10	10	Responsibility
David Surdeau – Interim Chief Finance Officer*	3	3	Advising the Board on all legal and corporate governance issues.

* Appointed January 2020.

ATTENDED BY INVITATION

Sacha Berendji – Retail, Operations & Property Director	5	Role at Board meetings
Stuart Machin – Managing Director, Food	5	The Operating Committee comprises the Company's senior leadership team below Board level and is tasked with running the day-to-day operations of the business and facilitating delivery of the strategy as approved by the Board.
Victoria McKenzie-Could – Director of Communications	3	
Jill McDonald – Managing Director, Clothing & Home*	2	Members of the Operating Committee attend Board meetings by invitation to present and discuss matters of strategic importance.
Paul Friston – International Director	4	
Harriet Hounsell – HR Director	3	
Jeremy Pee – Chief Digital and Data Director	5	
Mel Smith – Strategy Director**	3	

* Resigned July 2019

** Joined Ocado Retail Limited as Chief Executive in September 2019

Note: The tables above provide details of scheduled meetings held in the 2019/20 financial year.

BOARD MEETINGS HELD IN 2019/20

The Board held 10 scheduled meetings during the year, and individual attendance is set out above. Additional unscheduled meetings were held as and when required, for example in response to the Covid-19 pandemic.

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

+ For information on what the **Board did during the year**, see p48-p49 and p50

Monitoring non-executive director independence

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

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

The Company maintains clear records of the terms of service of the Chairman and non-executive directors to ensure that they continue to meet the requirements

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

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

+ For information on the **skills and experience** of each director, see p46-p47

LEADERSHIP AND OVERSIGHT

THE BOARD

The Role of the Board

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing its conduct and affairs, and for promoting the success of the Company for the benefit of its members and stakeholders.

It recognises that it has a wider duty to a broad community of stakeholders whose support is essential, and that the business has impact on colleagues, customers, shareholders, suppliers and the communities in which it operates. Pages 20 and 21 of the Strategic Report highlight how the Board and has sought to effectively consider and engage with our shareholders and stakeholders.

The Board discharges some of its responsibilities directly and others through committees and senior

management. Terms of Reference for the Board and its committees are available in our Governance Framework, published on marksandspencer.com/thecompany.

The Board agrees, and has collective responsibility for, the strategy of the Company, which is outlined in the Strategic Report on pages 2 to 43.

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

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

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

– Overseeing the implementation of a robust controls framework to allow effective management of risk. Much of this work is delegated to the Audit Committee (see pages 59 to 65).

– Effective succession planning for key senior personnel, much of which is delegated to the Nomination Committee (see page 57).

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

SUPPORTING COMMITTEES AND BUSINESS BOARDS

- Food Board
- Disclosure Committee
- Clothing & Home Board
- Operating Committee
- International Board
- Investment Committee
- Retail & Property Board
- Property Committee

There is clear delegation and oversight from the Board to the Supporting Committees and Business Boards, strengthening decision-making across the family of businesses.

PRINCIPAL BOARD COMMITTEES

The Principal Committees support the Board in discharging its duties and delivering sustainable shareholder value over the longer term. The Chairs of each Committee provide an update on its activities at each Board meeting following any Committee meeting. The primary responsibilities and areas of competence of each Committee are summarised below.

Audit Committee

- Monitor integrity of financial statements
- Review internal controls
- Maintain relationship with auditors

For more detail, see p59-p65

Nomination Committee

- Review Board composition and diversity
- Propose new Board appointments
- Monitor Board succession needs

For more detail, see p57

Remuneration Committee

- Remuneration policy
- Performance-linked pay schemes
- Share-based incentive plans

For more detail, see p66-p92

BOARD ROLES

Chairman

The Chairman is accountable to shareholders for the effectiveness of the Board and that it builds a sustainable business through consistent, profitable growth, taking account of the interests of wider stakeholders. The Chairman promotes the highest standards of corporate governance, assisted by the Company Secretary.

Chief Executive

The Chief Executive is accountable to the Board for all aspects of the performance and management of the Group. This includes developing business strategies for Board approval and achieving timely and effective implementation while managing risk.

Executive directors

The executive directors are accountable to the Chairman for their contribution on the Board and to the Chief Executive for business areas and delivery of Board-approved operating and capital plans.

Non-executive directors

The non-executive directors bring an independent, external dimension to the Board's activities and play their part in relation to strategy, performance, risk and people. The non-executive directors support and constructively challenge the executive team within the spirit of partnership and mutual respect.

Senior Independent Director (SID)

The SID supports the Chairman on all governance issues including the annual review of Board effectiveness. The SID provides a communication channel between the Chairman and non-executive directors and, when required, principal shareholders including representative bodies.

BOARD REVIEW

The 2020 external Board Effectiveness and Developmental Review was conducted according to the principles of the UK Corporate Governance Code 2018 (the “Code”) and the supporting Guidance on Board Effectiveness, and was facilitated by Gurnek Bains and Georgia Samolada of Global Future Partners (“GFP”). Gurnek Bains, Georgia Samolada and GFP have no other connection with the Company. The Company’s last externally facilitated Board Review process occurred in 2017.

STAGE 1

GFP were provided with a full briefing on the objectives of the Board Review by the Chairman in June 2019. In making its assessment of the Board and principal committees’ effectiveness, GFP observed proceedings of at least one Board meeting and one meeting of each committee. Electronic access to the papers for these meetings was provided to GFP in advance via a secure portal. GFP was also given access to a full year’s-worth of Board and committee papers via this portal to assist them in assessing the quality of the information that had been provided to the Board and committees during the year.

Detailed introductory interviews were conducted with each Board member and the General Counsel and Company Secretary in advance of the Board and committee meetings observed by GFP.

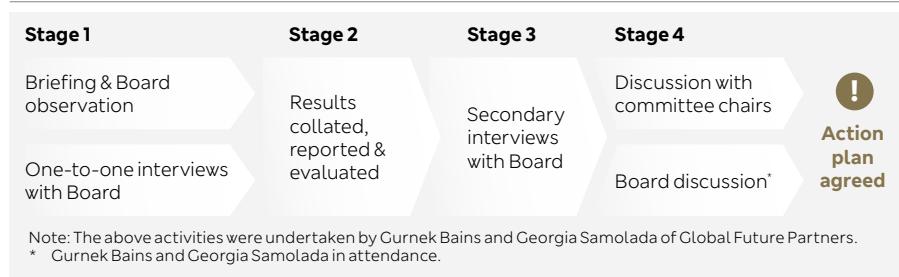
STAGE 2

A report was produced by GFP based their observations and the information compiled from their Stage 1 interviews. The recommendations presented in the report were based on the bespoke objectives set out in the brief and on the principles of the Code and other corporate governance guidelines.

STAGE 3

Secondary interviews were conducted with Board members and the General Counsel and Company Secretary at which feedback was provided on GFP’s observations of the Board and committee meetings they attended. These meetings also provided individual feedback to all Board members and the General Counsel and Company Secretary, as well as providing an opportunity for further discussion of themes that had emerged from the Stage 1 interviews.

STAGES OF THE BOARD REVIEW



STAGE 4

GFP’s draft conclusions were discussed first with the Chairman and then with the whole Board at its meeting in May 2020. Gurnek Bains and Georgia Samolada were present for this discussion, which was recorded in the minutes of the meeting. Following the Board meeting, GFP provided feedback to the chairs of each of the principal committees relating to their committees’ respective performance and effectiveness. Board members provided their feedback on the Chairman to the Senior Independent Director (Andy Halford). The Chairman also received feedback from all Board members.

BOARD REVIEW INSIGHTS

The review found that the Board benchmarks well in terms of its overall composition, its ways of working and the value it adds to the business. It was deemed to be well constituted to meet the transformational challenges ahead and to address the key strategic decisions that need to be made about the business.

From a development perspective, the review highlighted certain areas of focus that would further lift the performance and effectiveness of the Board to higher levels. These were discussed with the Board and an appropriate action plan agreed. Additionally, external feedback was provided to each Board member in relation to their individual performance. It was agreed that developmental support would be provided to the Board, the principal committees and individual Board members.

COMMITTEES

Board committees were also reviewed and, overall, were considered to function well in terms of their effectiveness, decision-making and the rigorous manner in which they addressed any issues brought to their attention.

More detail on the findings of the reviews of the committees’ effectiveness can be found on pages 57, 61 and 91.

CHAIRMAN

The Chairman was considered to provide robust leadership for the Board, strengthening the link between the Board and senior leadership and driving the pace of transformation.

BOARD ACTION PLAN

The Board action plan for 2020/21 includes:

- Increasing the level of engagement between the Board and senior executives and developing a mentoring programme.
- Working closely with the senior executive team on reporting into the Board and monitoring of the transformation programme.
- Developing a clear action plan to track progress against GFP’s Board Evaluation recommendations.
- Modelling an open, high-performance culture to lead the culture change of M&S.

NOMINATION COMMITTEE REPORT

"A strong Board with diverse and relevant experience is going to be critical in the year ahead."

Archie Norman, Chairman of the Nomination Committee



COMMITTEE ROLE

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

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

COMMITTEE MEMBERSHIP

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

Details of individual attendance at the meetings held during the year are set out below. More information on the skills and experience of all Committee members can be found on pages 46 and 47.

More information on the Nomination Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

INTRODUCTION

In my Chairman's governance overview on page 44, I noted that this year has seen a review of the balance of the Board. This work, undertaken by the Nomination Committee (the "Committee"), ensures that we have in place a strong Board with diverse and relevant operational experience, which is going to be critical in the year ahead for our accelerated transformation in the aftermath of Covid-19.

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

At the end of December, Humphrey Singer stepped down as Chief Finance Officer, having spent 18 months establishing the financial foundations of our transformation. While we undertook our search for a

replacement, David Surdeau joined us as the Interim Chief Finance Officer in January, and has since contributed to our Covid-19 response measures to cut costs and strengthen our liquidity.

More recently, and mindful of the Company's strategy, the Committee has sought to enhance the Board and senior leadership's capabilities and experience of business transformation programmes. Katie Bickerstaffe started in her new position as Chief Strategy and Transformation Director in April and will be stepping down from the Board at the AGM in July to focus on her new role. We welcome Tamara Ingram and Sapna Sood to the Board, alongside Eoin Tonge as Chief Financial Officer, in June. I'm sure all of them will add to the Board's strategic capabilities, having each had hands-on experience of delivering transformation.

Finally, we extend our sincere thanks to Alison Brittain, who will be stepping down from the Board prior to the AGM in July following six years of service.

ACTIVITIES AND EVALUATION

During the year, the Committee recommended the appointments of David Surdeau as Interim Chief Finance Officer, Katie Bickerstaffe as Chief Strategy and Transformation Director and Eoin Tonge as Chief Financial Officer. It also engaged in the ongoing search for new non-executive talent, culminating in appointment recommendations following the year end, in addition to supporting the search for, and development of, senior talent.

The Committee's performance was reviewed as part of the 2019/20 externally facilitated Board Evaluation, which is covered on page 56. The review established that the Committee functions well in terms of planning succession to Board roles and other senior positions. Developmental feedback and support has been provided as part of the evaluation process.

MEETINGS HELD IN 2019/20

	Member since	Number of meetings attended	Maximum possible meetings
Archie Norman	1 Sept 2017	7	7
Katie Bickerstaffe ¹	10 Jul 2018	6	7
Alison Brittain	1 Jan 2014	7	7
Andrew Fisher	1 Dec 2015	7	7
Andy Halford	1 Jan 2013	7	7
Justin King	1 Jan 2019	7	7
Pip McCrostie ²	10 Jul 2018	3	7

1. Katie Bickerstaffe was not required to attend the meeting on 4 February 2020.

2. Pip McCrostie was unable to attend four Committee meetings due to medical reasons.

NOMINATION COMMITTEE REPORT CONTINUED

BOARD DIVERSITY POLICY

<p>Our objective of driving the benefits of a diverse board, senior management team and wider workforce is underpinned by our Board Diversity</p> <p>PROGRESS UPDATE</p> <p>Maintain a level of at least 30% female directors on the Board over the short to medium term.</p> <p>The Board's minimum target has been achieved and maintained throughout the course of this year. Three of our current Board directors are women which, at the start of 2019/20, amounted to 33% of our Board. With the resignation of Humphrey Singer in December, this increased to 38% of the Board.</p> <p>Two non-executive directors will soon join the Board, alongside our new Chief Financial Officer, while two of our current non-executive directors will be stepping down. Once these changes have taken place, the Board's minimum target level of 30% female directors will continue to be maintained (33%).</p> <p>The Board remains committed to its minimum 30% target for female representation and is also pleased to have met and maintained the target set out in the Hampton-Alexander Review of 33% female representation by 2020. Setting these targets aside, the Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they offer.</p> <p>Our principles and targets for Board diversity also apply to our Operating Committee, and currently three members of our Operating Committee are women from a total membership of ten (30%). The Board continues to strengthen the pipeline of senior female executive talent within the business, and to ensure that there are no barriers to women succeeding at the highest levels within M&S. More information on the gender balance of our senior management can be found on page 19.</p> <p>Appoint at least one director from an ethnic minority background to the Board by 2021.</p> <p>With regard to the recommendations of the Parker Review Committee, the Board has been committed to achieving ethnic diversity on the Board as well as gender diversity. With the appointment of Sapna Sood in June, this target will be met.</p>	<p>Policy (the "Policy"), which can be viewed on our corporate website. The Board keeps the Policy under review to ensure that it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, social background, skillset and breadth of experience.</p> <p>Assist the development of a pipeline of high-calibre candidates by encouraging a diverse range of senior individuals within the business to take on additional responsibilities and roles to gain valuable Board experience (such as non-executive roles).</p> <p>The Board supports and encourages initiatives that strengthen the pipeline of executive talent in the Company. It continues to learn from existing programmes, while introducing new initiatives to provide development opportunities to drive the quality of talent throughout the business. Key activities include:</p> <ul style="list-style-type: none"> – A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles. – Initiatives for high-potential talent to broaden their skillsets and experience and prepare them for future senior roles; for example, through boardroom exposure, non-executive and trustee roles outside of M&S and involvement in our Leadership Programme. – Senior management mentoring schemes and engagement forums sponsored by Board directors and Operating Committee members. <p>Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on both gender and ethnic diversity and best practice.</p> <p>The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. During the year, our work on succession was supported by The MBS Group and Russell Reynolds, neither of which have any other connection with the Company aside from the provision of recruitment services.</p> <p>Ensure non-executive directors 'long lists' reflect the Board's diversity commitments in respect of gender and ethnicity, as set out in this policy.</p> <p>All long lists of potential appointments include at least 50% female candidates, and we are committed to ensuring that candidates from all ethnicities are considered.</p>	<p>Consider candidates for appointment as non-executive directors from a wider pool including those with little or no previous FTSE board experience.</p> <p>During the year, the Nomination Committee discussed non-executive director appointments and succession. It worked closely with executive search agencies in compiling long and short lists of candidates from various backgrounds and industries. Candidates were identified, interviewed and measured against pre-determined criteria. Although we do not currently openly advertise our non-executive director positions, we keep this under review.</p> <p>Report annually against these objectives and other initiatives taking place within the Company which promote gender, social and ethnic diversity.</p> <p>Diversity and inclusion have continued to be promoted across the business with a number of initiatives, including:</p> <ul style="list-style-type: none"> – Employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+), and disabilities and health conditions. This year, we held our fourth Diversity & Inclusion festival, engaging thousands of colleagues across M&S. – Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards. – Launch of the Breakthrough Leaders programme aimed at developing and accelerating the progression of diverse talent in the business. – Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World International Day of Disability, raising awareness and our profile as an inclusive place to work. – Marks & Start and Marks & Start International programmes continue to support young people, the homeless, lone parents and those with disabilities in finding work in our stores and distribution centres.
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⊕ See p19 for further information on diversity across M&S

AUDIT COMMITTEE REPORT

"The Committee fulfils a vital role in the Company's governance framework, providing valuable independent challenge and oversight."

Andy Halford, Chairman of the Audit Committee



COMMITTEE MEMBERSHIP

The Committee solely comprises independent non-executive directors. Justin King joined the Committee on 4 November 2019. Detailed information on the experience, qualifications and skillsets of all Committee members can be found on pages 46 and 47.

INDEPENDENCE AND EXPERIENCE

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

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

INTRODUCTION

As Chairman of the Audit Committee (the "Committee"), I am pleased to present the Committee's report for the year ended 28 March 2020. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

While the Committee's core duties were unchanged, it reviewed the Company's systems of internal control and risk management extensively this year, as part of the Group's revised risk review process. This included providing valuable advice and oversight for the establishment of Ocado Retail Limited's systems of internal control. The Committee also reviewed and approved a new Code of Conduct and control framework for monitoring compliance with Group policies. Each of these activities, and our ongoing review of them, help to steer the Company towards improving the maturity of its internal controls and compliance processes.

Of course, our review of the Company's risk management processes became increasingly critical towards the end of the financial year with the emergence of Covid-19 and the risks that this posed: to the health and safety of our colleagues and customers around the world; to our

supply chain in Asia; and then ultimately to the demand for our products and ability to operate our stores. While the Board has managed the Company's response to mitigate these risks, which has been explored on pages 50 to 53, Committee members have provided senior leadership with additional knowledge and advice when considering mitigating controls and disclosure implications. The Committee has also, and will continue to, review the underlying risk management processes, ensuring that the impact of the crisis is not compounded by the realisation of additional risks.

The Committee fulfils a vital role in the Company's governance framework, providing valuable independent challenge and oversight across the Company's financial reporting and internal control procedures. Ultimately, it ensures that shareholder interests are protected and the Company's long-term strategy is supported, which is an ever more crucial task as we escalate our transformation and move beyond the Covid-19 crisis. Our thanks go to Alison Brittain for her contributions over the last six years in ensuring that the Committee fulfilled its role, as she leaves the Committee upon her standing down from the Board prior to the AGM.

MEETINGS HELD IN 2019/20

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

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

It is important for the Committee Chairman to fully understand any topics of particular concern to facilitate

meaningful dialogue during Committee meetings. To support him in fulfilling this role during the year, Andy Halford met regularly, on a one-to-one basis, with the Chief Finance Officer and the Interim Chief Finance Officer, the Director of Group Finance, the Head of Internal Audit & Risk, members of senior management and the lead audit partner from Deloitte.

More information about the Audit Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

Member since	Number of meetings attended	Maximum possible meetings
Andy Halford	1 Jan 2013	5
Alison Brittain	11 Mar 2014	5
Pip McCrostie ¹	10 Jul 2018	4
Justin King ²	4 Nov 2019	2

1. Pip McCrostie was unable to attend the meeting on 20 January 2020 due to medical reasons.

2. Justin King joined the Committee on 4 November 2019.

AUDIT COMMITTEE REPORT CONTINUED

WHAT WAS ON THE COMMITTEE'S AGENDA IN 2019/20

CORE DUTIES

The Committee undertook the following core activities during the year:

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

SEGMENTAL REPORTING

This year, in addition to its core activities, the Committee oversaw the transition in the Company's reporting methodology to segmental reporting, ensuring that our financial reporting aligns insofar as it is possible to the structure of our Group as a family of businesses. This year's financial statements on pages 112 to 171 provide the Group's financial results for the first time by these reporting segments: UK Clothing & Home, UK Food, and International.

At regular intervals throughout the year, the Committee assessed and challenged the cost allocations and assumptions used by the senior leadership team to ensure that the finalised segments accurately reflect the split of centralised costs and the value generated by each reportable segment.

INTERNAL CONTROLS FRAMEWORK

The Committee received updates on internal control matters from the Internal Audit team at each meeting, as part of its key duty to review the Company's internal control processes. This regular

monitoring of the internal control framework ensured timely identification of issues and formal tracking of remediation plans.

Instances where the effectiveness of internal controls were considered insufficient were discussed during the year, either by the Audit Committee or the full Board, and included controls in relation to the Clothing & Home Sourcing Office Operating Framework. In this instance, the Committee provided robust challenge on the standards of controls in operational areas such as mandatory training and fire, health & safety, and encouraged clearer accountability for monitoring compliance.

During the year, the Committee completed its first full cycle of reviews under the Group's revised risk review process. The Group's businesses and core functions are accountable for managing their own risks, in line with the Group risk process, and monitoring their internal controls, and now provide the Audit Committee with a detailed annual update for review. These are outlined below under Management Updates.

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

Finally, at the end of the year, the Committee reviewed improvements to be made to the Group's overarching governance and internal control framework. It approved the publication of a new Code of Conduct, to replace the previous Code of Ethics and Behaviours, and an underlying suite of Group Policies which set a floor of minimum commitments and responsibilities for business conduct. During the next financial year, the Committee will monitor compliance with the Code of Conduct by tracking reporting against each of the Group Policies' compliance metrics.

MANAGEMENT UPDATES

The Committee received detailed updates from one or more business areas at each of its meetings; an overview of these updates are summarised below. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise.

Cyber security

- Received updates on the maintenance of adequate cyber security systems and work undertaken to improve cyber security capabilities.

- Considered lessons to be learnt from high-profile data breaches within the market.
- Discussed the Company's approach to the Payment Card Industry Data Security Standard and the Payment Services Directive 2.

Digital & Data

- Reviewed the risks and mitigating controls identified by the newly formed Digital & Data function, particularly in relation to using data effectively in decision-making, and progressing the cultural changes required to drive the digital transformation.

Stores & Property

- Received an update on the changing risk profile of Stores & Property, particularly in relation to trading safely and legally in stores, the UK store estate transformation programme and the use of third-party contractors on construction projects.
- Reviewed the actions recommended by the newly restructured Health & Safety team to mitigate risk within property construction, maintenance and facilities management works.

Food

- Considered changes to the Food business' risks and internal controls, including improvements in supplier governance processes to mitigate GSCOP compliance risk.
- Discussed the emerging risk related to ensuring adequate planning and preparation activities for the Ocado launch.
- Noted the key risks to business performance and profitability associated with a "no deal" Brexit, and agreed that these required consideration by the Board.

Bank & Services

- Considered the identified risks associated with the commercial partnerships and regulatory responsibilities managed by Bank & Services.

Clothing & Home

- Received an update on the Clothing & Home business' identified risks and internal controls, discussing in detail the supply chain risks and work undertaken to deliver an efficient and optimised end-to-end supply chain.
- Discussed the ongoing management of risks to the Clothing & Home supply chain in China and Bangladesh presented by the Covid-19 pandemic, and the mitigation plans in place to address the emerging risk of a significant impact on demand.

AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed as part of the 2019/20 externally facilitated Board Evaluation, which is covered on page 56.

The review found that the Committee functions effectively and that issues are dealt with in a thoughtful, clear and rigorous manner.

Feedback on the level of challenge and quality of updates provided by the Committee to the Board was positive.

The Committee was considered to be operating well in terms of meeting structure and the levels of engagement

provided by its members, with demands on members' time viewed as extensive but not problematic. The range of assurance provided to the Board by the Committee was deemed appropriate. However, improvements could be made in respect of the pace with which the business actions certain matters following discussions with the Committee.

The Committee made good progress on the 2019/20 action plan, particularly in relation to increasing the focus on risk reporting and emphasising accountability for risk at business unit level.

2020/21 ACTION PLAN

- Monitor the effectiveness of the Internal Audit function and its activities.
- Continue to increase focus on risk reporting and accountability for risk at business unit level.
- Increase focus on financial and non-financial controls, including monitoring effectiveness of the Code of Conduct.
- Monitor progress of the Company's wider technology and cyber security transformation.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2020 Annual Report & Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

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

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

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

IS THE REPORT FAIR?

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

IS THE REPORT BALANCED?

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

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

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

IS THE REPORT UNDERSTANDABLE?

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

CONCLUSION

Following its review, the Committee was of the opinion that the 2020 Annual Report & Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES

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

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

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

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

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of adjusting items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusting items. In the current year, management has included in this category: directly attributable gains/(expenses) resulting from the Covid-19 pandemic; net costs associated with the implementation of strategic programmes in relation to UK store estate, organisation, operational transformation, IT restructure, UK logistics, charges arising in relation to changes to pay and pensions and International store closures and impairments (the closure of International-owned businesses); impairments and write-off of the carrying value of stores and other property charges; the reduction

in M&S Bank charges incurred in relation to the insurance mis-selling provision; guaranteed minimum pension and other pension equalisation; charges relating to establishing the investment in Ocado Retail Limited; amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited; remeasurement of contingent consideration including discount unwind; impairment of goodwill and a credit categorised as other.

With regards to the Covid-19 pandemic, this was an area of major focus for the Committee, which was cognisant of the need to ensure external disclosures are fulsome given the significance of the aggregate values (£335.9m charge) and the guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority and the Financial Reporting Council.

 See note 5 on p128

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

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

 See notes 1, 5, 15 and 22 on p116, p128, p146 and p163

IMPAIRMENT OF GOODWILL, BRANDS, TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands, tangible and intangible fixed assets including land and buildings, store assets and software assets. The Committee received detailed reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (e.g. discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (the Covid-19 scenario), focusing on the external impact of social distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business. The Committee has challenged management and is satisfied that these are appropriate considering the increased risk because of Covid-19.

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

 See notes 1, 5, 14 and 15 on p116, p128 and p144-148

INVENTORY VALUATION AND PROVISIONING

As a direct result of the restrictions on 'non-essential' trade imposed in response to the Covid-19 pandemic the Group's ability to sell through existing Clothing & Home stock has been significantly impacted and additional Clothing & Home inventory provisioning has been required. The Committee considered the Group's current provisioning policy, the impact of expected future expectations of sell-through impacting the recoverability of the cost of inventories held at the balance sheet date and the nature and condition of current inventory. This included reviewing the assessment of the incremental impact on stock holding and provisioning related to Covid-19. When calculating inventory provisions, the Group has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. The Committee has concluded that such are appropriate. The assumptions have been disclosed in the financial statements.

 See notes 1 and 5 on p116 and p128

SIGNIFICANT ISSUES CONTINUED

GOING CONCERN AND VIABILITY STATEMENT

The Committee has reviewed the Group's assessment of viability over a period greater than 12 months. In assessing viability, the Committee have considered the Group's position presented in the budget and three-year plan recently approved by the Board. In the context of the current challenging environment as a result of Covid-19, a Covid-19 scenario was applied to the plan, as well as the modelling of additional sensitivities. These were based on the potential financial impact of the Group's principal risks and uncertainties and the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment. The Committee has concluded that these assumptions are appropriate.

The Committee has also reviewed the Group's reverse stress test using the downside scenario three-year plan above. The Committee has reviewed this with management and is satisfied that this is appropriate in supporting the Group as a Going Concern.

The Committee received regular updates on the steps taken by management to secure liquidity for the likely duration of the crisis and recovery period beyond. These include the formal agreements reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to substantially relax or remove covenant conditions for the tests arising in September 2020, March 2021, and September 2021; and confirmation as an eligible issuer under the UK Government's Covid Corporate Financing Facility (CCFF). The Committee is satisfied that the increased liquidity risk because of the impact of Covid-19 has been reduced by these measures.

+ See note 1 on p116

RETIREMENT BENEFITS

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

+ See note 11 on p136

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

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

+ See note 19 on p150

SUPPLIER INCOME

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

+ See note 1 on p116

IFRS 16

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group has adopted the new financial reporting standard from 31 March 2019 and the financial statements for the 52 weeks ended 28 March 2020 are prepared under the new standard. The Group adopted IFRS 16 using the fully retrospective transition approach, meaning the comparative period has been restated on adoption. As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right of use asset and corresponding liability for future lease payables. For further details, see the Accounting policies and Impact of new accounting standards adopted in the year sections of the financial statements. The Committee has received regular updates from management outlining the impact of the new accounting standard, including the judgements and key assumptions used in the estimation of the impact. The Committee has reviewed with management and is satisfied that these are appropriate.

+ See notes 1 and 29 on p116 and p166

VALUATION OF MARKS AND SPENCER GROUP PLC COMPANY ONLY INVESTMENT

Marks and Spencer Group plc holds investments in Group companies which are reviewed annually for impairment. Management has prepared an impairment review based on estimated value in use of the Group. As a result of the impairment review, an impairment charge has been recognised in the year (see note C6 Investments on page 175. The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

OCADO TRANSACTION (VALUATION OF CONTINGENT CONSIDERATION)

As part of the investment in Ocado Retail Limited, a contingent consideration has been recognised in the year. The Group has estimated the maximum potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement. Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. The change in fair value and the related unwind of discounting is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The arrangement has a number of elements which only become payable on the achievement of specific performance targets. The most significant of these is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The determination of the fair value is therefore based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The Committee has reviewed management papers outlining the key assumptions used in calculating the fair value of the contingent consideration and is satisfied that these are appropriate.

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR

TENURE	2. Interim Chief Finance Officer and Director of Group Finance:	NON-AUDIT FEES
<p>Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Richard Muschamp, has been in post since the start of the 2019/20 audit. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2024.</p> <p>The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2020/21 financial year. It believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Corporate Governance Code. There are no contractual obligations that restrict the Committee's choice of external auditor.</p>	<p>Longer questionnaire covering all areas of the audit process and taking into account the questionnaires completed by the Heads of Finance.</p> <p>The Committee was provided with a summary of the Interim Chief Finance Officer and Director of Group Finance responses and had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.</p> <p>Feedback from each of the target groups was positive overall. It was agreed that the audit team had been both responsive and cooperative and had demonstrated great flexibility and adaptability in working with management day-to-day to overcome the challenges faced. Early engagement throughout the year had been appreciated and had meant that a number of significant issues had been addressed before the Covid-19 pandemic arose.</p> <p>It was agreed that the audit partners have a good understanding of our business and, on the whole, this had been reflected across the audit team in terms of approach, lines of enquiry and challenge. A common theme from the business unit Directors of Finance reflected a desire for more engagement with the senior members of the audit team throughout the year.</p>	<p>To safeguard the independence and objectivity of the external auditor, the Committee has put in place a robust auditor engagement policy which it reviews annually. The policy is disclosed on marksandspencer.com/thecompany.</p> <p>The Committee is satisfied that the Company was compliant during the year with both the UK Corporate Governance Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure adherence to robust processes to prevent the objectivity and independence of the auditor from being compromised.</p> <p>All non-audit work performed by Deloitte, with fees in excess of £50,000, was put to the Audit Committee for prior consideration and approval. For non-audit work where fees were below £50,000, approval was obtained by the Chief Finance Officer and the Audit Committee notified of all work falling within this threshold. Further details on non-audit services provided by Deloitte can be found in Note 4 to the financial statements.</p> <p>The non-audit fees to audit fees ratio for the financial year ended 28 March 2020 was 0.33:1, compared with the previous year's ratio of 0.21:1. The majority of the £0.67m in non-audit fees paid in total to Deloitte during 2019/20 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, July 2019 bond comfort letter, the role of reporting accountant in the rights issue and assurance services for overseas entities. It is normal practice for such assurance services to be provided by the Company's statutory auditor.</p> <p>No additional recurring or one-off non-audit services were provided during the year.</p>
<p>EFFECTIVENESS</p> <p>The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves gathering information through a series of questionnaires tailored to the following target groups:</p> <p>1. The four Finance Directors for Food, Clothing & Home, International and Retail & Property, the Head of Finance Group Reporting, the Head of Investor Relations and the Head of Finance Business Services:</p> <p>Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.</p>		

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. These systems are also designed to be sufficiently agile to respond to changes in circumstances, such as the recent impact of Covid-19.

⊕ See p33-42 of the Strategic Report for more information on our material risks

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

SOURCES OF ASSURANCE

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

1. Internal Audit

The Group's primary source of internal assurance is delivery of the Internal Audit Plan, which is structured to align with the Group's strategic priorities and key risks and is developed by Internal Audit with input from management. The Plan is subject to ongoing review throughout the year so that it remains relevant and adapts to any new or emerging circumstances. The findings and actions from internal audit reviews are agreed with the relevant business area, communicated to the Audit Committee and tracked through to completion.

The work completed by Internal Audit during the year has focused on key risks including information and data security, core finance controls, legal and regulatory compliance, supplier management, franchise operations and HR processes. The Internal Audit team has also supported the business in its response to the Covid-19 situation.

2. Management updates and risk deep dives

As part of the Committee's annual calendar, it receives updates on risk

management, maturity of control and assurance activities from individual business areas and functions. These updates are complemented by Internal Audit's independent reviews.

3. Functional assurance

A broad range of assurance activity has been designed and deployed across the business to target key risk areas, such as ethical assurance, food safety, fire, health and safety and business continuity. While reporting lines for these activities are directly to business areas, the processes and controls of these functions are periodically tested by Internal Audit.

4. Operational oversight

Business Boards and committees provide oversight and challenge on key risk areas within individual business areas, cross-business programmes and activities, such as business continuity, fire, health and safety, and Brexit. The output from these discussions forms part of the cyclical updates provided to the Audit Committee.

GOVERNANCE

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

The Committee has considered the controls findings raised in the independent auditor's report on pages 98-111. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 28 March 2020 and up to the date of this Annual Report.

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

Further details of these processes can be found within our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

INTERNAL ASSURANCE FRAMEWORK

Source of information	Frequency/nature of reporting	
Internal Audit	<ul style="list-style-type: none"> – Internal Audit Plan – Regular reports against Plan – Follow-up of remediation – Updates on fraud, whistleblowing and other irregularity – Ad hoc engagement with the business in response to new/emerging risks or major incidents, for example Covid-19 	Formal updates presented to the Committee at each meeting Updates to the Audit Committee Chairman as required
Management updates and risk deep dives	Papers submitted on a range of issues including: <ul style="list-style-type: none"> – Information security – Bribery – Code of Ethics and Behaviours – CSCOP – Financial control – Risk deep dives from individual business areas and functions 	Formal updates presented to the Committee annually and as needed
Functional assurance	Functional audit activities undertaken, including: <ul style="list-style-type: none"> – Food safety and integrity – Ethical audits – Trading safely and legally 	Updates provided to the Committee as part of annual business updates where appropriate and as requested
Operational oversight	For example: <ul style="list-style-type: none"> – Business Boards – Fire, Health & Safety Committee – Customer & Brand Protection Committee – Business Continuity Committee 	Updates presented to the Committee annually, and as needed

Audit Committee

REMUNERATION OVERVIEW

"The Committee ensures that the pay framework is appropriately flexible, to act in shareholders' best interests in unpredictable circumstances."

Andrew Fisher, Chair of the Remuneration Committee



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REMUNERATION

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INTRODUCTION

On behalf of the Board, I am pleased to present our 2019/20 Remuneration Report. We also present our proposed Remuneration Policy (Policy). In line with regulations, we are seeking shareholder support and approval for our Remuneration Policy at the 2020 AGM. A summary of the proposed changes to the approved Remuneration Policy is set out below and on pages 74-80 of this report.

The Remuneration Report provides a comprehensive picture of the structure and scale of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year and the intended arrangements for 2020/21.

BOARD CHANGES

Following the departure of Humphrey Singer in December, we were delighted to appoint Eoin Tonge as CFO. Details of Humphrey's leaving arrangements, along with recruitment details for Eoin, can be found on page 89 of this report.

The Committee was pleased that we secured the appointment of Eoin Tonge in line with our simplified pay framework. He will, however, receive mobility allowances for a set period of time.

In addition, we are pleased to appoint Katie Bickerstaffe as our new Chief Strategy and Transformation Officer and see her become an executive member of the Company. Katie was previously a non-executive director of the Company and a member of the Remuneration Committee, for which I would like to thank Katie for all her help and support. In line with our standard practice Katie did not participate in Committee discussions that could be construed as her influencing her own future remuneration arrangements.

REMUNERATION FRAMEWORK CONSIDERATIONS

Shareholder engagement and feedback

The Board is committed to ensuring that our remuneration framework supports our strategy, and provides a balance between motivating and challenging our senior leaders to deliver our business priorities and also driving the long-term sustainable success of M&S.

The Committee spent a considerable amount of time this year reviewing the current remuneration framework, structures, measures and targets. This was all undertaken in the context of the ever-changing political and retail trading landscape and more recently in light of the ongoing Covid-19 pandemic. The Committee consulted with our major shareholders (representing almost 50% of our total shares in issue) to discuss our proposal and response in respect of executive pay arrangements. Additionally, we also approached a number of shareholder representative bodies given many of our stakeholders engage their services. The Committee reviewed and discussed all the responses and feedback provided and have developed a remuneration framework that we believe, based on what we currently know, will support the business over the next three years and is aligned with investor expectations.

The Committee believes that our Remuneration Policy continues to provide appropriate flexibility, ensuring that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders. The overall framework is considered to remain appropriate but based on investor feedback some minor amendments are proposed and described below.

USE OF DISCRETION

Recent world events have highlighted the importance of having a flexible policy together with appropriate permissible discretions to ensure that we can continue to run M&S successfully. For complete transparency, we are more explicitly outlining the discretions already in place to ensure the Committee is able to act in the best interests of the business and our shareholders in unknown and unpredictable circumstances.

The Committee has the ability to apply malus, clawback and responsible application of discretion to override formulaic outcomes of the incentive schemes to ensure that pay outcomes are appropriate in the wider business and economic climate beyond the relevant performance measures. During the year, the Committee discussed the breadth of provisions in place and agreed that these provide the Committee with sufficient capacity to act appropriately in unforeseen circumstances. The clawback provisions which have been in place since

2017 allow the Committee a number of circumstances during the life of the binding policy beyond financial misstatement; these are explicitly disclosed on page 76.

During the year the Committee did not apply any discretion to the variable pay outcomes of the bonus and Performance Share Plan (PSP). The Committee agreed that the final vesting of the PSP was reflective of the last three years of M&S's performance and that the Policy operated as intended.

KEY AMENDMENTS TO REMUNERATION POLICY

The PSP will continue to be the primary long-term incentive plan for executives. We will maintain the overall construct of the plan, with the typical award being 250% of salary against a maximum of 300% of salary. However, to ensure more relevant alignment between senior

remuneration, the strategic direction of the Company, and the interests of our shareholders, we propose to introduce strategic measures into the PSP. In direct response to shareholder feedback, the plan will retain a portion based upon Total Shareholder Return (TSR) performance.

We propose to increase the shareholding requirement for all executive directors to 200% of salary. The CEO's requirement will remain at 250% of salary. To further align executives with shareholders and the longer-term success of the business, we will be introducing a post-cecision shareholding guideline. Executives will be expected to continue to hold their shareholding requirement for two years post exiting the business.

Having already reduced our pension cash alternative for new executive directors at our last policy review, and in line with the pay arrangements offered to executive directors joining since that time, we are

formally removing this cash payment for all new executive director appointments. In order to remove any policy differential between incumbent and new executive directors, Steve Rowe has agreed to forgo his contractual arrangements for this pension cash alternative. Steve's pension supplement will be reduced to zero over the next three years. Steve will remain eligible to participate in the pension scheme on the same terms as all other colleagues as has long been M&S's practice.

Shareholders approved the current Remuneration Policy at the AGM in 2017. As such, the Company is required to seek approval for the new policy at the AGM to be held on 3 July 2020. Pages 74-80 provide the full details of the proposed policy. For transparency, the table below sets out an overview of the key areas of the Policy.

Base salary	Benefits	Pension benefits	Annual Bonus Scheme	Performance Share Plan	Shareholding requirement	Non-executive directors (including Chairman)
Main features of current policy						
<ul style="list-style-type: none"> Increases awarded are normally in line with those elsewhere in the business. Adjustments in excess of this may be made where the Committee deems it appropriate. Salaries will be compared against appropriately sized listed companies. 	<ul style="list-style-type: none"> Benefits provided at a rate commensurate with the market and currently include a car or cash allowance, a driver, and life assurance plus other benefits provided to all colleagues, including colleague discount. 	<ul style="list-style-type: none"> Directors may participate in M&S's defined contribution arrangement on the same terms as other colleagues, or receive a cash supplement in lieu of pension contributions. Cash alternative maximum is currently 20% of salary for other executive directors (25% for CEO). 	<ul style="list-style-type: none"> Maximum opportunity of 200% of salary. 50% of total bonus deferred into shares for three years. Measured against Adjusted Group Profit Before Tax (PBT) (currently 70% of award) and individual objectives. Clawback and malus provisions apply. 	<ul style="list-style-type: none"> Maximum award of 300% of salary. Performance measured against financial targets over a three-year period. Performance conditions may include quantifiable non-financial/strategic measures, with financial measures comprising at least 50% of awards. A two-year holding period post vesting. Clawback and malus provisions apply. 	<ul style="list-style-type: none"> The CEO is required to hold 250% of salary in shares. For all other executive directors, the current requirement is 150% of salary. 	<ul style="list-style-type: none"> Fees reviewed annually. Comprise basic fee plus additional fee for extra responsibility of Board or Committee Chairman or Senior Independent Director. Fees will be compared against appropriately sized companies. In addition, the Chairman may be entitled to the use of a car and driver. In line with our other colleagues, the Chairman and non-executive directors are entitled to receive colleague discount.
Policy change						
<ul style="list-style-type: none"> No change. 	<ul style="list-style-type: none"> No change. 	<ul style="list-style-type: none"> Removal of pension cash supplements for any future directors. Reduction of the CEO's cash pension supplement to zero over next three years. 	<ul style="list-style-type: none"> No change. 	<ul style="list-style-type: none"> No change. 	<ul style="list-style-type: none"> The shareholding requirement is increasing from 150% to 200% for all other executive directors. Directors are required to continue to hold their shareholding requirement (or their actual shareholding on leaving if lower) for two years after leaving M&S. 	<ul style="list-style-type: none"> No change.

REMUNERATION OVERVIEW CONTINUED

STRATEGIC ALIGNMENT OF PAY

The focus at M&S continues to be on transformation, so the measures and targets used in M&S's incentive schemes, specifically those of the Performance Share Plan and Annual Bonus Scheme, align with the KPIs and strategic priorities being used across the business. The illustration below demonstrates this strong linkage between the KPIs and strategic priorities with executive

remuneration. This strength of alignment will enable the Committee to ensure pay arrangements help to accelerate transformation and fulfill M&S's potential for long-term sustainable profitable growth, despite the prolonged impact of Covid-19 in the current trading environment and likely subsequent financial performance.

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

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIS

KPI/Strategic Priority	As measured by	Performance Share Plan (PSP)	Annual Bonus Scheme (ABS) (when operating)
KPI	Adjusted Earnings Per Share (EPS)	Financial Results	
✓ See KPIs on p26	Return On Capital Employed (ROCE)		
	Group PBT Before Adjusting Items (PBT)		
Strategic Priority	What we are learning from the crisis		
	What will never be the same again		
✓ See Strategic Priorities on p7	Accelerating the transformation programme		
2019/20 PERFORMANCE			
ADJUSTED EARNINGS PER SHARE	RETURN ON CAPITAL EMPLOYED	GROUP PBT BEFORE ADJUSTING ITEMS	
16.7p	12.7%	£403.1m	
Adjusted EPS in 2019/20 was 16.7p. This was below the 26.8p threshold required for any vesting under this element of the 2017 PSP award.		Average three-year ROCE performance was 12.7%. As a result, 11.2% out of a maximum of 33% of the 2017 PSP will vest under this element.	
		Group PBT was below the threshold for bonus payments to be made under the 2019/20 Annual Bonus Scheme.	

CONTEXT OF BUSINESS PERFORMANCE

During the year, M&S made good progress in further implementing its transformation. With improvements made to range, value and customer communication, the Food business outperformed the market and improved its financial performance in several aspects such as sales and operating profit. In addition, significant strides were taken to deliver the strategy to bring M&S food online via the investment in Ocado Retail Limited. While several Clothing & Home departments improved their performance, ultimately total revenue for this area of the business was down.

As referenced earlier in this Annual Report, the impact of Covid-19 has been significant. In the short-term, M&S has responded rapidly to the changing trading landscape making financial decisions to secure the future of the business. In the long-term the business must, as described earlier in this Annual Report, harness the learnings from this crisis to return M&S to profitable, sustainable performance.

As demonstrated on page 68 and referenced throughout this Remuneration Report, there is a strong alignment between M&S's key financial performance indicators and the measures within the directors' incentive schemes. The inclusion of strategic measures within the long-term incentive award, allows the Committee to drive the delivery of M&S's transformation while supporting the learnings taken from this global crisis.

As shown earlier in this Annual Report, while there were some financial improvements within the business, this did not translate to improvements in the core key performance indicators on page 68. As such, payments under both the Annual Bonus Scheme and PSP were impacted by M&S's overall performance during the year.

WIDER WORKFORCE PAY ARRANGEMENTS

The Committee received regular and varied updates during the year relating to M&S's pay arrangements. In addition to those already outlined in the Committee's remit available on the M&S website, detailed discussions ranged from hourly pay for store colleagues to colleague participation in last year's rights issue.

Further, we welcome the collaboration with the Business Involvement Group at the Committee meeting in receiving direct feedback on colleagues' views. This dialogue ensures a close link between the pay philosophies at the most senior levels with those for the broader population.

To demonstrate the Committee's keen interest in wider workforce pay arrangements within M&S, we have this year expanded our disclosure on these specific areas; see pages 72 and 73.

As is referenced earlier in this Annual Report, the business has taken great care to support all colleagues during the Covid-19 pandemic which the Committee and the Board were supportive of. From a pay perspective, these include, but are

not limited to, supporting every colleague needing to either self-isolate or shield themselves to do so on full pay, and rewarding M&S's hardworking frontline store and e-commerce distribution colleagues with an additional short-term 15% pay award.

SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

The graph below summarises the total payments made to executive directors in 2019/20, illustrating the figures detailed in the single figure chart set out later in this report on page 81.

The total pay for the CEO was c.20% lower this year, reflecting lower PSP outcomes and the reduction in share price during the year.

The 2017 PSP will vest at 11.2% in June 2020 for the three-year performance period up to 28 March 2020. Page 85 of this report provides further detail on the specifics of the targets set and the respective achievement under each measure, which are also summarised in the illustration overleaf. The remit of the Committee is to ensure that targets set are stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. Vesting under the PSP remains low when reviewed in the context of the wider market. However, the Committee is satisfied that this vesting is reflective of the challenging business performance Steve Rowe and Archie Norman have both highlighted earlier in this Annual Report.

SINGLE FIGURE REMUNERATION FOR 2019/20



REMUNERATION OVERVIEW CONTINUED

PERFORMANCE SHARE PLAN (PSP) VESTING 2019

VESTING OUTCOMES

Adjusted EPS

Maximum	33.33%
Actual	0%

Average ROCE

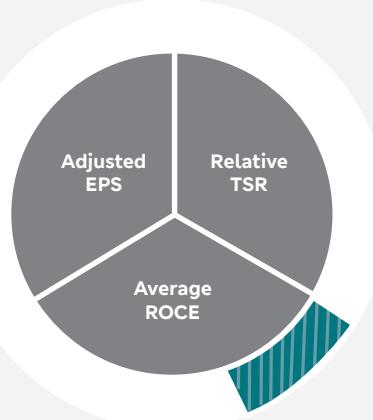
Maximum	33.33%
Actual	12.7%

Relative TSR

Maximum	33.33%
Actual	0%

Outturn

Maximum	100%
Actual	11.2%



As is shown in the illustration above, a significant proportion of a director's reward is linked to the movement in share price, providing significant investment in the Company and strong long-term alignment with shareholders

IMPACT OF SHARE PRICE CHANGE ON PSP VESTING VALUES



Value at
grant share price
 (£3.28)



Value at
vesting share price
 (£1.65)
50%
share price
decline

See Performance Share Plan on p84-p85

The 2019/20 Annual Bonus Scheme was focused on restoring the business to profitable growth. Annual performance for the year was again focused on Group PBT before adjusting items (PBT) with individual measures set against the key areas of delivery deemed most critical to the transformation journey. As with previous years, individual performance was measured independently of PBT performance, but, mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the PBT element was similarly achieved. For the 2019/20 financial year, the PBT achievement of £403.1m was below the threshold to trigger a bonus payment and so no bonus was paid under the Annual Bonus Scheme to anyone within the organisation, including the executive directors.

However, in order to ensure continued strong governance and transparent reporting to shareholders, and in line with the normal processes, the Committee discussed each director's achievement against the relevant individual performance targets. Final achievement against these individual objectives is detailed on page 83 of this report.

The Committee is satisfied that incentive payments made to executive directors during the year are appropriate in the context of business performance for 2019/20 and payments made elsewhere in the business. The Remuneration Policy operated as intended so no changes to outcomes were necessary.

PAY ARRANGEMENTS FOR 2020/21

When reviewing salary levels, the Committee considers a number of internal and external factors, primarily the salary review principles applied to the rest of the organisation, but also Company performance during the year and external market data. As a result of performance in the year and the unprecedented impact of the Covid-19 pandemic, it was decided not to implement any salary increases in the wider organisation and the Committee decided that it would be appropriate to freeze Steve Rowe's salary. As detailed within this report, the Committee made the recommendation, and Steve agreed, that over the next three years the CEO pension supplement would be reduced to zero. While the intended structure of the Annual Bonus Scheme, as detailed on page 75 in the Policy table, remains

unchanged from 2019/20, the Committee has agreed that for 2020/21 only there will be no bonus scheme in operation for the executive directors. Executive directors will still continue to be measured against a scorecard of individual objectives aligned to the strategic priorities set out earlier in this report, however no financial payment will be made in respect of their achievements. The Committee debated the appropriateness of this decision in a time when executives are working harder than ever and believes, in the context of wider macroeconomic factors and the experience of the business with a large number of colleagues placed on furlough, this is the right decision for M&S.

The Committee continues to ensure that the total remuneration framework for executives is aligned to shareholder interests. In light of the decision not to operate a bonus scheme for 2020/21, the Committee believes it is critical to ensure that executives remain aligned with shareholders' long-term interests through a PSP award set against not only appropriate measures but also achievable yet stretching targets. In the current rapidly changing circumstances caused by Covid-19, and the extreme uncertainty in the retail sector more broadly, the Committee debated the operation of the PSP, the appropriateness of the proposed performance measures and targets as well as the timing of a 2020/21 award which is typically granted shortly after M&S's final year results. As a result, the Committee has agreed to grant a PSP award to executives in July 2020. The performance targets for this award will be set at a time when the impact of Covid-19 on the business can be better forecast and the proposed strategic measures reviewed in light of the business's strategic response to the post-pandemic trading environment. However, the Committee recognises the material fall in share price

since awards were made in 2019 and so took decisive action to significantly reduce the quantum of the 2020 PSP award from 250% to an intended 175% of salary. In determining the size of this year's PSP awards, the Committee, wished to acknowledge the shareholder experience of Covid-19 to reduce windfall gains from directors' awards. As such, M&S's average share price since February 2020 until mid-May was used as a reference point in Committee discussions. The Committee will review and reconfirm this decision immediately prior to grant to ensure this remains appropriate.

Targets will be set and disclosed no later than 31 December 2020. The Committee is committed to shareholder engagement and will further engage with our major shareholders in advance of any long-term incentive targets being determined. More details are set out on page 85.

The Committee believes that this approach is appropriate as the business reviews its strategy in light of the Covid-19 crisis and when retention and motivation of the senior leadership team remains critical.

SHAREHOLDER APPROVAL AT THE AGM

In addition to the resolution at this year's Annual General Meeting (AGM) to renew the Remuneration Policy, we are also seeking shareholder approval to make an amendment to the existing share plan rules. We wish to provide the facility to satisfy awards with new issue shares, rather than market purchase shares as is currently the practice. This change will support M&S in securing its cash flow for financially efficient business operations. In addition some minor amendments to align with the operation of our existing Remuneration Policy approved by shareholders in 2017 are proposed. Further details are set out in the Notice of Meeting on pages 183 to 199.

LOOKING AHEAD

This was the final year under the current remuneration framework, and we hope to have your support at the 2020 AGM to approve the new Remuneration Policy. The new Policy has been designed to ensure that executive director pay arrangements support and drive the business strategy while remaining appropriate when considered within the overall M&S remuneration framework and the external regulatory environment. A robust framework is especially crucial given the challenging environment in which we are operating. Having engaged with our major shareholders as part of this process, to both incorporate their views and to maintain open dialogue on director pay arrangements, we hope that all our shareholders will support the Policy at the AGM.

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

I would like to thank our shareholders for their continued support during what has been an unprecedented year. Due to the Covid-19 pandemic the Company's AGM on 3 July 2020 will be via a live webcast broadcast from Waterside House and I will be able to answer any questions in relation to this Remuneration Report at this time.

**Andrew Fisher, Chairman of the
Remuneration Committee**

REMUNERATION IN CONTEXT

COLLEAGUE ENGAGEMENT

– Share ownership across our colleagues M&S is a proud advocate of employee share ownership, encouraging colleagues to share in M&S's success while aligning interests with our shareholders. Across our UK and Irish colleagues, M&S has a significant number of participants in all employee share schemes: colleagues hold over 53m SAYE options in our ShareSave scheme and over 3,000 colleagues hold shares in our Share Incentive Plan ShareBuy.

– Direct engagement with our colleagues Since 2018, the Chair of the National Business Involvement Group (BIG), our colleague representative body, is invited to attend a Remuneration Committee meeting each year to engage and

contribute on a range of topics and activities. During the year, representatives from BIG have been engaged on a number of pay-related topics, beyond the executive level, including: helping colleagues to understand the impact of the rights issue on their share schemes and providing ongoing feedback on colleague questions and concerns during this period; user acceptance testing of our share schemes website; and providing feedback and support on the timing of our annual ShareSave invitation. The collaborative relationship that we have with BIG strongly reflects our belief in the key role that BIG plays in ensuring the Committee has greater visibility of the things that really matter to our

colleagues and also gives the Committee the opportunity to explain and discuss our pay practices and how executive pay aligns with pay across the wider workforce. In addition, the Head of Executive Reward & External Reporting also provides updates to the Committee as appropriate on pay and people-related issues during the year.

– Pay Budgets Under the remit of the Remuneration Committee, total budgeted salary expenditure across M&S for salary review is noted, as are bonus and share scheme budgets ensuring principles for reward allocation are aligned across the full workforce, inclusive of senior leaders.

CONSIDERATION OF COLLEAGUE PAY

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

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

The Head of Executive Reward & External Reporting consults on all executive director bonus objectives and advises the Committee on how, and the extent to which, these may be cascaded throughout the Company.

In approving the budget for the annual bonus, the Committee reviews all bonus costs for the Company against the operating plan. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant.

The Committee receives updates on a variety of colleague engagement initiatives which form part of our colleague voice surveys, asking colleagues about engagement, empowerment and enablement. While colleagues were not formally consulted on the development of the Policy, the annual employee voice survey asks colleagues about the fairness and reasonableness of colleague pay and benefits, and they are also encouraged to raise questions at the periodic all-colleague announcements led by the CEO. Any questions raised at this time are answered, and comments made during the year through surveys or our network of elected colleague representatives via BIG are considered. The Head of Executive Reward & External Reporting typically provides an annual update to these colleague representatives with an explanation of the executive directors' pay arrangements during the year, and they are able to ask questions on the arrangements and their fit with the other reward policies at this time.

CONSIDERATION OF STAKEHOLDER VIEWS

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

The Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering making any significant changes to the Remuneration Policy; this may be done annually or on an ad hoc basis, dependent upon the issue. For example, during the year the Committee proposed changes to the PSP measures and, as a direct response to shareholder feedback TSR remains a key measure. The Committee annually engages in a process of investor consultation, which is typically in written format, but may be through face-to-face meetings, if considered useful. The Committee Chairman is available to answer questions at the AGM and the answers to specific questions are posted on our website.

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2019 is 4.0%, compared with a national average of 17.3%. The M&S mean gap for the same period is 12.9%.

In the last 12 months, we've made several steps to further promote and enhance diversity and equality at M&S. This includes, but is by no means limited to, the launch of our Breakthrough Leaders programme aimed at developing and accelerating the progression of diverse talent in the business, our participation in Retail Week's Be Inspired accelerator programme for senior women, collaboration in the 30% Club's cross-business mentoring programme and the launch of our own internal mentoring portal for our colleagues. All of this activity is supported by our colleague networks, including the Gender Equality Network, which hold events and raise important discussions on gender equality via their online social communities.

We're proud that 74% of our Customer Assistants are women but we need to do more to encourage diversity in senior roles. Diversity and inclusion remains a key priority for us and we have developed a bold strategy and will not be letting our focus relent through these challenging times.

4%

Gender pay gap (median)

PAY ARRANGEMENTS FOR COLLEAGUES DURING COVID-19

We are proud to be providing support to our colleagues during Covid-19. As detailed earlier in this Annual Report, for those colleagues needing to self-isolate or shield themselves, they have done so on full pay. Our frontline store and e-commerce distribution colleagues continuing to work are being provided with a short-term 15% additional pay award and similarly, colleagues working in support centres will receive a share award equivalent to 5% of salary for the furlough period. Furloughing frontline colleagues continue to receive full pay with 90% of pay being paid for support centre colleagues placed on furlough. This ensures consistent treatment of all colleagues, by maintaining a 15% differential in pay between those working and those on furlough.

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

CHIEF EXECUTIVE'S PAY RATIO

In last year's report, the Committee chose to early disclose an indicative CEO pay ratio. During the year, the Committee considered the appropriate calculation approaches as set out in the regulations and has chosen Methodology A, as we believe it to be the simplest, most appropriate and robust way to calculate the ratio.

Option A requires three UK colleagues to be identified as the equivalent of the 25th, 50th and 75th percentile. Having identified these colleagues based on pay and benefits as at 28 March 2020, the total remuneration is calculated on the same basis as the CEO single total figure of remuneration, the only exception being the individual performance element of the Annual Bonus Scheme applicable to the relevant colleagues is assumed to be the respective target value, as the actual value is not known at the time of producing the Annual Report. This requires:

- Starting with colleague pay that was calculated based on actual base pay,

benefits, bonus and long-term incentives for the 12 monthly payrolls within the full financial year. Earnings for part-time colleagues are annualised on a full-time equivalent basis to allow equal comparisons.

- Adjusting the value of any bonus so that it only reflects the amount earned in respect of the 2019/20 financial year and does not include the value of any deferred shares from the 2016 bonus which vested in June 2019.
- Adding in the employer pension contribution from the M&S Pension Saving Plan.

Joiners and leavers in the year have been excluded from the calculations, the percentile figures are therefore representative of the whole colleague population but do not include all colleagues as at 28 March 2020.

The table below shows the ratio of CEO pay in 2019/20, using the single total figure remuneration as disclosed in Figure 8 (page 81) to the comparable, indicative, full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentiles in our UK workforce. The calculation used to determine these figures is reflective of M&S's pay proposition across the workforce as all pay elements have been included to ensure equal comparisons.

Year	Methodology	25th percentile ratio	50th percentile ratio	75th percentile ratio
2020 Figures	(Option A)	64 : 1	59 : 1	51 : 1
Pay data			Salary (£000)	Total pay and benefits (£000)
CEO remuneration			828	1,211
UK colleague 25th percentile			18	19
UK colleague 50th percentile			19	21
UK colleague 75th percentile			22	24

PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table below sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based colleagues' pay. This group has been chosen as the majority of our workforce are based in the UK.

	% change 2018/19 – 2019/20		
	Base salary	Benefits	Annual bonus
CEO (Steve Rowe)	3.0%	-0.2%	-
UK employees (average per FTE)	3.7%	0.7%	-

Salary reviews in 2019/20 awarded across the wider organisation ranged from 2% to 4%, the 3% increase awarded to the CEO was the first salary increase since his appointment to the role in 2016, despite his salary being significantly lower than that of his predecessor. There were no annual base pay increases awarded to the CEO or to colleagues in respect of the 2020/21 financial year.

The change in colleague benefits is reflective of a shift in workforce structure rather than a change in benefit offering, which remains unchanged from 2018/19. There has been no fundamental change in the CEO benefit offering.

No award under the Annual Bonus Scheme was made to either the CEO or anyone else within the wider workforce in either 2018/19 or 2019/20.

REMUNERATION POLICY

FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

Shareholders approved the Remuneration Policy at the AGM in 2017. As such, the Company is required to seek approval for the new Policy at the AGM to be held on 3 July 2020, from which date the updated Policy will apply. The Committee reviewed the senior remuneration framework during the year to ensure that it remains fit for purpose, providing an appropriate framework to fulfil M&S's reward philosophy which is, in turn, designed to support and drive the business strategy.

The Policy remains largely unchanged from the one approved by shareholders in 2017; for transparency, where amendments have been made these are highlighted. Once approved, this Policy may operate for up to three years.

The Policy is designed to attract, retain and motivate our leaders within a framework designed to promote the long-term success of M&S and aligned with our shareholders' interests.

Base salary	Benefits	Pension benefits
PURPOSE AND LINK TO STRATEGY To attract, retain and motivate high-calibre executives needed to deliver our strategy and drive business performance.	PURPOSE AND LINK TO STRATEGY To provide market-competitive benefits which drive employee engagement and commitment in our business.	PURPOSE AND LINK TO STRATEGY To attract and retain high-calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.
OPERATION Payable in cash. Reviewed annually by the Committee considering a number of factors, including: – Salary increases awarded to other colleagues in the wider workforce which are typically reviewed annually on a similar basis. – Comparable salaries in appropriate comparator groups. Salaries reflect the experience, responsibility and contribution of the individual and role within the Group.	OPERATION Directors are eligible to receive benefits in line with our policies which may include: – A car or cash allowance. – A driver. – Life assurance. Where appropriate, our Global/Domestic Mobility Policy may apply. This may include, but not be limited to, travel, relocation and tax equalisation allowances. Directors are offered a number of other benefits in line with all other colleagues, such as colleague discount and salary sacrifice schemes such as Cycle2Work. Directors may participate in a Save As You Earn Scheme and a Share Incentive Plan and any other all-employee share schemes on the same terms as other colleagues.	OPERATION Current directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or an alternative pension saving vehicle that the Company may offer, on the same terms as all other colleagues or receive a cash supplement in lieu of pension contributions into this scheme.
MAXIMUM OPPORTUNITY While there is no set maximum, any increases are normally in line with those in the wider workforce. Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include: – Where the role scope has changed; – Where comparable salaries in the external market have changed; or – To apply salary progression for newly appointed directors.	MAXIMUM OPPORTUNITY While there is no set maximum, any benefits will be provided at a rate commensurate with the market. Maximum participation in all-employee share schemes is in line with local statutory limits.	MAXIMUM OPPORTUNITY A maximum employer contribution currently of 12% of salary where the employee contributes 6% of salary. Prior to 11 July 2017 an alternative cash payment capped at 25% of salary was available for executive directors.
PERFORMANCE CONDITIONS N/A	PERFORMANCE CONDITIONS N/A	<p>Change for 2020</p> <p>Removal of pension cash supplements for any future directors.</p> <p>Reduction of the CEO's cash pension supplement to zero over the next three years.</p>
PERFORMANCE CONDITIONS N/A	PERFORMANCE CONDITIONS N/A	

(TO BE APPROVED ON 3 JULY 2020)

Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	Performance Share Plan (PSP)	Shareholding Requirement
PURPOSE AND LINK TO STRATEGY <p>To drive annual profitability, strategic change and individual performance in line with the business plan.</p> <p>To recognise and reward individual contributions to the way we do business.</p> <p>The deferral into shares provides alignment with shareholders' long-term interests following the successful delivery of short-term targets.</p>	PURPOSE AND LINK TO STRATEGY <p>Measured against the key financial drivers of the business plan to deliver sustainable value creation.</p> <p>To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.</p>	PURPOSE AND LINK TO STRATEGY <p>To drive long-term, sustainable decision-making for the benefit of the Company and our shareholders.</p>
OPERATION <p>Directors are eligible to participate in this non-contractual, discretionary scheme.</p> <p>Payments are made subject to the satisfaction of predetermined targets set at the start of the year, as approved by the Committee.</p> <p>Not less than 50% of any bonus earned is paid in deferred shares under the DSBP, with the remainder payable in cash.</p> <p>Deferred shares vest after a period of three years subject to continued service, but no further performance conditions.</p> <p>Clawback and malus rules apply to cash and DSBP awards respectively; see explanatory notes (page 76) for more information.</p> <p>Good leaver and change of control provisions apply to the deferred shares (see explanatory notes).</p> <p>The value of any dividends during the deferred period may be payable (see explanatory notes).</p> <p>The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate and fair in the context of the director's individual performance and the Company's overall performance. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.</p>	OPERATION <p>The Company's principal long-term incentive scheme, approved by shareholders in 2015.</p> <p>Directors are eligible to participate in this non-contractual, discretionary plan.</p> <p>Directors may receive an annual award which vests after three years subject to predetermined performance conditions.</p> <p>Clawback and malus rules apply to awards (see explanatory notes).</p> <p>Good leaver and change of control provisions apply (see explanatory notes).</p> <p>The value of any dividends during the vesting period may be payable (see explanatory notes).</p> <p>Awards are subject to a further two-year holding period after the vesting date. Directors may sell sufficient shares to satisfy the respective tax liability but must retain the net number of shares until the end of this two-year period.</p> <p>As with the bonus scheme, the Committee retains the right to exercise discretion in the same manner to ensure appropriateness of outcomes.</p>	OPERATION <p>Directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date.</p>
MAXIMUM OPPORTUNITY <p>A maximum annual potential of up to 200% of salary.</p>	MAXIMUM OPPORTUNITY <p>The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 300% of salary.</p>	MAXIMUM OPPORTUNITY <p>For the CEO, this requirement is 250% of salary. For all other executive directors the requirement is 200%.</p>
PERFORMANCE CONDITIONS <p>Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of the business plan.</p> <p>Financial performance measures comprise at least 50% of awards and may include, but not be limited to Group PBT after adjusting items.</p> <p>Typically, no payment for individual objectives can be earned unless a 'threshold' level of Group PBT after adjusting items has been achieved.</p> <p>This threshold level is set by the Committee taking into account the previous year's performance and the business operating plan for the current year.</p> <p>For achievement of individual objectives no more than 40% (currently 30%) of the maximum bonus potential is paid for threshold performance, and no more than 60% for target performance. However, the Committee retains the flexibility to amend the pay-out level at different levels of performance for future bonus cycles. This is based on its assessment of the level of stretch inherent in the set targets, and the Committee will disclose any such determinations appropriately.</p>	PERFORMANCE CONDITIONS <p>Performance is measured over a three-year period against a balanced scorecard of appropriate measures as determined by the Committee each year. This currently includes EPS, ROCE, TSR and from 2020 strategic measure. These are chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy.</p> <p>Financial measures comprise at least 50% of awards.</p> <p>The threshold level of vesting is 20% of the maximum.</p> <p>For performance between threshold and maximum, awards vest on a straight-line basis.</p>	Change for 2020 <p>Directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual shareholding for two years after leaving M&S.</p> <p>The shareholding requirement for other executive directors increased from 150% to 200%.</p>
		PERFORMANCE CONDITIONS <p>N/A</p>

REMUNERATION POLICY CONTINUED

FIGURE 2: POLICY TABLE

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 74 and 75; these may have been awarded upon recruitment or prior to their appointment as an executive director. While awards under these plans do not form part of a forward-looking policy, for transparency, details of the plans are set out in the table below.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	MAXIMUM OPPORTUNITY	PERFORMANCE CONDITIONS
Restricted Share Plan (RSP)	To enable the recruitment of key directors who are necessary to the delivery of business strategy.	<ul style="list-style-type: none"> – Restricted awards may be granted for the recruitment of directors. – Awards vest after a restricted period, which can vary by award but is typically between one and three years. – Malus provisions, good leaver and change of control provisions apply (see below and page 78). – The value of any dividends during the restricted period may be payable (see explanatory notes below). 	While there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis.	The Committee may choose to apply no formal performance conditions save for continued service.
Executive Share Option Scheme (ESOS)	Measured against the key drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.	<ul style="list-style-type: none"> – Approved by shareholders and HMRC in 2015, the Committee may choose to award share options to directors if appropriate. – Malus provisions, good leaver and change of control provisions apply (see below and page 78). – Options are normally exercised between the third and tenth anniversaries of grant, subject to the achievement of any performance conditions set by the Committee. 	Awards are capped at 250% of salary in respect of any financial year of the Company but in recruitment circumstances awards may be granted up to a higher limit of 400% of salary.	Awards vest subject to at least three-year predetermined performance conditions.

EXPLANATORY NOTES

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

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

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

In the event of a variation of the Company's share capital or a demerger, special dividend or other event which in the Committee's opinion may affect the price of shares, the Committee may alter the terms of awards and the number of shares subject to them. The terms of awards may be amended in accordance with the relevant plan rules (which were formally approved by shareholders on 7 July 2015).

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

Our long-term incentive plans provide the Committee with discretion with respect of vesting outcomes that affect the actual level of reward payable to individuals, such discretion would only be used in exceptional circumstances and, if exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.

CLAWBACK AND MALUS

M&S is committed to ensuring its remuneration arrangements motivate participants to strive for exceptional performance while also protecting shareholder value from the Company taking unnecessary risks. As such, clawback and malus provisions apply to the executive directors' incentive arrangements. All share awards granted from 2013 onwards are subject to malus provisions. These provisions allow the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award to reduce the number of shares, cancel an award or impose further conditions on an award in circumstances for which the Committee considers such action to be appropriate. Such circumstances may include, but not be limited to, a material misstatement of the Company's audited results.

In addition, clawback provisions were introduced in 2015 and apply to cash payments made under the Annual Bonus Scheme. Awards made under any of the Company's other executive share plans

(including the PSP) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur. The specified events that would trigger clawback include the discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company, the assessment of any performance condition, terms or conditions in respect of an award or payment that were based on error, or inaccurate or misleading information, the discovery that any information used to determine the number of shares subject to an award or amount payable was based on an error, or inaccurate or misleading information, the action or conduct of a participant which, in the reasonable opinion of the Committee, amounts to gross misconduct or a material breach of the participant's service contract that falls short of gross misconduct, and events or behaviour of a participant that have had a significant detrimental impact on the reputation of any member of the Group, provided that the Committee is satisfied that the relevant participant was responsible for the reputational damage and that the reputational damage is attributable to the participant. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards.

PERFORMANCE CONDITIONS AND TARGET SETTING

The Committee reviews annually the measures, weightings and targets for the incentive arrangements for the executive directors. In doing so, the Committee considers a number of factors which assist

in forming a view. These include, but are not limited to, the strategic priorities for M&S over the short- to long-term, shareholder feedback, the risk profile of the business and the macroeconomic climate.

The Annual Bonus Scheme is measured against a balance of profitability and the delivery of key strategic areas of importance for the business. The profitability measure used is Group PBT before adjusting items as this is used internally to report and assess business performance by the Board and Operating Committee. Refer to the glossary on pages 176 to 178 for the definition of Group PBT before adjusting items, and to note 5 of the financial statements for a description of adjusting items.

The PSP is assessed against a balance of measures identified as those most relevant to driving both sustainable top-line and bottom-line business performance, as well as providing value for shareholders, and strategic alignment with the business.

This is reflected in the EPS and ROCE measures which focus on a balance of profitability, cost control and the efficient use of capital investment.

The value delivered to shareholders is reflected by Relative TSR which is measured against a bespoke group of retail companies which are believed to provide a balanced portfolio of those most likely to be alternative investment choices for M&S shareholders.

Targets are set against the respective annual and long-term operating plans taking into account analysts' forecasts, M&S's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide a sustainable balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

REMUNERATION FRAMEWORK FOR THE REST OF THE ORGANISATION

M&S's philosophy is to provide a fair and consistent approach to pay. Remuneration is determined by level and is broadly aligned with those of the executive directors.

Base salaries are reviewed annually and reflect the local labour market.

All UK colleagues are eligible to participate in the Your M&S Pension Saving Plan on the same terms as the executive directors. In addition, all UK colleagues are provided with life insurance and colleague discount, and may choose to participate in the Company's all-employee share schemes and salary sacrifice arrangements.

A significant number of colleagues are eligible to be considered to participate in an annual bonus scheme which for the majority will be a cash-based payment partially determined by Group PBT performance. For M&S's most senior

executives, part of the bonus is deferred into shares for three years.

Around 170 of M&S's top senior executives may be invited to participate in the PSP, measured against the same performance conditions as executive directors. Award levels granted are determined to be aligned with market practice and reflect an individual's level of seniority as well as their performance and potential within the business.

FIGURE 3: RECRUITMENT POLICY & SERVICE CONTRACTS

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

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, considering the specific circumstances of the individual, subject to the limit on variable remuneration set out below.

The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements; these arrangements may be outside of the Policy detailed on pages 74 to 75.

ELEMENT	APPROACH
Service contract	<ul style="list-style-type: none"> – All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice. – There are no further obligations which could give rise to a remuneration or loss of office payment other than those set out in the Remuneration Policy and the Termination Policy. – The directors' service contracts are available for shareholder inspection at the Company's registered office.
Base salary	<ul style="list-style-type: none"> – Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces. – For new appointments to the Board, the Committee may set the rate of pay at the lower end of the rate for other directors and/or other comparable roles within the market with the intention of applying staged increases.
Benefits	<ul style="list-style-type: none"> – The Committee will offer a benefits package in line with our benefits policy for executive directors.
Pension benefits	<ul style="list-style-type: none"> – Maximum contribution in line with our policy for future executive directors (currently up to 12% of salary).
Annual Bonus Scheme	<ul style="list-style-type: none"> – Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors.
PSP	<ul style="list-style-type: none"> – A maximum award of up to 300% of salary in line with our policy.
Buy-out awards	<ul style="list-style-type: none"> – Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of their appointment with M&S, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. – The Committee in its judgement normally intends that any such payments are made on a like-for-like basis and considers issues such as the plan type, time horizons and valuation of the forfeited awards. The Committee's intention would be to ensure that the expected value awarded will be no greater than the expected value forfeited by the individual. – Where appropriate, the Committee may choose to apply performance conditions to any of these awards.

REMUNERATION POLICY CONTINUED

FIGURE 4: TERMINATION POLICY

The Company may choose to terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 89).

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

Service agreements may be terminated without notice and without any payments in certain circumstances, such as gross misconduct. The Company may require the individual to work during their notice

period, or may choose to place the individual on garden leave. Such a decision would be made to ensure the protection of the Company's and shareholders' interests where the individual has had access to commercially sensitive information.

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

The Company's policy towards exit payments allows for a variety of circumstances whereby a director may leave the business. In some cases, where deemed suitable, the Committee reserves the right to determine exit payments, where the director leaves by mutual agreement. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances. The Committee's objective is that any

such agreements are determined on an individual basis and are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

CORPORATE EVENTS

In the event of a change of control or winding up of the Company, unvested share awards will normally vest on the date that the Board notifies participants of such an event. The number of shares which may vest under awards in these circumstances will be subject to any relevant performance conditions and, in the case of PSP awards, unless the Committee determines otherwise, time pro-rating. In the event of a demerger, special dividend or other event which, in the opinion of the Committee affects the price of shares, the Committee may allow some or all of an award to vest.

ELEMENT	APPROACH
Base salary, benefits and pension benefits	<ul style="list-style-type: none">- Payment made up to the termination date in line with contractual notice periods.
Annual Bonus Scheme	<ul style="list-style-type: none">- There is no contractual entitlement to payments under the Annual Bonus Scheme. If the director is under notice or not in active service at either the relevant year end or on the date of payment, there will be no entitlement to any bonus payment, either in cash or shares. The Committee may use its discretion as described above to make a bonus award, which is normally pro-rated for time worked during the relevant financial year and based on performance assessed at the end of the bonus period.
Long-term incentive awards	<ul style="list-style-type: none">- Where a director ceases to be an officer or employee of the Group before the end of the relevant vesting period, the treatment of outstanding awards is determined in accordance with the plan rules.- In some circumstances, where a director leaves due to retirement, injury, ill-health, death or the sale of the director's employing company or business out of the Group, or any other reason at the discretion of the Committee and in accordance with the plan rules, DSBP awards normally vest in full on cessation; PSP and ESOS awards which have been held for at least 12 months normally vest when the level of performance has been assessed and agreed at the end of the three-year performance period. RSP awards are considered on an individual basis but would typically be pro-rated for the time held and vest on cessation. The Committee may determine these awards vest upon cessation as permitted in the plan rules. In either circumstance, any relevant performance conditions would still apply to the PSP and ESOS awards and unless the Committee determines otherwise, would be time pro-rated and subject to the two-year holding period post-vesting.
Repatriation	<ul style="list-style-type: none">- M&S may pay for repatriation where a director has been recruited from overseas.
Legal expenses & outplacement	<ul style="list-style-type: none">- Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

FIGURE 5: NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (TO BE APPROVED ON 3 JULY 2020)

The table below sets out our Policy for the operation of non-executive director fees and benefits at the Company. The Policy remains unchanged from the one approved by shareholders in 2017. Once approved, this Policy may operate for up to three years.

The Committee takes into account a number of factors when determining an appropriate fee level for the Chairman. The CEO and executive directors determine appropriate fee levels for the non-executive directors and take into account the time commitment, role responsibility and market practice in our comparator groups when doing so.

The Company may offer benefits to the Chairman and non-executive directors as detailed in the non-executive director policy table below.

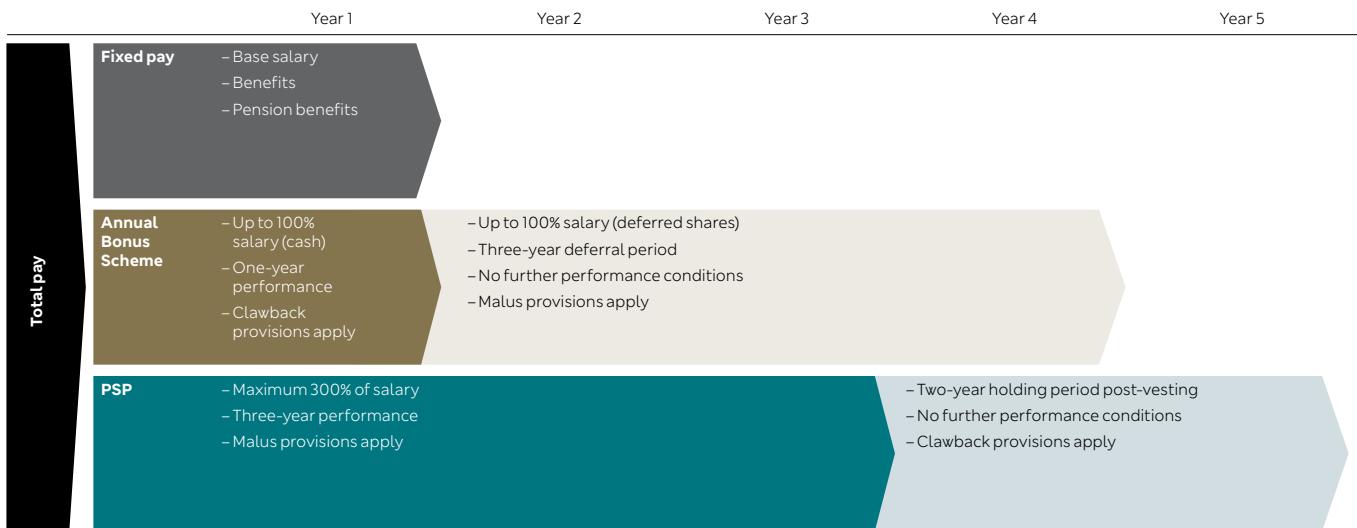
All non-executive directors have an agreement for an initial three-year term, these are available for inspection at the Company's registered office. The Chairman's agreement requires six months' notice by either party. The non-executive directors' agreements may be terminated by either party giving three months' notice.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION AND OPPORTUNITY
Chairman's fees	To provide a fair fee at a level that attracts and retains a high-calibre Chairman.	<ul style="list-style-type: none"> – Fees are determined by the Remuneration Committee. – Total fee comprises the non-executive director basic fee and the additional fee for undertaking the role. – Paid in equal monthly instalments; may be made in cash and/or shares. – Fees reflect the time commitment, demands and responsibility of the role. – Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, similar-sized listed companies. – The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association.
Non-executive director's basic fee	To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.	<ul style="list-style-type: none"> – Fees are determined by the Chairman and executive directors. – Paid in equal monthly instalments; may be made in cash and/or shares. – Fee level recognises the scope of the role and time commitment required. – Reviewed annually, taking into account market practice in appropriate comparator groups, e.g. major retailers, similar-sized listed companies. – The maximum aggregate non-executive director basic fees, including the Chairman, is £750,000 p.a. as set out in our Articles of Association.
Additional fees	To provide compensation to non-executive directors taking on additional Board responsibilities.	<p>Additional fees are paid for undertaking the extra responsibilities of:</p> <ul style="list-style-type: none"> – Board Chairman. – Senior Independent Director. – Committee Chairman.
Benefits	To facilitate the execution of responsibilities and duties required by the role.	<ul style="list-style-type: none"> – In line with our other colleagues, the Chairman and non-executive directors are entitled to receive colleague discount. – The Company may reimburse the Chairman and non-executive directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these. – The Chairman may also be entitled to the use of a car and driver. – The Chairman and non-executive directors do not participate in pension or performance-related schemes.

REMUNERATION POLICY CONTINUED

FIGURE 6: SUMMARY OF REMUNERATION POLICY (TO BE APPROVED ON 3 JULY 2020)

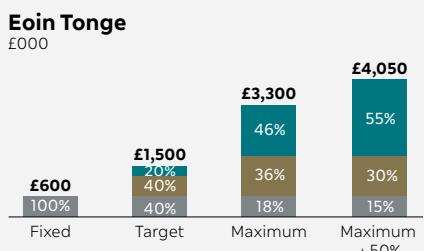
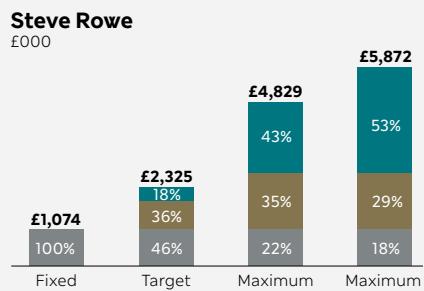
The diagram below illustrates the balance of pay and time period of each element of the Remuneration Policy for executive directors, which, if approved, will take effect after the 2020 AGM. The Committee believes this mixture of short- and long-term incentives and fixed to performance-related pay is currently appropriate for M&S's strategy and risk profile.



APPLICATION OF REMUNERATION POLICY

The charts below provide an illustration of what could be received by each of the executive directors in 2020/21 under the Policy. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2020/21 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2022/23 (for the PSP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Scheme and PSP awards in 2023.

DIRECTORS



BASIS OF CALCULATIONS AND KEY

Fixed	Fixed remuneration only. No vesting under the ABS and PSP.
Target	Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 50% of maximum, assumes no share price growth. - PSP: 20% of 250%, assumes no share price growth.
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 100% of maximum, assumes no share price growth. - PSP: 100% of 250%, assumes no share price growth.
Maximum +50% share price growth	Includes the following assumptions for the vesting of the incentive components of the package: - ABS: 100% of maximum, assumes no share price growth. - PSP: 100% of 250% with 50% share price growth. - Grant share price for the purpose of demonstrating the 50% growth taken as closing share price at 2019/20 year end.

● Fixed remuneration

Includes all elements of fixed remuneration:

- Base salary (effective 1 July 2020, as shown in the table on page 82).
- Pension benefits as detailed on page 82.
- Benefits (using the value for 2019/20 included in the single figure table on page 81). For Eoin Tonge, the first year relocation fees have been excluded as these do not form part of his 'normal' remuneration arrangements.

● Annual Bonus Scheme (ABS)

Represents the potential value of the annual bonus for 2020/21. Half of any bonus would be deferred into shares for three years and this is included in the value shown.

● PSP

PSP represents the potential value of the PSP to be awarded in 2020, which would vest in 2023 subject to the relevant performance targets. Awards would then be held for a further two years.

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

Each year, the Remuneration Committee assesses the current senior remuneration framework to determine whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, fulfil current external guidelines and are aligned with a range of internal factors including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to ensure that not only

is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business and individuals. A significant proportion of the performance measures used in the incentive schemes are integrated with M&S's key performance indicators (KPIs) and strategic priorities detailed in the Strategic Report, as illustrated on page 68.

The diagram below (Figure 7) details the achievement of each executive director under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the table below (Figure 8) and later in this report.

FIGURE 7: REMUNERATION STRUCTURE 2019/20

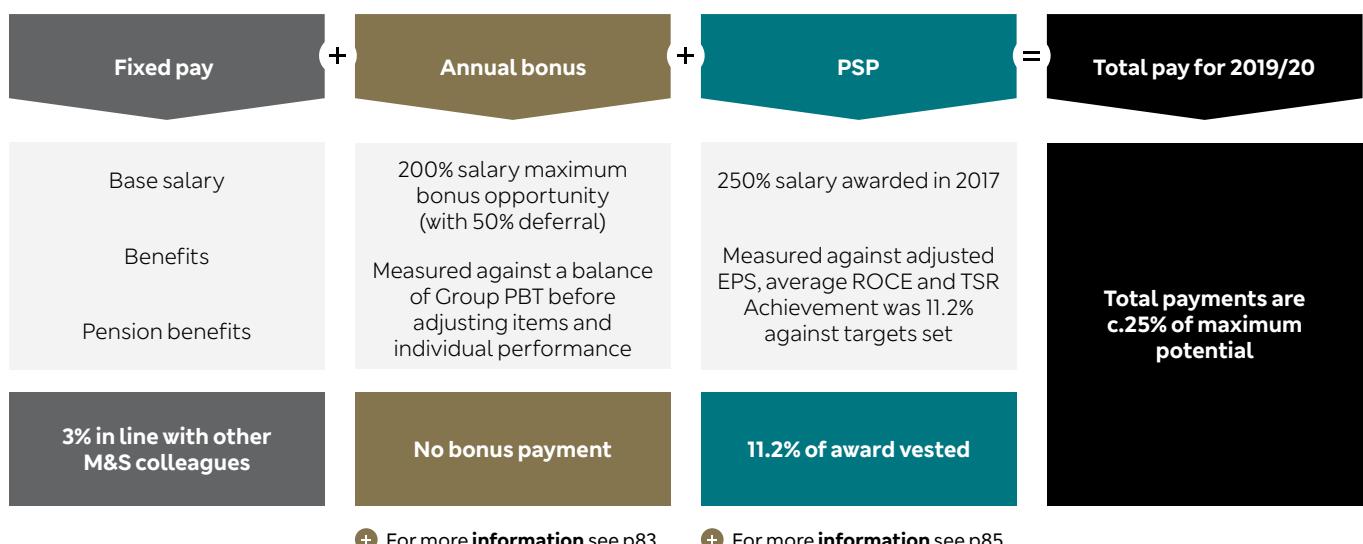


FIGURE 8: TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pension benefits £000	Total pay £000	Total fixed pay £000	Total variable pay £000
Steve Rowe	2019/20	828	37	0	143	203	1,211	1,068	143
	2018/19	810	33	0	471	203	1,517	1,046	471
Humphrey Singer (to 31 December 2019)	2019/20	456	0	0	0	0	456	456	0
	2018/19	439	0	0	0	0	439	439	0

Further details of Humphrey Singer's leaving arrangements can be found on page 89.

Note that the value of PSP awards vesting in 2018/19 has been restated to reflect the actual share price on the date of vesting, £1.93.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

SALARIES

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

As detailed in last year's report, for salaries effective July 2019, Steve Rowe was awarded an increase of 3%, his first

increase since his appointment to CEO in 2016. Humphrey Singer was awarded a 2% increase in line with increases granted to the management population. Across the wider organisation salary increases in 2019/20 ranged from 2% to 4%.

For salaries effective July 2020, in light of the Covid-19 pandemic and the salary freeze across the wider organisation, the Committee discussed pay arrangements for all colleagues and decided it was appropriate to also freeze the salary for

Steve Rowe. Eoin Tonge will receive a base salary of £600,000 when he joins the Company on 8 June 2020. For full details of his pay arrangements see page 89.

The next annual salary review for the executive directors will be effective in July 2021.

The table below details the executive directors' salaries as at 28 March 2020 and salaries which will take effect from 1 July 2020.

FIGURE 9: SALARIES

	Annual salary as of 28 March £000	Annual salary as of 1 July 2020 £000	Change in salary % increase
Steve Rowe	834.5	834.5	0%
Eoin Tonge	-	600.0	N/A

BENEFITS (AUDITED)

The Remuneration Policy permits that each executive director may receive a car or cash allowance as well as being offered the benefit of a driver. During the year, in lieu of a car allowance, Steve Rowe received a car and the benefit of a driver. Humphrey Singer received neither a car nor cash allowance and did not have the benefit of a driver. Eoin Tonge will not receive a car or cash allowance when he joins M&S in June 2020.

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

PENSION BENEFITS (AUDITED)

During the year, Steve Rowe received a cash payment in lieu of participation in an M&S pension scheme. As reported last year, this cash payment was capped so that Steve Rowe's salary increase was not applied to this element of pay. Both the CEO and the Committee are mindful of the external sentiment of executive pension arrangements. As such, the CEO has agreed that his pension cash supplement be reduced to zero over the next three years.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 28 March 2020 are shown below.

While Humphrey Singer was eligible to join the M&S pension scheme on the same terms as all other colleagues, he chose to opt out of the scheme. He did not receive any additional payments in lieu of participation. On joining M&S, Eoin Tonge will be eligible to join the M&S pension scheme on the same terms as all other colleagues.

FIGURE 10: PENSION BENEFITS (AUDITED)

	Normal retirement age	Accrued pension entitlement as at year end £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
Steve Rowe	60	159	0	3	0	5,162

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 28 March 2020. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2019/20 (AUDITED)

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

Individual performance was measured against a scorecard of individual measures set against key areas of delivery of the transformation plan deemed most critical to the future sustainable success of M&S. Individual performance was measured independently of PBT performance but mirroring arrangements elsewhere in the business, no individual element could be earned until the threshold needed to secure payment under the corporate element was similarly achieved.

PBT outturn for the year was £403.1m which was below the threshold set to trigger payments under either the corporate element or the individual element of the Scheme. As such, no bonuses under the 2019/20 Annual Bonus Scheme will be paid to anyone in the organisation, including executive directors. This is reflected in the total bonus paid column in Figure 11 and directly corresponds to the value shown in the single figure table on page 81.

Despite there being no bonus payment under the 2019/20 Scheme, the Committee continued to review the achievement of the individual objectives set at the start of the financial year to fulfil its remit and to enable transparent disclosure to shareholders. For completeness, the table below shows the achievement against individual objectives for the CEO, as noted by the Committee. In noting this performance,

the Committee considered not only the achievement against the predetermined targets, but also the wider performance within these specific areas to ensure that any achievement noted was representative of overall performance.

The Committee ensures that targets set are the relevant drivers of required annual performance, recognising that it operates in the context of a highly competitive market and uncertain market conditions. Some of the specific targets set for 2019/20 remain commercially sensitive and so are not disclosed. To the extent these targets are not able to be fully reported, they have been described. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosure wherever possible, while ensuring that any measures set are those most appropriate to restore the business to profitable growth.

FIGURE 11: ANNUAL BONUS SCHEME OUTTURN 2019/20 (AUDITED)

Director	Corporate (70%)	Individual (30%)	Total bonus
Steve Rowe PBT			£0k/£1.67m
		Accelerate the transformation in culture, organisation and capability across the business	Overall % of salary (200% max) 0%
		Continued recruitment of high-calibre senior leaders in key roles to further strengthen the management team throughout the year. New behaviours launched throughout the business and adopted at all levels. Further embedding the process of decentralisation into the family of businesses structure. Delivering a significant increase in store engagement bringing back the voice of the stores through a programme of store feedback calls and store management engagement in addition to using modern "Teams based" technology direct to mobile devices across the business.	
		Oversee the improvements in supply chain and range management	
		In Food, the successful trials of the 'Vanguard' supply chain project were cascaded through the first depot, delivering improvements to both availability and waste on a sustainable basis. The rollout of the clothing warehouse management system was completed and we transitioned to six distribution centres in line with our strategy. Improvements to the Donington distribution centre enabled later cut-offs for online ordering and allowed us to achieve our highest ever rate of distribution for e-commerce at Christmas this year.	
		Accelerate online growth and exploration of digital capabilities	
		While strong foundational improvements were made during the year, digital growth was lower than planned. Review of Sparks loyalty programme and insight optimisation plan in progress to provide a more personalised customer-focussed experience.	
		Drive the transition towards a more technology enabled store operation and portfolio	
		Store colleagues continue to receive an enhanced digital tool kit through new APIs on the Honeywell devices. They supported more accurate stock management and replenishment, better commercial information and new payment solutions. In addition our partnership with Microsoft enabled several enhancements to Teams which have meant our store and office colleagues are more connected than ever. All stores received upgrades to Wi-Fi capability and we continued to develop a click and collect operation. As a result of substantial changes in our IT capability, we were able to remove the mainframe for the first time making us more efficient and cost effective.	
		Successfully established the investment in Ocado Retail Limited including leadership operations and financing	
Targets include IFRS 16 adjustments		Successful completion of the acquisition of 50% of Ocado Retail Limited, funded by the rights issue. Strong leadership at executive level put in place in partnership with Ocado Solutions team. Effective Board structure put in place, and good ways of working and governance established. Launch of M&S product due to go live on 1 September 2020, and on target to include an expanded range.	
Threshold £466m	Stretch £521m		
£403.1m	0%		

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (AUDITED)

Currently 50% of any bonus payment is compulsorily deferred into shares. These awards vest after three years subject to continued employment as well as malus provisions. As no bonus was awarded in respect of performance year 2018/19, no share awards under the Deferred Share Bonus Plan (DSBP) were made during the year. In relation to the 2019/20

performance year, as no bonus awards under the Annual Bonus Scheme have been made, there will be no awards under the DSBP made in 2020.

ANNUAL BONUS SCHEME FOR 2020/21

During the year, the Committee reviewed the 2020/21 scheme, considering the accelerated transformation programme, 'Making M&S Special Again' and bonus arrangements elsewhere in the business.

While the intended structure, as detailed on page 75 in the Policy table, remains unchanged from 2019/20, the Committee has agreed that for 2020/21 only there will be no bonus scheme in operation for the executive directors.

Executive directors will still continue to be measured against a scorecard of individual objectives aligned to the strategic priorities set out earlier in this report, however no financial payment will be made in respect of their achievements.

PERFORMANCE SHARE PLAN (PSP)

PSP AWARDS MADE IN 2019/20 (AUDITED)

As reported last year, having considered the extent to which the long-term incentive framework remained relevant, the Committee determined that the existing structural arrangements remained aligned with the focus on maximising shareholder value by restoring the business to profitable growth. The three performance measures used in the 2018 PSP award, Adjusted EPS (EPS), Average ROCE (ROCE) and Relative TSR (TSR), were still considered to be the key drivers to deliver these core priorities. In line with the 2018/19 award, measures used in 2019/20 were equally balanced to ensure an appropriate focus on all three metrics.

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

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

As was reported last year, each executive director was granted an award of

conditional shares of 250% of salary. The grant was made on 25 June 2019. In line with Policy, awards will vest three years after the date of grant, to the extent that the performance conditions are met, and must then be held for a further two years. Clawback provisions apply during this holding period, the trigger events that would result in clawback being enforced are detailed on page 76.

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

FIGURE 12: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2019/20 (AUDITED)

2019/20 award	Adjusted EPS in 2021/22 (p)	Average ROCE (2019/20 – 2021/22) (%)	Relative TSR		
			1/3 of award	1/3 of award	1/3 of award
Threshold performance	22.7p	10.2%	Median		
Maximum performance	28.5p	12.7%	Upper quartile		

Targets outlined above are stated on a post-IFRS 16 basis and include adjustments that have been made for the impact of the investment in Ocado Retail Limited.

FIGURE 13: TSR COMPARATOR GROUP 2019/20 AWARD

J Sainsbury	B&M European	Kingfisher
Wm Morrisons	Dixons Carphone	N Brown Group
Tesco	Dunelm Group	Next
ASOS	JD Sports Fashion	Frasers (formerly Sports Direct International)
		W H Smith

FIGURE 14: PSP AWARDS MADE IN 2019/20 (AUDITED)

	Basis of award % of salary	Threshold level of vesting	Face value of award £000	End of performance period	Vesting date
Steve Rowe	250%	20%	2,086	02/04/2022	27/06/2022
Humphrey Singer	250%	20%	1,530	02/04/2022	27/06/2022

PSP grants were made as a conditional share award. When calculating the face value of awards to be granted, the number of shares awarded was multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For the 2019 award, the share price was calculated as £2.1206, being the average share price between 18 June 2019 and 24 June 2019.

Humphrey Singer's award lapsed in full when he left M&S on 31 December 2019.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 15: PSP AWARDS VESTING IN 2019/20 (AUDITED)

For directors in receipt of PSP awards granted in 2017, the awards will vest in August 2020 based on three-year performance over the period to 28 March 2020. Performance has been assessed and it has been determined that 11.2% of the total award will vest. The Committee reviewed this level of vesting against the wider business performance of the period and determined this level of payment was appropriate; no discretion was applied either for share price movements or for formulaic vesting outcomes.

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

The total vesting values shown in Figure 16 directly correspond to the figure included in the single figure table on page 81.

	Adjusted EPS in 2019/20 (p)	Average ROCE (2017/18- 2019/20) (%)	TSR	Total vesting % of award
2017/18 award			1/3 of award	1/3 of award
Threshold performance	26.8p	12.1%	Median	11.2%
Maximum performance	32.8p	15.6%	Upper quartile	
Actual performance achieved	16.7p	12.7%	Below Median	
Percentage of maximum achieved	0%	11.2%	0%	

Targets outlined above are stated on a post-IFRS 16 basis and include adjustments that have been made for the impact of the investment in Ocado Retail Limited.

FIGURE 16: VESTING VALUE OF AWARDS VESTING IN 2019/20 (AUDITED)

	On grant		At the end of performance period (28 March 2020)			Impact of share price performance	Total vesting of award £000
	Number of shares granted (incl. rights issue adjustment)	% of salary granted	Number of shares vesting	Number of shares lapsing			
Steve Rowe	638,436	250%	71,505	566,931	-50%		£144k

Total vesting values are based on a share price of £1.65 (the average share price from 2 January 2020 to 28 March 2020) plus a dividend equivalent of £0.365 per share.

The final vesting values also reflect a 50% decline in share price between grant and vesting, as illustrated on page 70 of this report.

PSP AWARDS TO BE MADE IN 2020/21

Between September 2019 and January 2020, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable and actively consulted with shareholders during this time. As part of this review and engagement process and taking into account shareholder feedback, it was determined that 20% of the PSP award should be based upon strategic transformation goals relevant to the achievement of the business strategy over the next three years. The remaining 80% of the award would be based on EPS (30%), ROCE (30%) and Relative TSR (20%) similar to recent years. Consulted shareholders were supportive of this approach.

The Committee believes in the importance of strategically-aligned incentives so that executive directors are motivated to deliver the commercial success of M&S. The Committee's aim is to ensure realistic and sustainable targets to support the delivery of such success. After careful consideration, and as a direct impact of the current unprecedented trading and financial environment, targets for the 2020 awards to be granted in July will be delayed until appropriately stretching but realistic goals can be set. This will allow Steve Rowe and his leadership team sufficient time to review M&S's long-term business plan in view of the emerging Covid-19 impact over the medium- and long-term. M&S remains committed to clear and transparent communication and intends to engage with its major shareholders with more detail on the targets prior to them being agreed. Targets will be set and disclosed no later than 31 December 2020.

It is the Committee's intention to significantly reduce the quantum of the PSP award to be granted in July 2020, recognising the material fall in share price over the last year. For 2020, it is proposed that Steve Rowe and Eoin Tonge will be granted an award of 175% of salary instead of the typical 250% of salary. The Committee anticipates that it will revert to normal award levels for 2021.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 17: DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below sets out the total number of shares held by each executive director serving on the Board during the period to 28 March 2020, or at their date of retirement from the Board. Shares owned outright include those held by connected persons.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 26 May 2020. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

Shares owned outright	Unvested			Vested but unexercised shares	
	With performance conditions	Without performance conditions			
		Performance Share Plan	Deferred Share Bonus Plan		
Steve Rowe	373,187	2,302,782	90,744	196,374	
Humphrey Singer (to 31 December 2019)	22,500	0	0	0	

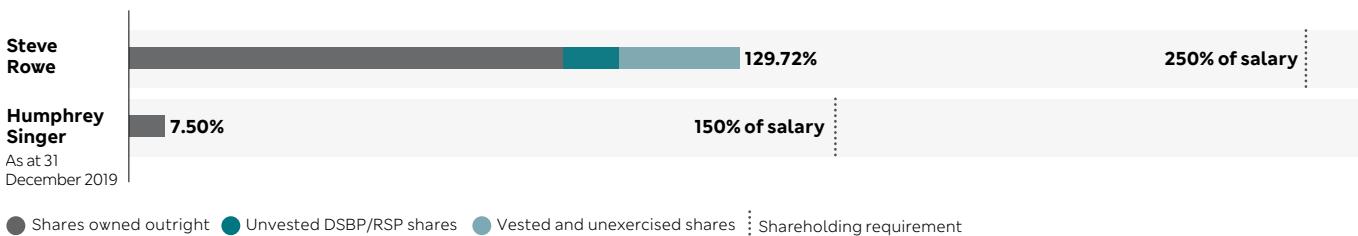
FIGURE 18: SHAREHOLDING REQUIREMENTS INCLUDING POST CESSATION (AUDITED)

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 200% of salary. A similar requirement of 100% currently applies to members of the Operating Committee below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 28 March 2020, or date of retirement from the Board. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO. The target shareholding for Humphrey Singer prior to leaving on 31 December 2019 was 150%.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee continues to keep both shareholding requirement guidelines and actual director shareholdings under review and will take appropriate action should they feel it to be necessary.

Supporting the Committee's intention to drive long-term, sustainable decision-making for the benefit of M&S and our shareholders and in line with the 2018 Code changes and the Investment Association's updated guidelines, directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual shareholding for two years after leaving M&S.



EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (AUDITED)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible colleagues. Further details of the schemes are set out in note 13 to the financial statements on pages 141 to 143.

DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

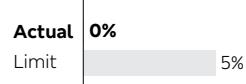
Awards granted under the Company's Save As You Earn Scheme and the Executive Share Option Scheme are met by the issue of new shares when the options are exercised.

All other share plans are currently met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared with the dilution limits set by the Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 28 March 2020 is as follows:

Figure 19: All share plans



Figure 20: Executive share plans



EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 21: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 1 April 2019	Adjusted for corporate transaction	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 28 March 2020 (or date of retirement)
Steve Rowe						
Performance Share Plan	1,824,538	72,014	983,801	0	381,197	2,499,156
Deferred Share Bonus Plan	119,675	4,722	0	33,653	0	90,744
SAYE	3,461	136	5,960	0	0	9,557
Total	1,947,674	76,872	989,761	33,653	381,197	2,599,457
Humphrey Singer						
Performance Share Plan	484,966	19,141	721,493	0	1,225,600	0
Deferred Share Bonus Plan	0	0	0	0	0	0
SAYE	0	0	0	0	0	0
Total	484,966	19,141	721,493	0	1,225,600	0

The aggregate gains of directors arising in the year from the exercise of awards granted under the DSBP totalled £69,056 based on a share price on the date of exercise of £2.052. The market price of the shares at the end of the financial year was 99.18p; the highest and lowest share price during the financial year were 277.46p and 91.70p respectively.

Humphrey Singer retired from the Board and left the Company on 31 December 2019. His Performance Share Plan awards lapsed in full upon leaving. Details of his leaving arrangements are set out on page 89.

Figure 22 shows the time horizons of outstanding discretionary share awards for all directors serving on the Board during the year.

FIGURE 22: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

	Maximum receivable at 28 March 2020 (all discretionary schemes)	2020/21		2021/22		2022/23	
		Maximum receivable	Lapsed	Maximum receivable	Lapsed	Maximum receivable	Lapsed
Steve Rowe	Performance Share Plan	2,499,156	71,505	566,931	680,545	–	983,801
	Deferred Share Bonus Plan	90,744	90,744	–	–	–	–

As reported on page 85, the 2017 PSP awards included within the totals shown in Figure 22 will vest at 11.2% in August 2020. This has been reflected above in the 2020/21 'Lapsed' column.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 23: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past ten years. While M&S is not currently a constituent of the FTSE 100 Index, the Committee feels that it remains the most appropriate comparator. The calculation of TSR is in accordance with the relevant remuneration regulations. The table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last ten financial years.



Marc Bolland was appointed CEO on 1 May 2010. His single figure for 2010/11 includes recruitment awards made to him at that time to compensate him for incentive awards forfeited on cessation from his previous employer. Stuart Rose undertook the role of CEO from 31 May 2004 to 30 April 2010.

FIGURE 24: PERCENTAGE CHANGE IN CEO'S REMUNERATION

+ Read more on p73

FIGURE 25: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company's expenditure on pay in comparison with profits before tax and distributions to shareholders by way of dividend payments and share buy-back.

Total colleague pay is the total pay for all Group colleagues. Group PBT before adjusting items has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

	2018/2019 £m	2019/20 £m	% change
Total colleague pay	1,511.0	1,464.4	-3.08
Total returns to shareholders	303.5	191.1	-37.03
Group PBT before adjusting items	511.7	403.1	-21.22

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 26: SERVICE AGREEMENTS

In line with our Policy, directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

	Date of appointment	Notice period/unexpired term
Steve Rowe	02/04/2016	12 months/6 months
Eoin Tonge	08/06/2020	12 months/6 months

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2019/20

PAYMENTS FOR THE LOSS OF OFFICE (audited)

As announced on 16 October 2019, **Humphrey Singer** stepped down from the Board and left M&S on 31 December 2019. Remuneration terms on leaving were in line with the approved Remuneration Policy. Humphrey was entitled to receive salary and benefits, by way of phased

monthly payments from 1 January 2020 to 31 March 2020, subject to mitigation. As per the terms of the approved Remuneration Policy, these payments ceased when Humphrey's new employment commenced in January 2020. The only payment made to Humphrey as a result of his leaving M&S was £10,692 in respect of accrued

but untaken holiday as per the Company's standard holiday policy for leavers. All outstanding share awards lapsed on leaving.

PAYMENTS TO PAST DIRECTORS (audited)

There were no payments made to past directors during the period.

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2019/20

DIRECTORS APPOINTED TO THE BOARD

Eoin Tonge will join the Board on 8 June 2020 as Chief Financial Officer. His remuneration upon appointment was in line with the approved Recruitment Policy detailed on page 77 with a basic

annual salary of £600,000. Eoin receives neither a car allowance nor a pension cash allowance but he will be able to join the pension scheme on the same terms as colleagues. Eoin will be provided with short-term domestic mobility allowances and as per the Company's recruitment

policy he will receive replacement share awards to compensate him for those forfeited by him joining the business. These awards will vest in occurrence with the original award time horizons. The rest of Eoin's incentive arrangements are aligned with that of an executive director.

FIGURE 27: EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee. The fees in the table opposite reflect those earned by Humphrey Singer from 1 April 2019 to 31 December 2019, his date of leaving M&S.

Director	Period earned	Company	Fee £000
Humphrey Singer	01/04/2019 – 31/12/2019	Taylor Wimpey	58

REMUNERATION REPORT CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 28: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. Fees paid to the non-executive directors and Board Chairman for 2019/20 and 2018/19 are detailed in the table opposite.

Benefits include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which are deemed by HMRC to be taxable. The amounts in the table opposite include the grossed-up cost of UK tax paid by the Company on behalf of the non-executive directors. Non-taxable expense reimbursements have not been included in the table.

During the year, fees for all non-executive directors were reviewed. Taking into account the relevant market data, the salary freeze for M&S colleagues, and given fees were increased with effect from 1 July 2019, no increase to fees was awarded.

Fee levels will be reviewed again during 2020/21 as per the normal annual process. Changes to the Board during the year are detailed below.

Director	Year	Basic fees £'000	Additional fees £'000	Benefits £'000	Total £'000
Archie Norman	2019/20	71	538	19	628
	2018/19	70	530	11	611
Andy Halford	2019/20	71	31	0	102
	2018/19	70	23	0	93
Alison Brittain	2019/20	71	0	0	71
	2018/19	70	0	0	70
Andrew Fisher	2019/20	71	15	2	88
	2018/19	70	8	0	78
Katie Bickerstaffe	2019/20	71	0	3	74
	2018/19	51	0	2	53
Pip McCrostie	2019/20	71	0	0	71
	2018/19	51	0	1	52
Justin King	2019/20	71	0	0	71
	2018/19	18	0	0	18

FIGURE 29: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. All non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company within two months of their appointment to the Board.

The table opposite details the shareholding of the non-executive directors who served on the Board during

the year as at 28 March 2020 (or upon their date of retiring from the Board), including those held by connected persons.

Changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 26 May 2020 are shown in the table opposite.

Director	Number of shares held as at 28 March 2020	Number of shares held as at 26 May 2020
Archie Norman	148,600	No change
Andy Halford	25,200	No change
Alison Brittain	6,115	No change
Andrew Fisher	4,243	No change
Katie Bickerstaffe	4,800	24,800
Pip McCrostie	7,200	No change
Justin King	44,000	64,000

FIGURE 30: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice (six months' for the Chairman).

The table opposite sets out these terms for all current members of the Board.

Director	Date of appointment	Notice period/unexpired term
Archie Norman	01/09/2017	6 months/6 months
Andy Halford	01/01/2013	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Katie Bickerstaffe	10/07/2018	3 months/3 months
Pip McCrostie	10/07/2018	3 months/3 months
Justin King	01/01/2019	3 months/3 months

NON-EXECUTIVE DIRECTOR CHANGES TO THE BOARD DURING 2019/20

DIRECTORS APPOINTED TO THE BOARD

Tamara Ingram and **Sapna Sood** will join the Board as non-executive directors on 1 June 2020. Tamara and Sapna receive the standard annual non-executive director fee of £71,500 and are members of the Nomination Committee.

ROLE CHANGES WITHIN THE BOARD

Katie Bickerstaffe started in her role of Chief Strategy and Transformation Director on 27 April and will step down from the Board at the AGM on 3 July 2020.

DIRECTORS RETIRING FROM THE BOARD

Alison Brittain will retire as a non-executive director and step down from the Board prior to the AGM on 3 July 2020. There were no payments made for loss of office to Alison.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee reviewed the Terms of Reference ensuring that they reflected the government's latest recommendations and the revised principles of the Remuneration Policy, as set out in the UK Corporate Governance Code 2018. In addition, the Committee delegated authority to management in determining the leaving and joining arrangements for senior colleagues below the level of Operating Committee. The Terms of Reference can be found on the Company's website at corporate.marksandspencer.com/investors/corporate-governance/governance-framework

KEY RESPONSIBILITIES

The role of the Committee continues to have a strong focus on ensuring an appropriate alignment between the remuneration of executive directors and Operating Committee directors and that of colleagues across M&S, ensuring that the senior remuneration strategy and framework is strategically aligned with the business but that it also attracts and recognises the talent required to drive transformation and cultural change within M&S. Broadly, the responsibilities are as follows:

- Setting remuneration policy and practices that are designed to support strategy and promote the long-term success of M&S while following the below principles:
 - **Clarity** – remuneration arrangements are transparent and promote effective engagement with shareholders and the workforce.
 - **Simplicity** – remuneration structures are uncomplicated, and their rationale and operation is easy to understand.
 - **Risk** – ensure that reputational and other risks from excessive rewards,

and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

- **Predictability** – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy.
- **Proportionality** – the link between individual awards, the delivery of strategy and the long-term performance of the Company is clear. Outcomes should not reward poor performance.
- **Alignment to culture** – incentive schemes that drive behaviours consistent with M&S's purpose, values and strategy.
- Determining the terms of employment and remuneration for the executive directors and Operating Committee directors, including recruitment and termination arrangements.
- Considering the appropriateness of the senior remuneration framework and exercising independent judgement and discretion when authorising remuneration

outcomes, taking account of Company and individual performance, and the context of the wider workforce.

- Noting the total pay budgets including salary, bonus and share scheme allocations across all of M&S together with the principles of allocation to ensure appropriate consistency with the senior pay frameworks.
- Approving the design, targets and total payments for all performance-related pay schemes operated by M&S, seeking shareholder approval where necessary.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share-based incentive plan for the executive and Operating Committee directors.
- Receiving direct feedback from BIC the Group's colleague representative body, colleague voice surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and diversity and inclusion are considered.

REMUNERATION COMMITTEE AGENDA FOR 2019/20

REGULAR ITEMS

Pay arrangements

- Within the terms of the M&S Remuneration Policy, approval of the remuneration packages for the executive directors and Operating Committee directors, and any termination payments where applicable.
- Consideration of the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Noting of the total budgeted salary expenditure across M&S, ensuring principles for reward allocation are aligned across M&S.

Annual Bonus Scheme

- Review of achievements against 2019/20 performance objectives for executive directors and Operating Committee directors.
- Approval of targets for the 2020/21 Annual Bonus Scheme ensuring that the performance conditions are transparent, stretching and rigorously applied.

- Approval of the 2020/21 individual performance objectives for executive directors and Operating Committee directors.
- Noting of the total budgeted expenditure for the Annual Bonus Scheme across M&S.

Long-term incentives

- Approval of 2020 PSP awards for the executive directors and Operating Committee directors, following engagement with key stakeholders.
- Approval of vesting level of the 2017 PSP awards across M&S.
- Regular review of all in-flight performance share plans against targets.
- Consideration of long-term share awards granted to colleagues below Operating Committee level.

Governance and external market

- Review of the M&S Remuneration Policy, ensuring it continues to support the long-term success of M&S, is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice.

- Review the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.

- Approval of the Directors' Remuneration Report for 2019/20 and review of the ACM voting outcome for the 2018/19 Report.
- Review of the Committee's performance in 2019/20, including assurance that the principles of the revised Terms of Reference and broader remit of the Committee are embedded.
- Assessment of the external market when considering remuneration arrangements for executive directors and Operating Committee directors.
- Review the effectiveness and transparency of remuneration reporting.
- Noting of direct feedback from the Business Involvement Group (BIC) M&S's colleague representative body to ensure that all employee views are received and considered by the Board when making remuneration and reward decisions.

EFFECTIVENESS OF THE REMUNERATION COMMITTEE

An external review of the effectiveness of the Remuneration Committee was conducted by Gurnek Bains and Georgia Samolada of Global Future Partners. The review established that the Committee operates effectively and

ensures sound independent review of remuneration policies. Developmental feedback and support will be provided as part of the review process.

2020/21 ACTION PLAN

- Review the M&S Remuneration Policy and framework to ensure strong alignment with the Never the Same Again strategy and transformation acceleration.
- Continued alignment of executive remuneration with the approach to pay across the wider workforce (e.g. CEO Pay Ratio, Gender Pay Gap, Diversity).

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE CONTINUED

FIGURE 31: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2019/20.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Andrew Fisher (Chairman)	1 October 2018	7	7	100%
Archie Norman	3 November 2017	7	7	100%
Katie Bickerstaffe (to 26 April 2020)	10 July 2018	7	7	100%

COMMITTEE ADVISERS

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by PwC during the year. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at remunerationconsultantsgroup.com

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied

that any conflicts are appropriately managed. PwC was appointed by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £70,900 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk

consulting services to the Group in the financial year.

The Committee also seeks internal support from the CEO, General Counsel & Company Secretary and the Head of Executive Reward & External Reporting as necessary. All may attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also reviews external survey and bespoke benchmarking data, including that published by Aon Hewitt Limited, KPMG, PwC, FIT Remuneration Consultants, Korn Ferry and Willis Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER AND SHAREHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Executive Reward & External Reporting, the Committee gives colleagues, through colleague representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors.

During the year, colleague representatives were given the opportunity to discuss in detail the directors' pay arrangements. Details of the directors' pay arrangements were discussed in the context of the reward framework for the rest of the organisation and external factors; no concerns were raised either during these discussions or subsequently.

The Committee is committed to a continuous, open and transparent

dialogue with shareholders on the issue of executive remuneration.

As described in the Committee Chair's letter, the Committee took a consultative approach when considering changes to the 2020 Remuneration Policy, engaging with M&S's 12 largest shareholders comprising 47.51% of the register and also shareholder representative bodies to fully understand their views on the current and proposed changes to the remuneration framework.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2018/19 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 9 July 2019, 98.18% of shareholders voted in favour of approving the Directors' Remuneration Report for 2018/19. The Committee believes that this

illustrates the strong level of shareholder support for the senior remuneration framework. As this was a non-policy renewal year, there was no vote regarding the Remuneration Policy.

The table below shows full details of the voting outcomes for the 2018/19 Directors' Remuneration Report.

FIGURE 32: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2018/19 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy (at the 2017 AGM)	1,020,561,621	99.08%	9,498,526	0.92%	2,368,960
2018/19 Remuneration Report (at the 2019 AGM)	1,165,884,756	98.18%	21,592,545	1.82%	146,548,542

APPROVED BY THE BOARD

**Andrew Fisher, Chairman of the
Remuneration Committee
London, 26 May 2020**

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations"). Where required, data has been audited by Deloitte and this is indicated appropriately.

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group").

The Directors' Report for the year ended 28 March 2020 comprises pages 44 to 97 and pages 198 to 199 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 02 to 43, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on page 33.
- Details of branches operated by the Company on pages 09 to 15.
- Total global M&S greenhouse gas emissions 2019/20 on page 24.
- Information on how the directors have had regard for the Company's stakeholders, and the effect of that regard, on pages 20 to 21.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

Information relating to financial instruments can be found on pages 152 to 162 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please refer to our Plan A website marksandspencer.com/plana.

Other information to be disclosed in the Directors' Report is given in this section.

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R. Further information is available online at marksandspencer.com/thecompany.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1)(2)	Not applicable	N/A
(5-14)(A)(B)		
9.8.4R (4)	Long-term incentive schemes	67-71, 74-78 and 80-85

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 46 and 47. Changes to the directors during the year and up to the date of this report are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 86, 87 and 90. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 87. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 141 to 143.

Name	Role	Effective date of departure/appointment
Departures		
Humphrey Singer	Executive Director	31 December 2019
Alison Brittain*	Non-Executive Director	3 July 2020
Katie Bickerstaffe	Non-Executive Director	27 April 2020
Appointments		
Eoin Tonge*	Executive Director	8 June 2020
Katie Bickerstaffe	Executive Director	27 April 2020
Sapna Sood*	Non-Executive Director	1 June 2020
Tamara Ingram*	Non-Executive Director	1 June 2020

* Announced prior to publication of this report.

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next Annual General Meeting ("AGM") where they will stand for annual election.

OTHER DISCLOSURES CONTINUED

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with Marks & Spencer, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 28 March 2020 and remain in force in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors or Company Secretary or employees of the Company or of any associated company. Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 28 March 2020 for the benefit of the Trustees of the Marks & Spencer UK Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £27.4m (last year £45.3m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 3.9p per share	
(last year 6.5p per share)	£76m
No proposed final dividend	
(last year 6.8p per share)	-
Total dividend of 3.9p per share for 2019/20	
(last year 13.3p per share)	£76m

SHARE CAPITAL

The Company's issued ordinary share capital as at 28 March 2020 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 325,009,968 ordinary shares in the Company were issued and allotted on completion of the rights issue, while 49,610 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 247p and 261p.

Details of movements in the Company's issued share capital can be found in note 24 to the financial statements on page 160.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

VARIATION OF RIGHTS

Subject to applicable statutes, rights attached to any class of share may be varied with the written consent of the holders of at least three-quarters in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2019 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 28 March 2020 and up to the date of this report.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2020 AGM.

The directors were granted authority at the 2019 AGM to allot relevant securities up to a nominal amount of £162,504,984. This authority will apply until the conclusion of the 2020 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £162,504,984

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 28 March 2020, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Voting rights	% of capital disclosed	Nature of holding as per disclosure
Schroders plc	90,153,730	5.549*	Indirect interest (5.547%), CFD (0.001%)
Majedie Asset Management Limited	81,070,667	4.99*	Direct interest
Blackrock, Inc.	132,880,504	6.81	Indirect interest (5.14%), securities lending (1.64%), CFD (0.02%)
Ameriprise Financial, Inc. and its group	82,524,463	5.079*	Indirect interest (5.054%), direct interest (0.025%)
The Bank of Nova Scotia	51,235,305	3.15*	Direct interest (0.15%), swap (2.99%)

* Disclosures made prior to the 2019 rights issue.

In the period from 28 March 2020 to the date of this report, we received four further notifications in accordance with DTR5 from Blackrock Inc, the most recent being 13 May 2020, disclosing a holding of 128,573,249 ordinary shares (6.59%, broken down as follows: Indirect, 5.05%; Securities lending, 1.40% and CFD, 0.13%).

and (ii) comprising equity securities up to a nominal amount of £325,009,968 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2021 or, if earlier, on 1 October 2021.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £24,375,748. In addition, this year a separate special resolution will be proposed, in line with institutional shareholder guidelines, to authorise the directors to make non pre-emptive issues for cash in connection with acquisitions/specified capital investments, up to a nominal amount of £24,375,748.

A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 195 million ordinary shares and sets the minimum and maximum prices which will be paid.

DEADLINES FOR EXERCISING VOTING RIGHTS

Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. However, when calculating the 48-hour period, the directors can, and have, decided not to take account of any part of a day that is not a working day.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The \$300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various

banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.

- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control, the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as practicable (while not being required to do anything that would breach such a third-party arrangement).
- Where a third-party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate the Relationship Agreement. The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

COLLEAGUE INVOLVEMENT

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement, and information on our approach to our workforce, are highlighted throughout this Annual Report and specifically on pages 20 and 21.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. Approximately 30,538 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 141 to 142.

There are websites for both pension schemes – the defined contribution scheme (Your M&S UK Pension Saving Plan) and the defined benefit scheme (the Marks & Spencer UK Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

EQUAL OPPORTUNITIES

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement.

The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, health condition, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

M&S has a business-wide inclusion strategy which is led by the Inclusion Steering Group. Alongside this, each member of the Operating Committee sponsors an element of diversity, helping our employee-led diversity networks grow in numbers and strength and to embed a culture of inclusion across the organisation. In 2019, the Inclusion Steering Group agreed two key goals; by 2022, to have 50% female representation and 15% BAME representation on the M&S senior management team.

Further information on our diversity and inclusion initiatives can be found on page 58.

OTHER DISCLOSURES CONTINUED

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with health conditions should have full and fair consideration for all vacancies. M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment.

M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A Report, available online.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and The Groceries Supply Code of Practice (the "Code") impose obligations on M&S regarding its relationships with its suppliers of groceries. Under the Order and Code, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator ("GCA").

M&S submitted its report, covering the period from 31 March 2019 to 28 March 2020, to the Audit Committee on 14 May 2020.

In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been seven instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and six of them have been resolved or closed. One additional Code reference made by a supplier before 31 March 2019 was also resolved during the reporting period.

A detailed summary of the compliance report is available on our website.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 28 March 2020. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 2 to 26 as well as the Group's principal risks and uncertainties as set out on pages 34 to 43, including the downside sensitivities outlined on page 43.

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

 See note 20 to the financial statements for more information on our facilities

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to March 2023. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

 See our approach to assessing long-term viability on pages 42 and 43

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2020 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be broadcast online from M&S' Waterside House support centre on 3 July 2020 at 11am. No physical attendance is permitted. The Notice of Meeting is given, together with explanatory notes and guidance on how to access the meeting and vote electronically, on pages 183 to 197.

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy.

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 61.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable IFRS (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, at any time and with reasonable accuracy, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current directors, whose names and functions are listed on pages 46 and 47, confirms that, to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 26 May 2020 and signed on its behalf by

Nick Folland

Nick Folland, General Counsel and Company Secretary

London, 26 May 2020

INDEPENDENT AUDITOR'S REPORT

Report on the audit of the financial statements

1. OPINION

In our opinion:

- **the financial statements of Marks and Spencer Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 28 March 2020 and of the Group's profit for the 52 weeks then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB');**
- **the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statement of Cash Flows; and
- the related notes 1 to 31 and C1 to C7.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current period were:

- disclosure of adjusting items;
- accounting for the UK store rationalisation programme;
- impairment of UK store assets;
- impairment of per una goodwill and brand;
- inventory provisions for UK Clothing & Home;
- recognition of leases under IFRS 16 Leases;
- accounting for the Ocado Retail Limited transaction; and
- the going concern basis of accounting.

Within this report, key audit matters are identified as follows:

Newly identified

MATERIALITY

The materiality that we used for the Group financial statements was £18.0 million (2019: £20.0 million) which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included:

- adjusted profit before tax;
- earnings before interest, tax, depreciation and amortisation; and
- revenue.

SCOPING

We have performed a full-scope audit on the UK component of the business, representing 95% (2019: 99%) of the Group's revenue, 93% (2019: 95%) of adjusted profit before tax, 92% (2019: 92%) of profit before tax, 82% (2019: 80%) of total assets and 90% (2019: 99%) of total liabilities. We perform analytical review procedures on the residual balances.



Increased level of risk

Similar level of risk

Decreased level of risk

3. SUMMARY OF OUR AUDIT APPROACH CONTINUED

SIGNIFICANT CHANGES IN OUR APPROACH	<p>India and Ireland components. We have also identified Ocado Retail Limited ('ORL') as a new component. Refer to section 7 for further details of our approach to scoping the audit.</p> <p>In the current period we have identified three new key audit matters related to:</p> <ul style="list-style-type: none"> – the going concern basis of accounting; – the impairment of per una goodwill and brand; and 	<ul style="list-style-type: none"> – the ORL transaction. <p>We have also determined that the valuation of the UK defined benefit pension obligation is no longer a key audit matter in the current year.</p> <p>These changes and the reasons for identification of these areas as key audit matters are discussed further in section 5.</p>
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4. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

4.1. GOING CONCERN	<p>Refer to section 5.8 for details of our work regarding going concern.</p> <p>Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.</p> <p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>	<ul style="list-style-type: none"> – the directors' confirmation on page 33 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or – the directors' explanation on page 42-43 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. <p>We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.</p> <p>Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.</p> <p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>
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5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Changes in the current period relative to previous periods are as follows:

- Due to the on-going Covid-19 pandemic which led to the mandatory closure of non-essential retail outlets in the Group's key market, the UK, and the subsequent uncertainty involved in scenario planning to underpin the management's going concern modelling and the associated audit work performed to assess the assumptions we have identified the going concern assumption applied to the financial statements as a key audit matter.
- We have identified the impairment of the per una goodwill and brand as a key audit matter for the first time in the current period. This is owing to both the continued challenging trading conditions following the relaunch of the brand in October 2019 and the subsequent impact of Covid-19 on the cash flow forecast used in the impairment assessment.
- In the current period we have identified the accounting for the ORL transaction as a key audit matter. The transaction occurred during the current period and is complex, involving a number of judgements to be made by management.
- We have not identified the defined benefit pension obligation as a key audit matter in the current period. This is due to a history of assessing the judgements and assumptions made by management at or near the middle of our independently calculated 'reasonable range' and the reduction in risk as a result of recent annuity buy-ins.

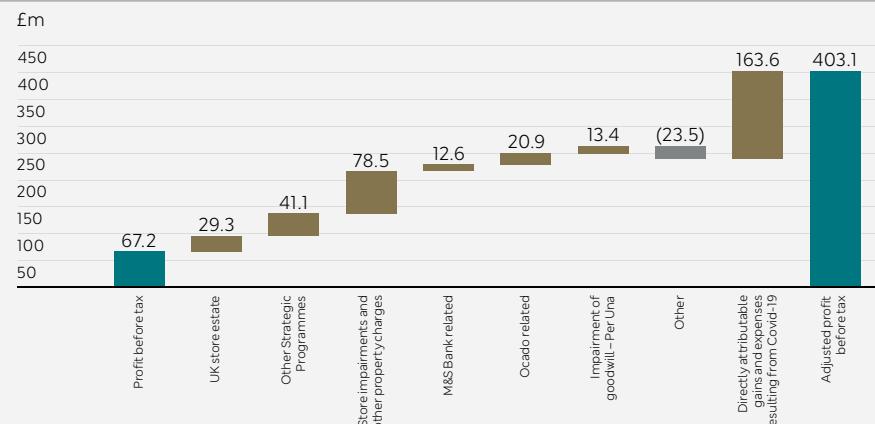
5.1 DISCLOSURE OF ADJUSTING ITEMS

KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profit before tax of £403.1 million (2019: £511.7 million), which is derived from statutory profit before tax of £67.2 million (2019: £84.2 million) adjusted for a number of items (totalling £335.9 million) which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items and accordingly we consider there to be a risk of fraud in the reporting of adjusting items.

In particular, we believe there is an increase in the level of risk associated with classification and disclosure of adjusting items in the current period, due to the effect of Covid-19 on adjusting item categories and balances. Additionally, recently updated guidance has been issued by the FRC and European Securities and Markets Authority ('ESMA') in relation to the impact of Covid-19 on alternative performance measures which encourages companies not to include such costs within adjusting items, rather to include separate disclosure. Separate disclosure has been made in the financial review on page 28.

Explanations of each adjusting item, which include a number that are related to material restructuring programmes carried out over a number of years, and in the current year items that relate to Covid-19, are set out in note 5 to the financial statements and are summarised in the graphic opposite.



In determining adjusted profit before tax, we identified the following risks:

- the identification and classification of items as 'adjusting' may be inappropriate, distorting the reported results;
- the omission of items which are considered material, one-off or significant in nature, distorting the reported results; and
- the clarity and detail of disclosures in respect of adjusting items may be insufficient, preventing investors from obtaining a clear understanding of the Group's results and performance.

The Group's policy regarding adjusting items is set out in note 1. This is a significant matter considered by the Audit Committee on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the identification and disclosure of adjusting items;
- performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature, particularly with regard to the Covid-19 related adjusting item;

KEY AUDIT MATTERS CONTINUED

5.1 DISCLOSURE OF ADJUSTING ITEMS CONTINUED

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER CONTINUED

- | | | |
|---|---|---|
| <ul style="list-style-type: none">– assessed the identification and consistency of items reported as adjusting in light of the latest guidance published by the ESMA and the FRC, in particular in relation to the transparency of disclosures made regarding Covid-19;– performed tests over a representative sample of adjusting items through agreement to supporting evidence; | <ul style="list-style-type: none">– used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which displayed characteristics of being material, significant or one-off in nature;– considered the impact of adjusting items on the directors' remuneration targets to determine whether any increased fraud risk factor existed based on actual results for the year; and | <ul style="list-style-type: none">– assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs. |
|---|---|---|

Key observations

We are satisfied that the items included in adjusting items (including the directly attributable (gains)/expenses resulting from the Covid-19 pandemic of £163.6 million) are in line with the Group's policy and that they are appropriately disclosed.

5.2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME

KEY AUDIT MATTER DESCRIPTION

In February 2018 the Board approved a list of stores marked for closure as part of its UK store rationalisation programme. Including the impact of IFRS 16 Leases on the way rental payments and other property costs are accounted for the total charge recognised in connection with this closure programme in the previous two periods was £537.6 million. A further net charge of £29.3 million has been recognised in the current period as a result of:

- management revisiting its assessment of stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market, including as a result of Covid-19;

- further accelerated depreciation of stores previously identified for closure as they approach their planned closure dates; and
- accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme.

Further information is set out in notes 1 and 5 to the financial statements and page 16 of the strategic report.

Our key audit matter was focused on the specific assumptions applied in the discounted cash flow analysis prepared by management including the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs.

We consider this to represent a key audit matter as a result of the level of judgement applied by management. There is an increased level of judgement in the current period as a result of the Covid-19 pandemic, which may impact the ability of the Group to negotiate closure or exit from certain stores in the forecast timeframes or on forecast terms.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the review and approval of the Group's UK store exit model;
- performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings;
- understood and challenged the basis of management's judgement where stores previously marked for closure are no longer expected to close and additional stores have been identified for closure;
- with the involvement of our internal real estate specialists, we evaluated the appropriateness of management's judgements for a representative sample of properties and benchmarked these with reference to external data, particularly as a result of the market uncertainty caused by the Covid-19 pandemic;
- assessed the mechanical accuracy of discounted cash flow models and other key provision calculations;
- assessed the integrity of key inputs to the discounted cash flow models including lease data, agent valuations, surveyor plans and rental payments with reference to supporting evidence;
- recalculated the closing provision for a representative sample of stores;
- evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the Group's estimate of the impairments and store exit charges and the associated disclosures are appropriate.

KEY AUDIT MATTERS CONTINUED

5.3 IMPAIRMENT OF UK STORE ASSETS**KEY AUDIT MATTER DESCRIPTION**

As at 28 March 2020 the Group held £3,925.5 million (2019: £2,830.0 million) of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 Impairment of Assets, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £69.3 million (2019: £103.0 million) has been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on

certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period (which takes in to account the time new stores take to establish themselves in the market), all of which involve a high degree of estimation uncertainty (as disclosed in note 1 and note 15). We believe the level of risk related to the impairment of UK store assets has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the Covid-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.

The key assumptions applied by management in the impairment reviews performed are:

- future revenue growth and changes in gross margin;
- long term growth rates; and
- discount rates.

The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately, with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to be a single group of assets for the purpose of impairment testing.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the impairment review process;
- evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts;
- assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated the appropriateness and completeness of information included in the impairment model based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the judgements applied, impairments recorded and disclosures within the financial statements are appropriate.

KEY AUDIT MATTERS CONTINUED

5.4 IMPAIRMENT OF PER UNA GOODWILL AND BRAND

KEY AUDIT MATTER DESCRIPTION

As at 28 March 2020 the Group held £56.1 million (2019: £69.5 million) of goodwill associated with the per una brand. The Group is required to assess the goodwill and intangible assets annually for impairment in accordance with IAS 36.

Following difficult trading conditions the per una brand was relaunched in October 2019. Trading conditions have been challenging throughout the period and deteriorated further around the period end as a result of the Covid-19 pandemic. The level of risk associated with per una has increased as a result of the inherent challenges in forecasting results due to Covid-19 as well as the pre-existing macro-economic uncertainty. These represent a key source of estimation uncertainty as disclosed in note 1, and management has provided sensitivities in note 14.

The test for impairment of intangible assets compares the carrying value of related assets to the higher of their fair value or value-in-use ('a recoverable amount') using an impairment model. Developing a recoverable amount requires significant management judgement; the key judgements applied by management in the development of its impairment model are:

- the sales forecasts for the brand;
- longer term growth forecasts; and
- the discount rate used.

As set out in note 14, the forecast shows a sales decrease of 46.4% in 2020/21 driven by the impact of Covid-19 before returning to the pre-Covid-19 budgeted level in 2021/22.

Following the completion of the impairment review, management has recognised an impairment charge of £13.4 million in relation to the per una goodwill.

We consider this to represent a key audit matter reflecting the sensitivity of the recoverable amount calculation to changes in these key assumptions.

Refer to note 14 of the financial statements.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the review and approval of the impairment review;
- tested the integrity of the model and cash flow forecasts and assessed that the methodology used is consistent with IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data to determine if it provided corroborative or contradictory evidence in relation to management's assumptions, and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- with the involvement of our internal valuation specialists, we assessed the discount rate assumptions;
- evaluated other material assumptions applied to the cash flow forecasts with reference to the macro-economic and industry environment; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the assumptions used by management in determining their valuation and the disclosure made are appropriate.

KEY AUDIT MATTERS CONTINUED

5.5 INVENTORY PROVISIONS FOR UK CLOTHING & HOME**KEY AUDIT MATTER DESCRIPTION**

As at 28 March 2020, the Group held UK Clothing & Home inventories of £355.6 million (2019: £496.1 million). The Group has recorded an incremental write-down of £157.0 million of inventory reflecting management's best estimate of the impact of Covid-19 on the Group (of which £145.3 million relates to UK Clothing & Home inventory), which is included within the Group's directly attributable (gains)/expenses resulting from the Covid-19 pandemic adjusting item as discussed in section 5.1. As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower

of cost and net realisable value. As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement due to historical trading performance and the quantum of gross inventory.

Covid-19 has required management to exercise considerable judgement in a period of extreme uncertainty with regard to the level of provisioning that is made for inventory, as such there is an increased level of judgement in the current period. Due to the inherent uncertainty around the future saleability of stock held at period end, management determined that it was no longer appropriate to determine the level of provision required based on historical experience and as such has changed the related methodology to consider future sales. Management has described its methodology for the calculation of the inventory provision in notes 1 and 5.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to inventory management and the review and approval of the inventory provision;
- assessed the validity, accuracy and completeness of the information used by management in computing the provision;
- assessed the mechanical accuracy and logic of the models underpinning the provision;
- understood the changes in the provisioning methodology and challenged the appropriateness thereof;
- challenged and validated the key assumptions applied by management in estimating the provision, with particular reference to the impact of Covid-19 on sales and purchasing assumptions, by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, assessed the historical accuracy of forecasting stock to be subject to a future discount and by using audit analytics;
- tested the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and

- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied with the judgements taken by management and that the resulting inventory provision for UK Clothing & Home is appropriate. We believe the disclosures made around the level of uncertainty appropriately reflect reasonably possible future changes to management's estimates.

KEY AUDIT MATTERS CONTINUED

5.6 RECOGNITION OF LEASES UNDER IFRS 16 LEASES

KEY AUDIT MATTER DESCRIPTION

The Group has elected to apply IFRS 16 Leases under the fully retrospective transition option from 31 March 2019. Management determined there to be an increase in total assets of £1,740.2 million and an increase in total liabilities of £1,961.2 million for the opening transition balance sheet at 1 April 2018. The current period is the first period in which the business has implemented IFRS 16.

Further information is set out in note 29 to the financial statements.

Our key audit matter was focused on the following areas of risk:

- new lease arrangements entered into in the period that should be accounted for under IFRS 16 are not identified;
- the lease data which underpins the IFRS 16 calculation of new lease arrangements is not accurate; and

- the disclosures in the financial statements are insufficient, precluding investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard.

The Audit Committee considers this to be a significant matter. Their consideration is on page 63.



HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls over the identification of new leases, the underlying lease data and the associated disclosures;
- leveraged the work performed in the prior period over the transition impact, including our understanding of key controls over the transition impact and the calculation of the discount rate applied;
- verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;
- considered completeness by testing the reconciliation to the Group's operating lease commitments as reported in the prior year's financial statements, and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and
- assessed whether the disclosures within the financial statements are in accordance with IFRS 16.

Key observations

We are satisfied that the lease data underpinning the IFRS 16 disclosures is complete and accurate and that new lease arrangements entered in during the financial year ended 28 March 2020 have been captured appropriately.

The disclosures management have made in relation to IFRS 16 are appropriate.

KEY AUDIT MATTERS CONTINUED

5.7 ACCOUNTING FOR THE OCADO RETAIL LIMITED TRANSACTION**KEY AUDIT MATTER DESCRIPTION**

On 5 August 2019 the Group signed a share purchase agreement to acquire 50% of the ordinary shares of ORL from Ocado Group plc, and contracted with ORL to supply M&S food products for sale through its online platform.

The Group has accounted for its 50% share of ORL as an associate on the basis that the shareholders' agreement gives control over ORL to Ocado Group plc.

The consideration paid comprises an initial cash payment of £560.9 million plus contingent consideration of £202.4 million which becomes payable after five years if certain performance conditions are met.

Management has completed a purchase price allocation ("PPA") exercise in order to allocate the consideration between the assets recognised following the transaction, including the identification and valuation of previously unrecognised intangible assets (£314.2 million) and goodwill (£449.1 million).

Management considers its conclusion that ORL is an associate to be a critical accounting judgement and the valuation of contingent consideration to be a key accounting estimate. These are discussed further in note 1.

We have defined the ORL transaction as a key audit matter owing to the significant effort required in auditing the transaction, including the PPA and, in particular, the judgement relating to the valuation of contingent consideration.

The Audit Committee considers this to be a significant matter and discusses its considerations on page 63. Refer to page 29 for management's discussion of the ORL transaction and to note 30 for financial disclosures.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the transaction and subsequent accounting;
- inspected the shareholders' agreement and other relevant contracts to independently assess the accounting treatment applied;
- assessed the appropriateness of management's judgements and the basis of conclusion for the valuation of contingent consideration with reference to supporting and contradictory evidence;
- inspected the ORL business plan and challenged key inputs and assumptions compared to internal and external data sources to support the valuation of contingent consideration and the PPA valuations;
- inspected the ORL board minutes relating to the business plan and key operational matters;
- evaluated actual trading performance with reference to the business plan and considered the impact of variance on the probability of meeting operational and financial targets related to the contingent consideration payment;
- calculated an independent acceptable range for the discount rate applied to the PPA valuation calculations and used this to recalculate the resulting fair value of consideration; and
- assessed the presentation and disclosure of the transaction including the accounting estimates.

Key observations

We are satisfied with the judgements made around accounting for the ORL transaction, including accounting for the investment as an associate and the valuation and completeness of the intangible assets identified by management. We are satisfied that the judgements taken in valuing the contingent consideration are appropriate.

KEY AUDIT MATTERS CONTINUED

5.8 THE GOING CONCERN BASIS OF ACCOUNTING

KEY AUDIT MATTER DESCRIPTION

In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant waiver that the Group has obtained in relation to its financing facility, and cost saving actions that the Group may take in responding to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme and business rates holidays). The Group has applied for the Bank of England's Covid Corporate Financing Facility ('CCFF') with an issuer limit of £300.0 million which was confirmed as successful on 23 April 2020,

however the Directors have not relied on the CCFF as part of their assessment of going concern. The Directors have also determined appropriate sensitivities to these forecasts, including a reverse-stress test of the Group's liquidity, and considered the results in forming their conclusion.

Due to the on-going Covid-19 pandemic, which has led to the mandatory closure of non-key retail outlets in the Group's key market, the UK, there is significantly more judgement applied in developing cash flow forecasts including assumptions relating to the period of closure for retailers, the impact on the Group's sales and the anticipated cost savings throughout the going concern period.

Taking into account the sensitivities, the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

We have identified a key audit matter related to going concern as a result of the judgement required to conclude there is not a material uncertainty related to going concern.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on pages 42-43 and 96 and in note 1 to the financial statements.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- obtained management's board approved three year cash flow forecasts and covenant compliance forecasts, including the impact of Covid-19 and the reverse stress test;
- involved our internal specialists in our assessment of the appropriateness of forecast assumptions by:
 - reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
 - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;

- enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control;
- testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
- reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough;
- reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant waivers obtained by the Group in relation to its financing facility and the availability of CCFF funding;

- understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
- considering the results of the reverse stress tests performed; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1.

Key observations

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and Parent Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

6. OUR APPLICATION OF MATERIALITY

6.1. MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements								
Materiality	£18.0 million (2019: £20.0 million)	£16.2 million (2019: £18.0 million)								
Basis for determining materiality	<p>We considered the following metrics:</p> <ul style="list-style-type: none"> - Adjusted profit before tax - Earnings before interest, tax, depreciation and amortisation - Revenue <p>Using professional judgement we determined materiality to be £18.0m.</p>	<p>3% of net assets</p> <p>We have used 3% of net assets in both the current and prior period, capped at 90% of Group materiality, as the basis for materiality.</p>								
Rationale for the benchmark applied	<p>In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements.</p> <p>This approach is a change from the prior year (which was based on adjusted profit before tax, but excluding the impact of certain adjusting items) to reflect the volatility in the results of the Group arising from the impact of Covid-19.</p> <p>Group materiality represents:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding-right: 10px;">Metric</th> <th style="text-align: right; padding-right: 10px;">%</th> </tr> </thead> <tbody> <tr> <td style="padding-top: 5px;">Adjusted profit before tax</td> <td style="text-align: right; padding-top: 5px;">4.5</td> </tr> <tr> <td style="padding-top: 5px;">Earnings before interest, tax, depreciation and amortisation</td> <td style="text-align: right; padding-top: 5px;">2.0</td> </tr> <tr> <td style="padding-top: 5px;">Revenue</td> <td style="text-align: right; padding-top: 5px;">0.18</td> </tr> </tbody> </table>	Metric	%	Adjusted profit before tax	4.5	Earnings before interest, tax, depreciation and amortisation	2.0	Revenue	0.18	<p>Net assets is used as the benchmark as the Company operates primarily as a holding company for the Group and we therefore consider this as they key metric for the Company.</p> <p>We capped materiality at 90% of Group materiality to reduce the risk of a material error arising as a result of the consolidation of the Company's result in the Group financial statements.</p>
Metric	%									
Adjusted profit before tax	4.5									
Earnings before interest, tax, depreciation and amortisation	2.0									
Revenue	0.18									

6.2. PERFORMANCE MATERIALITY

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 50% of Group materiality for the 2020 audit (2019: 60%). We have reduced the percentage used, primarily in response to the impact that Covid-19 has had on the Group's internal control environment and financial close process. In determining performance materiality, we considered the following factors:

- the pervasive impact of Covid-19 on the financial statements, the judgements taken by management and the associated disclosures;
- our cumulative knowledge of the Group and its environment, including industry wide pressure on retailers;

- the level of change to the business in the period, including the ORL investment;
- the changes to management personnel;
- the level of centralisation in the Group's financial reporting controls and processes; and
- the level of misstatements identified in prior periods.

6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9 million (2019: £1.0 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. IDENTIFICATION AND SCOPING OF COMPONENTS

Our audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

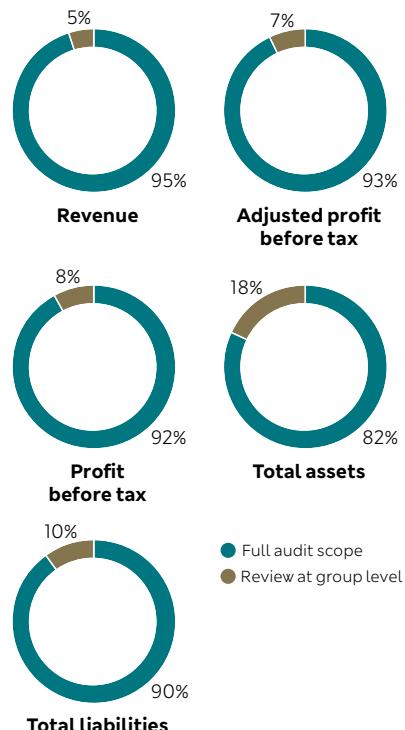
Components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified. Based on our assessment we have focused our audit on the UK business which was subject to full audit procedures. We have performed our full audit scope of the UK component using a materiality of £16.2 million (or 90% of Group materiality) (2019: £18.0 million) as this makes up substantially all of the Group's operations (95% of the Group's revenue, 2019: 91%).

India and Ireland have been removed from full-scope audit procedures in the current period, owing to their financial insignificance in the context of the Group as a whole. Except for ORL, all other wholly owned and associate businesses, including the Irish and Indian components, were subject to analytical review procedures performed by the Group audit team. Whilst we audit the revenues received by the Group from franchise operations, which account for 4% (2019: 4%) of the Group's revenue, we do not audit the underlying franchise operations as part of our group audit.

As a result of the Group's acquisition of 50% of Ocado Retail Limited we have identified ORL as a new component

in this period, subject to specified audit procedures.

We have also tested the consolidation process and carried out analytical procedures in forming our conclusion that there were no significant risks of material misstatement remaining in the consolidated financial information arising from the components not subject to a full audit.



7.2. WORKING WITH OTHER AUDITORS

ORL is the only component where work is conducted by a component auditor. As a recent acquisition of the Group, we have performed a review of the component auditor's files for the statutory audit of the entity for the period from acquisition up to 1 December 2019. We have also issued detailed instructions to our component audit team relating to procedures for the period subsequent to 1 December 2019, engaged regularly with them throughout the audit process, determined the nature, timing and extent of specified audit procedures to be performed and reviewed their component reporting. A dedicated member of the Group audit team is assigned to facilitate an effective and consistent approach to component oversight.

8. OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the

financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

Fair, balanced and understandable

– the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

– **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

– **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable

the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to

continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting

irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, other key persons and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas in which management is required to exercise significant judgement, such as the disclosure of adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Financial Conduct Authority regulations including the Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the competition and anti-bribery laws, data protection, Groceries Supply Code of Practice, and employment, environmental and health and safety regulations.

11.2. AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the disclosure of adjusting items as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains this matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD CONTINUED

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal

entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. OTHER MATTERS

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6, covering the periods ending 28 March 2015 to 28 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Richard Muschamp FCA
(Senior statutory auditor)**

For and on behalf of Deloitte LLP
Statutory Auditor
London
26 May 2020

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 28 March 2020			52 weeks ended 30 March 2019 (Restated)		
		Results before adjusting items £m	Adjusting items £m	Total £m	Results before adjusting items £m	Adjusting items £m	Total £m
Revenue	2, 3	10,181.9	–	10,181.9	10,377.3	–	10,377.3
Share of result in associate – Ocado Retail Limited	3, 5	2.6	(16.8)	(14.2)	–	–	–
Operating profit	2, 3, 5	590.7	(335.9)	254.8	725.6	(427.5)	298.1
Finance income	5, 6	44.0	2.9	46.9	34.8	–	34.8
Finance costs	5, 6	(231.6)	(2.9)	(234.5)	(248.7)	–	(248.7)
Profit before tax	4, 5	403.1	(335.9)	67.2	511.7	(427.5)	84.2
Income tax expense	7	(83.4)	43.6	(39.8)	(106.0)	67.1	(38.9)
Profit for the year		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Attributable to:							
Owners of the parent		316.0	(292.3)	23.7	402.1	(360.4)	41.7
Non-controlling interests		3.7	–	3.7	3.6	–	3.6
		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Basic earnings per share	8	16.7p		1.3p	23.7p		2.5p
Diluted earnings per share	8	16.7p		1.2p	23.6p		2.4p

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 28 March 2020 £m		52 weeks ended 30 March 2019 (Restated) £m	
		Profit for the year	Other comprehensive income:	Profit for the year	Other comprehensive income:
Profit for the year					
Profit for the year		27.4		45.3	
Other comprehensive income:					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of retirement benefit schemes	11	927.9		(79.9)	
Tax (charge)/credit on retirement benefit schemes		(196.7)		14.0	
		731.2		(65.9)	
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences					
– movements recognised in other comprehensive income			5.1		(14.6)
– reclassified and reported in profit or loss			2.9		–
Cash flow hedges					
– fair value movements recognised in other comprehensive income	21	140.3		132.0	
– reclassified and reported in profit or loss		(18.4)		(16.0)	
Tax charge on cash flow hedges		(27.0)		(19.0)	
		102.9		82.4	
Other comprehensive income for the year, net of tax			834.1		16.5
Total comprehensive income for the year			861.5		61.8
Attributable to:					
Owners of the parent			857.8		58.2
Non-controlling interests			3.7		3.6
			861.5		61.8

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 28 March 2020 £m	As at 30 March 2019 (Restated) £m	As at 1 April 2018 (Restated) £m
Assets				
Non-current assets				
Intangible assets	14	399.1	499.9	599.2
Property, plant and equipment	15	5,494.2	5,662.3	6,189.6
Investment property		15.5	15.5	15.5
Investment in joint ventures and associates	30	760.4	4.0	7.0
Other financial assets	16	9.7	9.9	9.9
Retirement benefit asset	11	1,915.0	931.5	970.7
Trade and other receivables	17	262.6	273.0	209.5
Derivative financial instruments	21	112.4	19.8	27.1
		8,968.9	7,415.9	8,028.5
Current assets				
Inventories	1	564.1	700.4	781.0
Other financial assets	16	11.7	141.8	13.7
Trade and other receivables	17	298.0	267.2	252.4
Derivative financial instruments	21	73.5	40.3	7.1
Current tax assets		19.3	–	–
Cash and cash equivalents	18	248.4	285.4	207.7
		1,215.0	1,435.1	1,261.9
Total assets		10,183.9	8,851.0	9,290.4
Liabilities				
Current liabilities				
Trade and other payables	19	1,426.4	1,424.4	1,377.1
Partnership liability to the Marks & Spencer UK Pension Scheme	12	71.9	71.9	71.9
Borrowings and other financial liabilities	20	316.6	694.4	283.7
Derivative financial instruments	21	13.0	7.3	73.8
Provisions	22	21.5	100.7	56.2
Current tax liabilities		–	26.2	50.0
		1,849.4	2,324.9	1,912.7
Non-current liabilities				
Retirement benefit deficit	11	12.4	17.2	22.5
Trade and other payables	19	222.6	15.6	16.3
Partnership liability to the Marks & Spencer UK Pension Scheme	12	135.5	200.5	263.6
Borrowings and other financial liabilities	20	3,865.9	3,628.5	4,054.5
Derivative financial instruments	21	0.7	2.8	30.7
Provisions	22	56.5	72.7	91.8
Deferred tax liabilities	23	332.4	119.6	165.1
		4,626.0	4,056.9	4,644.5
Total liabilities		6,475.4	6,381.8	6,557.2
Net assets				
Equity		3,708.5	2,469.2	2,733.2
Issued share capital	24	487.6	406.3	406.2
Share premium account	24	910.4	416.9	416.4
Capital redemption reserve		2,210.5	2,210.5	2,210.5
Hedging reserve		68.6	(14.6)	(76.0)
Cost of hedging reserve		5.7	11.7	10.7
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(35.9)	(43.9)	(29.3)
Retained earnings		6,597.8	6,024.8	6,339.4
Equity attributable to owners of the parent		3,702.5	2,469.5	2,735.7
Non-controlling interests		6.0	(0.3)	(2.5)
Total equity		3,708.5	2,469.2	2,733.2

Comparative information has been restated for the impact of IFRS 16 (see note 29).

The financial statements were approved by the Board and authorised for issue on 26 May 2020. The financial statements also comprise notes 1 to 31.

Steve Rowe, Chief Executive Officer

David Surdeau, Interim Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total £m
As at 1 April 2018	406.2	416.4	2,210.5	(76.0)	10.7	(6,542.2)	(29.3)	6,559.9	2,956.2	(2.5)	2,953.7
Adjustment on initial application of IFRS 16	–	–	–	–	–	–	–	(220.5)	(220.5)	–	(220.5)
Adjusted opening shareholders' equity	406.2	416.4	2,210.5	(76.0)	10.7	(6,542.2)	(29.3)	6,339.4	2,735.7	(2.5)	2,733.2
Profit for the year	–	–	–	–	–	–	–	41.7	41.7	3.6	45.3
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	(14.6)	–	(14.6)	–	(14.6)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	(79.9)	(79.9)	–	(79.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	–	–	14.0	14.0	–	14.0
Cash flow hedges											
– fair value movements in other comprehensive income	–	–	–	130.5	1.5	–	–	132.0	–	132.0	
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	–	(16.0)	–	(16.0)	
Tax on cash flow hedges	–	–	–	(18.5)	(0.5)	–	–	(19.0)	–	(19.0)	
Other comprehensive income/(expense)	–	–	–	96.0	1.0	–	(14.6)	(65.9)	16.5	–	16.5
Total comprehensive income/(expense)	–	–	–	96.0	1.0	–	(14.6)	(24.2)	58.2	3.6	61.8
Cash flow hedges recognised in inventories	–	–	–	(42.7)	–	–	–	(42.7)	–	(42.7)	
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	–	8.1	–	8.1	
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(303.5)	(303.5)	–	(303.5)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	(1.4)	(1.4)
Shares issued on exercise of employee share options	0.1	0.5	–	–	–	–	–	–	0.6	–	0.6
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(5.5)	(5.5)	–	(5.5)
Credit for share-based payments	–	–	–	–	–	–	–	19.2	19.2	–	19.2
Deferred tax on share schemes	–	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
As at 30 March 2019 (Restated)	406.3	416.9	2,210.5	(14.6)	11.7	(6,542.2)	(43.9)	6,024.8	2,469.5	(0.3)	2,469.2
As at 31 March 2019 (Restated)	406.3	416.9	2,210.5	(14.6)	11.7	(6,542.2)	(43.9)	6,024.8	2,469.5	(0.3)	2,469.2
Profit for the year	–	–	–	–	–	–	–	23.7	23.7	3.7	27.4
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	5.1	–	5.1	–	5.1
– reclassified and reported in profit or loss	–	–	–	–	–	–	2.9	–	2.9	–	2.9
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	927.9	927.9	–	927.9
Tax charge on items that will not be reclassified	–	–	–	–	–	–	–	(196.7)	(196.7)	–	(196.7)
Cash flow hedges											
– fair value movements in other comprehensive income	–	–	–	147.8	(7.5)	–	–	140.3	–	140.3	
– reclassified and reported in profit or loss	–	–	–	(18.4)	–	–	–	(18.4)	–	(18.4)	
Tax on cash flow hedges	–	–	–	(28.5)	1.5	–	–	(27.0)	–	(27.0)	
Other comprehensive income/(expense)	–	–	–	100.9	(6.0)	–	8.0	731.2	834.1	–	834.1
Total comprehensive income/(expense)	–	–	–	100.9	(6.0)	–	8.0	754.9	857.8	3.7	861.5
Cash flow hedges recognised in inventories	–	–	–	(21.8)	–	–	–	(21.8)	–	(21.8)	
Tax on cash flow hedges recognised in inventories	–	–	–	4.1	–	–	–	4.1	–	4.1	
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(191.1)	(191.1)	–	(191.1)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	2.6	2.6
Shares issued on exercise of employee share options	–	0.1	–	–	–	–	–	–	0.1	–	0.1
Shares issued on rights issue ³	81.3	493.4	–	–	–	–	–	–	574.7	–	574.7
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(8.9)	(8.9)	–	(8.9)
Credit for share-based payments	–	–	–	–	–	–	–	18.5	18.5	–	18.5
Deferred tax on share schemes	–	–	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
As at 28 March 2020	487.6	910.4	2,210.5	68.6	5.7	(6,542.2)	(35.9)	6,597.8	3,702.5	6.0	3,708.5

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. Included within "Retained earnings" is the fair value through other comprehensive income reserve.

3. The share premium amount of £493.4m is net of £26.6m in relation to transaction costs associated with the rights issue.

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	26	1,064.7	1,350.4
Income tax paid		(91.6)	(105.7)
Net cash inflow from operating activities		973.1	1,244.7
Cash flows from investing activities			
Proceeds on property disposals		2.7	48.1
Purchase of property, plant and equipment		(251.0)	(217.8)
Purchase of intangible assets		(77.6)	(95.1)
Sale/(purchase) of current financial assets		130.1	(128.1)
Purchase of investments in associates and joint ventures ¹	30	(580.3)	(2.5)
Interest received		10.4	7.4
Net cash used in investing activities		(765.7)	(388.0)
Cash flows from financing activities			
Interest paid ²		(224.2)	(229.0)
Repayment of borrowings		-	(46.7)
Issuance of Medium Term Notes		250.0	1.4
Redemption of Medium Term Notes		(400.0)	-
Repayment of lease liabilities		(201.4)	(170.1)
Payment of liability to the Marks & Spencer UK Pension Scheme		(63.5)	(61.6)
Equity dividends paid	9	(191.1)	(303.5)
Shares issued on exercise of employee share options	24	0.1	0.6
Proceeds from rights issue net of costs	24	574.4	-
Purchase of own shares by employee trust		(8.9)	(5.5)
Cash received from settlement of derivatives		7.7	-
Net cash used in financing activities		(256.9)	(814.4)
Net cash (outflow)/inflow from activities		(49.5)	42.3
Effects of exchange rate changes		0.5	(0.2)
Opening net cash		213.1	171.0
Closing net cash	27	164.1	213.1

1. Includes investment in Ocado Retail Limited of £577.8m (last year: £nil) and Founders Factory Retail Limited of £2.5m (last year: £2.5m). In addition to the £560.9m cash paid to Ocado Group plc per Note 30, £11.5m is included within trade and other receivables (Note 17) as at 28 March 2020 following finalisation of the transaction. In addition, there are £5.4m transaction costs paid during the year.

2. Includes interest paid on the partnership liability to the Marks and Spencer UK Pension Scheme of £8.4m (last year: £10.3m) and interest paid on lease liabilities of £134.3m (last year: £142.6m (restated)).

Comparative information has been restated for the impact of IFRS 16 (see note 29).

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations is as a Clothing & Home and Food retailer.

These financial statements are presented in sterling, which is also the Company's functional currency, and are rounded to the nearest hundred thousand. Foreign operations are included in accordance with the policies set out within this note.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 from the requirement to prepare and deliver financial statements in accordance with the Companies Act.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 2 to 26, and the principal risks and uncertainties as set out on pages 34 and 43, including by modelling a Covid-19 scenario.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast paced changes taking place across the retail sector, we expect to see significant volatility and business disruption reducing our expected performance in 2020/21. We have already felt the impact of the government's guidelines on lockdown, with our Food stores open and trading (albeit with social-distancing rules in place), but with Clothing & Home unable to trade from stores, and all sales therefore predominantly coming from online sales and Click & Collect in stores.

The Covid-19 scenario assumes that the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

- On average, a 70% decline in Clothing & Home sales vs budget for the four months to July 2020, followed by a slow recovery back to budget by February 2021, reducing expected revenue by £1.5bn for the financial year.
- A 20% decline in Food sales vs budget for the four months to July, impacting annual revenue by £384m.
- International sales following a similar profile to Clothing & Home, with a significant decline in April due to closures, and a recovery back to budget extended to March 2021, impacting annual revenue by £214m.

Further downside sensitivities which extend the length of the social-distancing measures or increase the depth of the impact on sales and margin were also considered, as explained in the Viability Statement. In addition, reverse stress testing has also been applied to the model, which represents a significant decline in sales compared to the Covid-19 scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

The Covid-19 scenario reflects the actions already taken by management, including:

- Cost-saving initiatives, such as reducing marketing spend, freezing pay and recruitment, and technology and operating expenditure cuts.
- Reducing the capital expenditure budget to c.£140m.
- Reducing the supply pipeline of Clothing & Home stock by c.£560m, and lengthening payment terms.
- Ceasing to pay the final dividend payment for 2019/20 and for 2020/21, resulting in a total anticipated cash saving of c.£340m.

The Group will also benefit from c.£172m of business rates relief in 2020/21 and the government's job retention scheme to help meet the cost of furloughed roles in stores, distribution and support centres, which should generate cash savings of c.£50m up to 30 June 2020.

In addition, the following further steps have also been taken:

- Formal agreement has been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group confirmed on 23 April 2020 its eligibility under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m, providing significant further liquidity headroom.

The agreement with the banks combined with the other measures taken means that, even under the Covid-19 scenario, the business would continue to have significant liquidity headroom on its existing facilities and against the revolving credit facility financial covenant. As at 28 March 2020 the financial covenant was met.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

New accounting standards adopted by the Group

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 31 March 2019:

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation.
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).

The Group also elected to adopt the following amendments early:

- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is described in note 29. The impact of early adopting the amendments to IFRS 9 as a result of interest rate benchmark reform is described in the financial instruments accounting policy and in note 21.

The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IAS 1 and IAS 8 Definition of Material.
- Amendments to IFRS 3 Definition of a Business.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Alternative Performance Measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 28 March 2020:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
 - Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
 - Significant pension charges arising as a result of the historical changes to the UK defined benefit scheme practices.
 - Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
 - Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
 - Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products as well as forward economic guidance provisions recognised by M&S Bank as a result of Covid-19.
 - Significant costs arising from establishing the investment in Ocado Retail Limited.
 - Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.¹
 - Remeasurement of contingent consideration including discount unwind.¹
 - Directly attributable gains and expenses resulting from the Covid-19 pandemic.²
 - Other adjusting items include credits recognised in relation to potential liabilities for employee-related matters previously recognised within adjusting items.
1. As a result of the investment in Ocado Retail Limited during the year these items have been included within adjusting items for the first time.
 2. As a result of the Covid-19 pandemic and subsequent UK government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified gains and expenses incurred as a direct result of Covid-19 as adjusting items for the first time. The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 34 as well as set out within the basis of preparation on page 116 which summarises the Covid-19 scenario modelled by the Group and within the subsequent events note.

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

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

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except for certain financial instruments (including derivative instruments) and plan assets of defined benefit pension schemes which are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the period end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Company has control. Control is achieved when the Company has the power over the entity; is exposed, or has rights to, variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of these three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment.

Associated undertakings acquired during the year are recorded using the equity method of accounting and their results are included from the date of acquisition. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. The Group's share of the net fair value of identified intangible assets is amortised over the expected useful economic life of the assets.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

When a Group company transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

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 performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer.

A right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

The Group enters into agreements which entitle other parties to operate under the Marks & Spencer brand name for certain activities and operations, such as M&S Bank and M&S Energy. These contracts give rise to performance-based variable consideration. Income dependent on the performance of the third-party operations is recognised when it is highly probable that a significant reversal in the amount of income recognised will not occur, and presented as other operating income.

Supplier income

In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Supplier income continued

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

A. Trade and other payables The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the legal right and intention to offset these balances.

B. Trade and other receivables Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

M&S Bank

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate contractual deductions.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions

Funded pension plans are in place for the Group's UK employees and some overseas employees.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method. An asset can be recognised as in the event of a plan wind-up, the pension scheme rules provide the Group with an unconditional right to a refund of surplus assets assuming a full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up, or change, the benefits due to the members of the scheme. As a result, any net surplus in the UK defined benefit (DB) scheme is recognised in full.

The service cost of providing retirement benefits to employees during the year, together with the cost of any curtailment, is charged to operating profit in the year. The Group no longer incurs any service cost or curtailment costs related to the UK DB pension scheme as the scheme is closed to future accrual.

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements, being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in other comprehensive income.

During 2017/18, the UK DB pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS 19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in other comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense on an accruals basis.

Intangible assets

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

B. Acquired intangible assets Acquired intangible assets include trademarks or brands and customer relationships. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets identified on investments in associates are included in investments in associates at fair value. Intangible assets are amortised on a straight-line basis over their estimated useful lives of between 10 and 40 years.

Acquired intangible assets are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

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

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 10 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

Property, plant and equipment

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

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

- Freehold land – not depreciated.
- Buildings – depreciated to their residual value over their estimated remaining economic lives.
- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Leasing

The Group recognises a right-of-use asset and corresponding liability at the date at which a leased asset is made available for use by the Group, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities are measured at the present value of the future lease payments, excluding any payments relating to non-lease components. Future lease payments include fixed payments, in-substance fixed payments, and variable lease payments that are based on an index or a rate, less any lease incentives receivable. Lease liabilities also take into account amounts payable under residual value guarantees and payments to exercise options to the extent that it is reasonably certain that such payments will be made. The payments are discounted at the rate implicit in the lease or, where that cannot be readily determined, at an incremental borrowing rate.

Right-of-use assets are measured initially at cost based on the value of the associate lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease. The Group presents right-of-use assets in 'property, plant and equipment' in the consolidated statement of financial position.

Subsequent to initial recognition, the lease liability is reduced for payments made and increased to reflect interest on the lease liability (using the effective interest method). The related right-of-use asset is depreciated over the term of the lease or, if shorter, the useful economic life of the leased asset. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Leases for which the Group is a lessor are classified as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee and classified as an operating lease if it does not. When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant 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 initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment").

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 financial statements are presented in sterling, which is the Company's functional currency.

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. On disposal of an overseas subsidiary the related cumulative translation differences recognised in reserves are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

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 and accumulated in the cash flow hedge reserve as qualifying cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Taxation

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

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

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent that 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. Financial assets are initially classified as at fair value through profit and loss, fair value through other comprehensive income or amortised cost depending on the Group's intention with regard to the collection of contractual cash flows (or sale) and whether the financial asset's cash flows relate solely to the payment of principal and interest.

A. Trade and other receivables Trade receivables are recorded initially at transaction price and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments with a maturity date of over 90 days and are classified as either fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). Financial assets held at FVOCI are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at FVPL are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as FVPL, gains and losses arising from changes in fair value are included in the income statement for the period.

For equity investments at FVOCI, gains or losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income and accumulated in the FVOCI reserve is transferred to retained earnings.

For debt instruments at FVOCI, gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income and accumulated in equity is reclassified to the income statement. Impairments in debt securities are recognised based on management's expectation of losses in each investment ("expected credit loss" model).

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 or deducted from 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. If the loan is designated in a fair value hedge relationship, the carrying value of the loan is adjusted to the hedged risk.

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 Group are recorded at the consideration received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions, and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective effectiveness testing is performed to ensure that 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.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The application of the amendments impacts the Group's accounting in relation to a sterling denominated fixed rate debt, which it fair value hedge accounts using sterling fixed to GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The Group has chosen to early apply the amendments to IFRS 9 for the reporting period ended 28 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

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. The element of the change in fair value which relates to the currency spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve and any ineffective portion is recognised immediately in the income statement in finance costs. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income and accumulated in

the cash flow hedge reserve are removed directly from equity and 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 the cash flow hedge reserve 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.

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.

C. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, the hedge relationship no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur. The Group cannot voluntarily de-designate a hedging relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument accumulated in the cash flow hedge reserve is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss accumulated in the cash flow hedge reserve 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 based on the recalculated effective interest rate at that date.

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

Reserves

The following describes the nature and purpose of each reserve within equity:

A. Share premium account Proceeds received in excess to the nominal value of shares issued, net of any transaction costs.

B. Capital redemption reserve Amounts transferred from share capital on redemption or repurchase of issued shares.

C. Hedging reserve Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges.

D. Cost of hedging Cumulative gains and losses on the portion excluded from the designated hedging instrument that relates to changes in the foreign currency basis.

E. Other reserve 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.

F. Foreign exchange reserve Gains and losses arising on retranslating the net assets of overseas operations into sterling.

G. Retained earnings All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key 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 key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the Glossary. These definitions have been applied consistently year on year, with additional items due to the investment in Ocado Retail Limited and certain directly attributable gains and expenses resulting from the Covid-19 pandemic.

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

UK defined benefit pension surplus

Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK defined benefit scheme is in surplus at 28 March 2020. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £1,915.0m has been recognised.

Assessment of control

The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate (see note 30). This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. These rights include determinative rights currently held by Ocado Group Plc, after agreed dispute-resolution procedures, in relation to the approval of the Ocado Retail Limited business plan and budget and the appointment and removal of Ocado Retail Limited's Chief Executive Officer. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

Determining the lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts for land and buildings that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination, including: whether there are significant penalties to terminate (or not extend); whether any leasehold improvements are expected to have a significant remaining value; historical lease durations; the importance of the underlying asset to the Group's operations; and the costs and business disruption required to replace the leased asset.

Most renewal periods and periods covered by termination options are included as part of the lease term for leases of land and buildings. The Group typically exercises its option to renew (or does not exercise its option to terminate) for these leases because there will be a significant negative effect on trading if a replacement property is not readily available.

The lease term is reassessed if a significant event or a significant change in circumstances occurs which affects the assessment of reasonable certainty – for example, if a store is identified to be closed as part of the UK store estate strategic programme.

Determining the incremental borrowing rate used to measure lease liabilities

The Group is required to determine its incremental borrowing rate (IBR) to measure lease liabilities. Judgement is applied in determining the components of the IBR used for each lease including risk-free rates, the Group's credit risk and any lease-specific adjustments.

IBRs are determined bi-annually and depend on the term, country and start date of the lease. The IBR is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; and a credit risk adjustment based on the average credit spread of entities with similar ratings to the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Determining whether forecast purchases are highly probable

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing Clothing & Home products from Asia which are paid predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether the forecast purchases remain "highly probable", particularly in light of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures.

At the reporting date, a £2.9m gain has been recognised in the income statement as a result of US\$76.6m notional forecast purchases no longer expected to occur in relation to the Clothing & Home Autumn and Winter season requirement. In making this assessment, the Group has considered the most recent budgets and plans, including the Covid-19 scenario. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time, as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of Clothing & Home inventory, as described in the basis of preparation, does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £29.3m (last year: £216.5m (restated)) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (see the basis of preparation section and the glossary for details on this Covid-19 scenario).
- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.

- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 15 for further detail.

Useful lives and residual values of property, plant and equipment and intangibles

Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (the Covid-19 scenario), focusing on the external impact of social-distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles, particularly where the store carrying value exceeds fair value less cost to sell. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Inventory provisioning

The Group sells Clothing & Home merchandise that are subject to changing consumer demands and seasonal trends. As a direct result of the restrictions on “non-essential” trade imposed in response to the Covid-19 pandemic, our ability to sell through existing Clothing & Home stock has been significantly impacted. Accordingly, the Group has had to review its inventory levels in light of future expectations of sell-through, impacting the recoverability of the cost of inventories and the level of provisioning required. When calculating inventory provisions, management has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. See note 5 for further details on the assumptions and associated sensitivities.

Post-retirement benefits

The determination of pension net interest income and the defined benefit obligation of the Group’s defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. Management has considered reasonably possible changes in these key sources of estimation uncertainty. A further change of 10% in private equity values would change asset values by £14.0m and a 0.5% change in secure income assets would change asset values by £3.0m. See note 11 for further details on the impact of changes in the key assumptions and estimates.

Fair value of consideration and contingent consideration

As part of the investment in Ocado Retail Limited (see note 30), contingent consideration with an estimated fair value of £202.4m has been recognised in the period. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is £187.5m plus interest of 4%.

The arrangement has a number of elements which only become payable on the achievement of specific performance targets. The most significant of these is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. If targets are not achieved, no contingent consideration will be payable.

2 SEGMENTAL INFORMATION

IFRS 8 Operating Segments 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.

During the year, the Group has completed a comprehensive review of the way in which costs are allocated between our businesses. As a result, a detailed and more accurate cost allocation methodology now exists which allows the Operating Committee to review performance by business down to Operating profit, with financial and management information presented in the way that best: reflects how we manage the business; allows management to take fully informed decisions; and therefore holds management appropriately to account. As a result, during 2019/20, the composition of the Group’s operating segments has changed. The Group now recognises three operating segments, being UK Clothing & Home, UK Food, and International (previously UK and International), with reporting on all three segments down to Operating profit before adjusting items. These new reportable segments reflect key pillars of our transformation programme and the enhanced focus on managing each of the three core business areas.

The Group’s reportable operating segments have therefore been identified as follows:

- UK Clothing & Home – comprises the retailing of womenswear, menswear, lingerie, kidswear and home products through UK retail stores and online.
- UK Food – includes the results of the UK retail food business and UK Food franchise operations, with the following five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals, dessert and frozen; and hospitality and ‘Food on the Move’.
- International – consists of Marks and Spencer-owned businesses in Europe and Asia and the international franchise operations.

Other business activities and operating segments, including M&S Bank, M&S Energy and the Group’s share of profits or losses from the investment in Ocado Retail Limited, are combined and presented in “All other segments”. M&S Bank and M&S Energy were previously reported within the old UK segment but are now presented within “All other segments” as the business activities are fundamentally different to the three core reportable segments. Finance income and costs are not allocated to segments as each is managed on a centralised basis.

As the Group’s reportable segments have been changed, the comparative information for 2019 has been restated.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit before adjusting items. This measurement basis excludes the effects of adjusting items from the operating segments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 SEGMENTAL INFORMATION CONTINUED

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

	52 weeks ended 28 March 2020					52 weeks ended 30 March 2019 (Restated) ¹				
	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m ^{2,3}	All other segments £m	Group £m
Revenue	3,209.1	6,028.2	944.6	–	10,181.9	3,499.8	5,903.4	974.1	–	10,377.3
Operating profit before adjusting items⁴	223.9	236.7	110.7	19.4	590.7	355.2	212.9	130.5	27.0	725.6
Finance income					44.0					34.8
Finance costs					(231.6)					(248.7)
Profit before tax and adjusting items	223.9	236.7	110.7	19.4	403.1	355.2	212.9	130.5	27.0	511.7
Adjusting items					(335.9)					(427.5)
Profit before tax	223.9	236.7	110.7	19.4	67.2	355.2	212.9	130.5	27.0	84.2

1. Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 29).

2. The reporting of results from certain international M&S.com websites has been transferred from UK Clothing & Home (previously UK) to International to align reporting with the day-to-day management of these operations, resulting in revenue of £37.5m and operating profit of £2.9m being transferred.

3. International operating profit was previously reported as £127.0m and has been restated to £130.5m due to the adoption of IFRS 16 (increased by £13.2m), a reallocation of central costs between the Group's reportable segments (decreased by £12.6m) and the impact of footnote 2 (increased by £2.9m).

4. Operating profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Other segmental information

	52 weeks ended 28 March 2020					52 weeks ended 30 March 2019 (Restated)				
	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m
Additions to property, plant & equipment and intangible assets (excluding goodwill and right-of-use assets)	166.5	170.1	15.7	–	352.3	140.6	142.5	13.9	–	297.0
Depreciation and amortisation ²	(350.6)	(283.4)	(34.6)	–	(668.6)	(430.4)	(323.8)	(35.5)	–	(789.7)
Impairment and asset write-offs ²	(69.9)	(45.3)	(10.3)	–	(125.5)	(104.3)	(139.8)	(0.5)	–	(244.6)

1. Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 29).

2. These costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Segment assets and liabilities, including investments in associates and joint ventures, are not disclosed because they are not reported to or reviewed by the Operating Committee.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2020 Total £m	2019 (Restated) Total £m
Revenue	10,181.9	10,377.3
Cost of sales before adjusting items	(6,589.5)	(6,558.2)
Gross profit before adjusting items	3,592.4	3,819.1
Selling and administrative expenses before adjusting items	(3,036.4)	(3,134.9)
Other operating income before adjusting items	32.1	41.4
Share of results of Ocado Retail Limited before adjusting items	2.6	–
Operating profit before adjusting items	590.7	725.6
Adjusting operating expense items (see note 5) ²	(335.9)	(427.5)
Operating profit	254.8	298.1

The selling and administrative expenses are further analysed below:

	2020 Total £m	2019 (Restated) Total £m
Employee costs ¹	1,411.2	1,450.0
Occupancy costs	377.7	387.4
Repairs, renewals and maintenance of property	81.0	87.6
Depreciation, amortisation and asset impairments and write-offs before adjusting items	632.5	702.6
Other costs	534.0	507.3
Selling and administrative expenses before adjusting items	3,036.4	3,134.9

1. There are an additional £53.1m (last year: £61.0m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. The £335.9m (last year: £427.5m) adjusting items charges for the year are further analysed against the categories of cost of sales (£157.0m; last year: £nil), selling and administrative expense (£188.8m; last year: £407.7m), other operating income (£26.7m; last year: cost £19.8m) and share of results of Ocado Retail Limited (£16.8m; last year: £nil) resulting in total cost of sales of £6,746.5m (last year: £6,558.2m), selling and administrative expenses of £3,225.2m (last year: £3,542.6m), total other operating income of £58.8m (last year: £21.6m) and total share of results of Ocado Retail Limited of a loss of £14.2m (last year: £nil). Adjusting items categorised as selling and administrative expenses are further analysed as employee costs £23.1m (last year: £64.9m); occupancy release £25.2m (last year: cost £2.7m (restated)); depreciation, amortisation and asset impairments and write-offs £139.9m (last year: £308.9m (restated)); and other costs £51.0m (last year: £31.2m).

4 PROFIT BEFORE TAXATION

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

	2020 £m	2019 (Restated) £m
Net foreign exchange gains	(2.1)	(2.9)
Cost of inventories recognised as an expense	5,762.3	5,765.4
Write-down of inventories recognised as an expense	389.0	214.1
Depreciation of property, plant and equipment		
– owned assets	329.2	441.6
– right-of-use assets	174.6	163.7
Amortisation of intangible assets	164.8	184.4
Impairments and write-offs of intangible assets and property, plant and equipment	91.3	151.4
Impairments of right-of-use assets	34.2	93.2

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:

	2020 £m	2019 £m
Annual audit of the Company and the consolidated financial statements	1.4	1.3
Audit of subsidiary companies	0.6	0.6
Total audit fees	2.0	1.9
Audit-related assurance services	0.2	0.2
Transaction-related services	0.5	0.2
Total non-audit services fees	0.7	0.4
Total audit and non-audit services	2.7	2.3

Transaction-related services provided by the auditor relate to the investment in Ocado Retail Limited (see note 30).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS

The total adjusting items reported for the 52-week period ended 28 March 2020 is a net charge of £335.9m (last year: £427.5m (restated)). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2020 £m	2019 (Restated) £m
Strategic programmes – UK store estate ¹	15, 22	29.3	216.5
Strategic programmes – Organisation	15, 22	13.8	4.9
Strategic programmes – Operational transformation		11.6	16.4
Strategic programmes – UK logistics	15, 22	10.2	14.3
Strategic programmes – Changes to pay and pensions	22	2.9	6.2
Strategic programmes – International store closures and impairments	22	2.2	5.3
Strategic programmes – IT restructure	22	0.4	15.6
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic ¹		163.6	–
Store impairments and other property charges ¹	15, 22	78.5	103.5
Goodwill impairment – per una ¹	14	13.4	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		12.6	20.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		16.8	–
Establishing the investment in Ocado Retail Limited		1.2	3.4
Remeasurement of contingent consideration including discount unwind		2.9	–
Other		(23.5)	–
CMP and other pension equalisation	11, 22	–	20.5
Adjustments to profit before tax²		335.9	427.5

1. Gains/expenses directly attributable to the Covid-19 pandemic in the current year are presented below; this includes the resulting incremental impairment charge disclosed within the strategic programmes above related to the UK store estate, UK store impairments, International store impairments and the impairment of per una goodwill.

UK store estate impairments	11.6
Store impairments	24.2
Goodwill impairment – per una	13.4
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	163.6
Total Covid-19 charges	212.8

2. All adjusting items are included within operating profit with the exception of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind which is included within finance costs and a gain of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur, within directly attributable (gains)/expenses resulting from the Covid-19 pandemic, which is included within finance income.

Strategic programmes – UK store estate (£29.3m)

In November 2016, the Group announced a strategic programme to transform the UK store estate. During 2017/18, the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £29.3m (of which, £11.6m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) in the period in relation to those stores identified as part of its transformation plans to make the store estate fit for the future. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs, as well as revised cash flows to reflect the impact of Covid-19. The charge primarily relates to impairment of buildings and fixtures and fittings and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years, giving post-IFRS 16 total programme charges of up to £680m in line with previous disclosures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – Organisation (£13.8m)

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. As part of the wide-ranging strategic review, a further announcement was made in 2017/18 to reduce Group operating costs by £350m by the end of 2021. Prior to the onset of the Covid-19 pandemic, the Group had been on track to deliver the operating cost savings.

As part of our commitment to the transformation strategy and delivering the cost reduction programme, further reviews of our organisational structure have been performed in order to streamline structures and improve operational efficiency. This has resulted in a reduction of roles and a charge of £10.8m recognised in the period for redundancy costs associated with these changes.

In addition, a further £3.0m of costs have been recognised in the period, reflecting an updated view of costs associated with centralising the Group's London Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisation costs are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in quantum with £73.4m of costs (after restatement for IFRS 16) incurred to date, and are consistent with the disclosure of other similar charges in prior years.

Strategic programmes – Operational transformation (£11.6m)

The Group is undertaking a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group's UK Clothing & Home and UK Food end-to-end processes. A charge of £11.6m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across UK Clothing & Home and UK Food.

These costs are considered to be adjusting items as they relate to a strategic programme and the total costs are significant in quantum (£28.0m to date), and as a result not considered to be normal operating costs of the business. Further operational transformation initiatives are planned for 2020/21 which will result in additional related charges within adjusting items.

Strategic programmes – IT restructure (£0.4m)

In 2017/18, as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function. A charge of £0.4m has been recognised in the period relating primarily to transition costs associated with the implementation of a new technology operating model. 2019/20 is the final year of the IT restructure programme.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group which over the prior two years has been significant in value and nature to the results of the Group (2018/19: £15.6m and 2017/18: £15.5m).

Strategic programmes – UK logistics (£10.2m)

In 2017/18, as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £10.2m has been recognised in the period for redundancy, accelerated depreciation and project costs.

In February 2020, the Group announced the next phase of the single tier programme with the closure of two further sites expected across 2020/21 and 2021/22. Further charges are expected in 2020/21 of c.£13m resulting in a total programme cost of c.£52m.

The Group considers these costs to be adjusting items as they are significant in quantum and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network.

Strategic programmes – Changes to pay and pensions (£2.9m)

In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK DB pension scheme to future accrual, effective from 1 April 2017. As part of these proposals, the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. 2019/20 represents the final year of these payments, with a charge in the period in relation to these transition payments to employees of £2.9m, taking the total programme cost to £178m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with disclosure of the same costs in 2018/19, 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

Strategic programmes – International store closures and impairments (£2.2m)

In 2016/17, the Group announced its intention to close its owned stores in 10 international markets. A net charge of £2.2m has been recognised in the year, reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred, taking the programme cost to date to £145m.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the three years of charges has been significant in both quantum and nature to the results of the Group. No further significant charges are expected.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Store impairments and other property charges (£78.5m)

The Group has recognised a number of charges in the period associated with reductions to the carrying value of items of property, plant and equipment.

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

The charges have been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group.

M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision (£12.6m)

The Group has an economic interest in Marks and Spencer Financial Services plc, a wholly owned subsidiary of HSBC UK Bank plc, trading as M&S Bank, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In addition, further charges have been recognised by M&S Bank in relation to forward economic guidance provisions recognised as a result of Covid-19. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £12.6m.

The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group. While the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue into 2020/21 and beyond as the Group's share of the total charge since September 2013 of £327.6m exceeds the total offset against profit share of £242.7m to date. The Group therefore expects future adjusting items charges of c.£100m – predominantly related to PPI mis-selling claim liabilities – which will be offset against the share of M&S Bank profits in future years.

Establishing the investment in Ocado Retail Limited (£1.2m)

In the prior year, the Group recognised a charge of £3.4m in adjusting items relating to due diligence for the Ocado Retail transaction. As part of the preparation for the launch in September 2020, the Group has incurred £1.2m of one-off charges that will not be part of the day-to-day operational costs of our business with Ocado Retail.

An estimated further £1m-2m of "getting ready" costs are expected in H1 2020/21 prior to launch in September 2020. These "getting ready" costs, combined with the costs recognised in 2018/19 relating to setting up the investment in Ocado Retail, bring the total expected one-off charges relating to Ocado Retail up to in the range of £6m-7m.

These costs are adjusting items as they relate to a major transaction and but for the transaction the business would not have incurred these costs and as a result prior to the Ocado "go-live" in September 2020 are not considered to be normal operating costs of the business.

Amortisation of intangible assets and fair value adjustments on property, plant and equipment arising as part of the investment in Ocado Retail Limited (£11.7m) and related deferred tax adjustments (£5.1m)

The identifiable net assets of Ocado Retail Limited that were acquired included intangible assets (a brand and customer relationships) with a fair value of £366.0m, which is recognised as part of the cost of the investment in associate. In addition, fair value adjustments of £2.3m were made to property, plant and equipment on acquisition. A related deferred tax liability of £63.3m has also been recognised on acquisition as part of the cost of the investment in associate. The amortisation of these intangible assets and fair value adjustments and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. Identifying these items as adjusting allows greater comparability of underlying performance. These adjusting items will be recognised over their useful economic lives of 10-40 years.

Remeasurement of contingent consideration including discount unwind (£2.9m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. The change in fair value and the related unwind of discounting is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The charge for 2019/20 of £2.9m represents the unwind of discounting from acquisition to the year end. Discount unwind will be charged to adjusting items until the final contingent consideration payment is made in 2023/24.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Directly attributable gains/(expenses) resulting from the Covid-19 pandemic

In March 2020, following the declaration by the World Health Organization of the Covid-19 global pandemic and subsequent UK government restrictions, while the Group has been able to continue to trade its Food business (albeit with social-distancing rules in place), Clothing & Home has been unable to trade from full-line stores, with any sales therefore predominantly coming from online sales and Click & Collect in stores. All M&S Outlets stores and a number of Food franchise stores have also closed. Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast-paced changes taking place across the retail sector, the Group expects to see significant volatility and business disruption, reducing the expected performance in 2020/21. As set out in the basis of preparation on page 116, the Board has approved a Covid-19 scenario budget and three-year plan, which assumes that the current government guidelines continue in place for a period of at least four months, and results in a significant decline in sales for the remainder of 2020/21.

As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, the Group has identified charges of £212.8m relating to directly attributable gains and expenses resulting from the Covid-19 pandemic. The charges relate to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

Write-down of inventories to net realisable value (£157.0m)

The Group has performed a detailed assessment of all retail inventory, including all items in our stores, warehouses and outlets, taking into consideration the period of trading disruption, current sales and sell through plans and considered the impact on the stock holding at year end. The review concluded that there was a need to provide for items from previous seasons which are unlikely to be saleable when stores reopen; that items in the summer sale are likely to be cleared below cost and the need to provide for hibernated stock (stock that will be stored within our warehouses) at reduced prices when we look to sell it in Spring/Summer 2021.

The Group has recognised an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m and International: £5.7m), reflecting management's best estimate of the impact on the Group of the Covid-19 pandemic. The total UK Clothing & Home inventory provisions represent 33% of UK Clothing & Home inventory. A 5% increase in the UK Clothing & Home inventory provision would result in a reduction in inventory held on the balance sheet of £26.0m and would result in a corresponding reduction to recognised profit before tax in 2019/20.

Impairments of intangible assets and property, plant and equipment (£49.2m)

As a direct result of the Covid-19 pandemic, all impairment assessments were reperformed using the cash flows resulting from the Board-approved Covid-19 scenario detailed above. Incremental impairment charges as a direct result of Covid-19 have been recognised for the following assets: Goodwill – per una (£13.4m); Strategic programme – UK store estate (£11.6m); and Store impairments (£24.2m).

Refer to notes 14 and 15 for further details on the impairment charges relating to per una goodwill and stores, as well as note C6 of the Company accounts.

Onerous contract provisions, cancellation charges and one-off costs (£6.6m)

The Group has incurred a total of £6.6m of one-off charges relating to onerous contract and other provisions, and cancellation charges incurred pre-year end as a result of the disruption caused by Covid-19 to normal operating activities. In addition, a number of projects have been cancelled, leading to the impairment and write-off of intangible assets in the course of construction recognised up to 28 March 2020.

The £212.8m directly attributable net charges from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period. Further charges are anticipated during 2020/21 to reflect actions that will be taken as a direct result of the length of time that the government restrictions are in place, and trade and consumer behaviour is impacted. Any future credits relating to these items will also be classified as adjusting.

Other (£23.5m credit)

In 2017/18, a provision was recorded to cover the potential costs of probable liabilities for certain employee-related matters. During the period, the Group paid £0.6m in settlement of the liability for these employee-related matters, resulting in a £23.5m release of the provision.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 FINANCE INCOME/COSTS

	2020 £m	2019 (Restated) £m
Bank and other interest receivable	8.6	7.6
Other finance income	5.9	0.4
Pension net finance income (see note 11F)	23.6	25.8
Interest income of subleases	5.9	1.0
Finance income before adjusting items	44.0	34.8
Interest on bank borrowings	–	(0.6)
Interest payable on syndicated bank facility	(2.3)	(2.3)
Interest payable on Medium Term Notes	(78.2)	(77.4)
Interest payable on lease liabilities	(139.3)	(148.2)
Ineffectiveness on hedge accounting	–	(3.5)
Unwind of discount on provisions	(4.9)	(7.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(6.9)	(8.8)
Finance costs before adjusting items	(231.6)	(248.7)
Net finance costs before adjusting items	(187.6)	(213.9)

Additional finance costs of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind and additional finance income of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur have been incurred and included within adjusting items as detailed in note 5.

7 INCOME TAX EXPENSE

A. Taxation charge

	2020 £m	2019 (Restated) £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	42.8	78.4
– adjustments in respect of prior years	(4.1)	(4.6)
UK current tax	38.7	73.8
Overseas current taxation		
– current year	8.8	8.9
– adjustments in respect of prior years	(0.1)	(0.8)
Total current taxation	47.4	81.9
Deferred tax		
– origination and reversal of temporary differences	0.4	(44.5)
– adjustments in respect of prior years	(4.1)	2.3
– changes in tax rate	(3.9)	(0.8)
Total deferred tax (see note 23)	(7.6)	(43.0)
Total income tax expense	39.8	38.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 59.3% (last year: 46.2%) and is explained below.

	2020 £m	2019 (Restated) £m
Profit before tax	67.2	84.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	12.8	16.0
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	4.8	1.1
Other income and expenses that are not taxable or allowable for tax purposes	16.5	15.1
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(6.6)	(1.1)
Overseas profits taxed at rates different to those of the UK	(0.6)	0.8
Movement in unrecognised overseas deferred tax assets	0.8	(6.2)
Adjustments to the current and deferred tax charges in respect of prior periods	(8.3)	(3.1)
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	11.5	10.6
- International store closures and impairments	0.7	0.8
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	5.0	4.9
- Amortisation of intangible assets arising as a result of the investment in Ocado Retail Limited	3.2	-
Total income tax expense	39.8	38.9

The effective tax rate on profit before tax and adjusting items was 20.7% (last year: 20.7% (restated)).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.8m (last year: £12.6m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS purposes on 17 March 2020. Hence, the rate applicable from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rate of 19%. The previously recognised deferred tax balances at 17% have now been recognised at 19% and this has resulted in the recognition of a deferred tax credit of £3.9m in the income statement and the recognition of a deferred tax charge of £20.6m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

C. Current tax reconciliation

The current tax reconciliation shows the tax effect of the main adjustments made to the Group's accounting profits in order to arrive at its taxable profits. The reconciling items differ from those in note 7B as the effects of deferred tax temporary differences are ignored below.

	2020 £m	2019 (Restated) £m
Profit before tax	67.2	84.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	12.8	16.0
Disallowable accounting depreciation and other similar items	52.5	67.9
Deductible capital allowances	(56.8)	(59.4)
Adjustments in relation to employee share schemes	2.3	2.7
Adjustments in relation to employee pension schemes	8.2	10.7
Overseas profits taxed at rates different to those of the UK	(0.6)	0.8
Movement in unrecognised overseas deferred tax	0.8	(1.4)
Other income and expenses that are not taxable or allowable	4.6	4.6
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	21.0	32.0
- International store closures and impairments	0.5	0.8
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	3.1	12.6
- Amortisation of intangible assets arising as a result of the investment in Ocado Retail Limited	3.2	-
Current year current tax charge	51.6	87.3
Represented by:		
UK current year current tax	42.8	78.4
Overseas current year current tax	8.8	8.9
	51.6	87.3
UK adjustments in respect of prior years	(4.1)	(4.6)
Overseas adjustments in respect of prior years	(0.1)	(0.8)
Total current taxation (note 7A)	47.4	81.9

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 adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

Basic and diluted earnings per share figures for the comparative periods have been restated and adjusted for the bonus factor of 1.04 to reflect the bonus element of the June 2019 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 30 March 2019 were 2.1p basic and diluted earnings per share and 25.4p basic and diluted underlying earnings per share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 EARNINGS PER SHARE CONTINUED

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

	2020 £m	2019 (Restated) £m
Profit attributable to equity shareholders of the Company	23.7	41.7
Add/(Less) (net of tax):		
Strategic programmes – UK store estate	30.5	184.5
Strategic programmes – Organisation	12.3	(0.6)
Strategic programmes – Operational transformation	9.9	13.2
Strategic programmes – UK logistics	8.4	11.8
Strategic programmes – Changes to pay and pensions	2.3	5.1
Strategic programmes – International store closures and impairments	2.2	5.1
Strategic programmes – IT restructure	0.3	12.7
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	132.8	–
Store impairments and property charges	68.8	91.7
Goodwill impairment – per una	13.4	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	10.2	16.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	16.8	–
Establishing the investment in Ocado Retail Limited	0.5	3.4
Remeasurement of contingent consideration including discount unwind	2.9	–
Other	(19.0)	–
GMP and other pension equalisation	–	16.6
Profit before adjusting items attributable to equity shareholders of the Company	316.0	402.1
Million		
Weighted average number of ordinary shares in issue	1,894.9	1,698.1
Potentially dilutive share options under Group's share option schemes	10.7	3.8
Weighted average number of diluted ordinary shares	1,905.6	1,701.9
Pence		
Basic earnings per share	1.3	2.5
Diluted earnings per share	1.2	2.4
Adjusted basic earnings per share	16.7	23.7
Adjusted diluted earnings per share	16.6	23.6

9 DIVIDENDS

	2020 per share	2019 (Restated) per share	2020 £m	2019 (Restated) £m
Dividends on equity ordinary shares				
Paid final dividend	6.8p	11.4p	115.1	193.1
Paid interim dividend	3.9p	6.5p	76.0	110.4
	10.7p	17.9p	191.1	303.5

Dividend per share figures above have been restated to reflect the bonus element of the June 2019 rights issue.

As announced by the Group on 20 March 2020, the Board of Directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Board of Directors do not, at this stage, anticipate paying a dividend for 2020/21.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 EMPLOYEES

A. Aggregate remuneration

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

	2020 Total £m	2019 Total £m
Wages and salaries	1,263.7	1,293.2
Social security costs	80.0	85.0
Pension costs	72.9	77.4
Share-based payments (see note 13)	18.5	19.2
Employee welfare and other personnel costs	51.8	53.8
Capitalised staffing costs	(22.5)	(17.6)
Total aggregate remuneration¹	1,464.4	1,511.0

1. Excludes amounts recognised within adjusting items of £23.1m (last year: £64.9m) which predominantly relate to wages and salaries (see notes 3 and 5).

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2020	2019
UK stores		
– management and supervisory categories	5,278	5,480
– other	62,027	63,957
UK head office		
– management and supervisory categories	2,947	2,968
– other	764	832
UK operations		
– management and supervisory categories	115	81
– other	1,302	1,066
Overseas		
	5,598	5,713
Total average number of employees	78,031	80,097

The average number of full-time equivalent employees is 53,988 (last year: 55,440).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a DB arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB pension scheme had no active members (last year: nil), 55,887 deferred members (last year: 58,079) and 52,165 pensioners (last year: 52,217).

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustees have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 12).

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 52,059 active members (last year: 53,536) and some 33,578 deferred members (last year: 26,709).

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 £49.2m (last year: £69.5m). Of this, income of £20.2m (last year: income of £4.5m) relates to the UK DB pension scheme, costs of £65.6m (last year: costs of £68.7m) to the UK DC plan and costs of £3.8m (last year: costs of £5.3m) to other retirement benefit schemes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

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

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's DB pension schemes. This judgement concluded that the schemes should be amended in order to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement resulted in an increase in the liabilities of the Marks & Spencer UK DB Pension Scheme of £18.0m, which was recognised in the results as a past service cost in the prior year.

The Group is monitoring the impact of Covid-19 on the DB pension schemes. The DB pension schemes have not factored any impact of Covid-19 into the demographic assumptions. In the future, demographic assumptions may be updated for any material event (including, if relevant, Covid-19).

A. Pensions and other post-retirement liabilities

	2020 £m	2019 £m
Total market value of assets	10,653.8	10,224.7
Present value of scheme liabilities	(8,743.3)	(9,301.3)
Net funded pension plan asset	1,910.5	923.4
Unfunded retirement benefits	(3.9)	(3.5)
Post-retirement healthcare	(4.0)	(5.6)
Net retirement benefit surplus	1,902.6	914.3

Analysed in the statement of financial position as:

Retirement benefit asset	1,915.0	931.5
Retirement benefit deficit	(12.4)	(17.2)
Net retirement benefit surplus	1,902.6	914.3

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:

	2020 %	2019 %
Rate of increase in pensions in payment for service	1.9–2.7	2.1–3.3
Discount rate	2.40	2.45
Inflation rate for RPI	2.70	3.25
Long-term healthcare cost increases	6.70	7.25

C. Demographic assumptions

The UK demographic assumptions are mainly in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2018. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2018. The specific mortality rates used are based on the VITA lite tables, with future projections based on up-to-date industry models, parameterised to reflect scheme data. The life expectancies underlying the valuation are as follows:

		2020	2019
Current pensioners (at age 65)	– male	22.2	22.0
	– female	24.9	24.9
Future pensioners – currently in deferred status (at age 65)	– male	24.0	23.8
	– female	26.8	26.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

D. Sensitivity analysis

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

	2020 £m	2019 £m
Increase/(decrease) in scheme surplus caused by a decrease in the discount rate of 0.25%	50.0	(70.0)
Increase in scheme surplus caused by a decrease in the discount rate of 0.50%	100.0	N/A
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	(50.0)	(25.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	(100.0)	N/A
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	240.0	315.0

The discount rate sensitivity is comparable to the sensitivity quoted last year end. However, the sign has changed from a reduction in surplus to an increase in surplus, as the IAS19 over-hedge on gilt yields has increased materially over the year. Consequently, assets are now projected to grow by more than liabilities in this scenario, whereas last year assets were projected to grow by less than liabilities.

Given changes in inflation and discount rate assumptions over the past year, the range of reasonably possible outcomes has been updated to reflect this.

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 (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 106% of interest rate movements and 106% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets continued

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

	2020			2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
- Government bonds net of repurchase agreements ¹	3,596.8	352.0	3,948.8	4,373.9	367.2	4,741.1
- Corporate bonds	6.2	728.3	734.5	6.1	731.8	737.9
- Asset-backed securities and structured debt	-	264.4	264.4	-	296.6	296.6
Scottish Limited Partnership Interest (see note 12)	-	211.2	211.2	-	278.5	278.5
Equity investments						
- Developed markets	338.7	56.6	395.3	398.0	57.9	455.9
- Emerging markets	90.3	-	90.3	103.7	-	103.7
Growth asset funds						
- Global property	5.8	291.4	297.2	-	328.4	328.4
- Hedge and reinsurance	32.6	385.1	417.7	24.3	412.4	436.7
- Private equity and infrastructure	-	175.4	175.4	-	223.3	223.3
Derivatives						
- Interest and inflation rate swaps	19.9	253.7	273.6	15.9	148.4	164.3
- Foreign exchange contracts and other derivatives	(0.4)	162.4	162.0	0.1	127.5	127.6
Cash and cash equivalents	108.1	181.8	289.9	51.1	122.2	173.3
Other						
- Buy-in insurance	-	2,430.0	2,430.0	-	1,273.7	1,273.7
- Secure income asset funds	-	934.6	934.6	-	842.2	842.2
- Other	28.8	0.1	28.9	41.5	-	41.5
	4,226.8	6,427.0	10,653.8	5,014.6	5,210.1	10,224.7

1. Repurchase agreements were £820.5m (last year: £1,025.1m).

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. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. 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 63,527 (last year: 41,841) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of defined benefit retirement plans are as follows:

	2020 £m	2019 £m
Current service cost	0.2	0.2
Administration costs	4.5	3.9
Past service costs	–	18.0
Net interest income	(23.6)	(25.8)
Total	(18.9)	(3.7)

Remeasurement on the net defined benefit surplus:

Actual return on scheme assets excluding amounts included in net interest income	(477.3)	(283.8)
Actuarial loss/(gain) – demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss – experience	(46.1)	19.2
Actuarial (gain)/loss – financial assumptions	(414.5)	434.7
Components of defined benefit (income)/expense recognised in other comprehensive income	(927.9)	79.9

G. Scheme assets

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

	2020 £m	2019 £m
Fair value of scheme assets at start of year	10,224.7	9,989.3
Interest income based on discount rate	245.4	259.5
Actual return on scheme assets excluding amounts included in net interest income ¹	477.3	283.8
Employer contributions	41.8	42.0
Benefits paid	(333.2)	(346.2)
Administration costs	(4.3)	(3.7)
Exchange movement	2.1	–
Fair value of scheme assets at end of year	10,653.8	10,224.7

1. The actual return on scheme assets was a gain of £722.7m (last year: gain of £543.3m).

H. Pensions and other post-retirement liabilities

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

	2020 £m	2019 £m
Present value of obligation at start of year	9,310.4	9,041.1
Current service cost	0.2	0.2
Administration costs	0.2	0.2
Past service cost	–	18.0
Interest cost	221.8	233.7
Benefits paid	(333.2)	(346.2)
Actuarial (gain)/loss – experience	(46.1)	19.2
Actuarial loss/(gain) – demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss – financial assumptions	(414.5)	434.7
Exchange movement	2.4	(0.3)
Present value of obligation at end of year	8,751.2	9,310.4
Analysed as:		
Present value of pension scheme liabilities	8,743.3	9,301.3
Unfunded pension plans	3.9	3.5
Post-retirement healthcare	4.0	5.6
Present value of obligation at end of year	8,751.2	9,310.4

The average duration of the defined benefit obligation at 28 March 2020 is 19 years (last year: 19 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

The Partnership holds £1.4bn (last year: £1.4bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £207.4m (last year: £272.4m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferable financial instrument. During the year to 28 March 2020, an interest charge of £6.9m (last year: £8.8m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets, valued at £211.2m (last year: £278.5m).

The second partnership interest is not a transferable financial instrument as the Scheme Trustee does not have the right to transfer it to any party other than a successor Trustee. It is therefore not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly, the associated liability is not included on the Group's statement of financial position, rather the annual distribution is recognised as a contribution to the scheme each year.

13 SHARE-BASED PAYMENTS

This year, a charge of £18.5m was recognised for share-based payments (last year: charge of £19.2m). Of the total share-based payments charge, £7.6m (last year: £9.2m) relates to the Save As You Earn share option scheme and a charge of £4.9m (last year: £4.1m) relates to the Performance Share Plan. The remaining charge of £6.0m (last year: £5.9m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn scheme

The Save As You Earn (SAYE) scheme was approved by shareholders for a further 10 years at the 2017 Annual General Meeting (AGM). Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC-approved schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2020	2019		
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	38,023,501	267.9p	43,731,657	285.4p
Granted ¹	34,087,655	237.6p	10,337,468	247.0p
Exercised	(49,610)	250.2p	(241,813)	260.1p
Forfeited	(15,727,568)	237.9p	(10,455,905)	274.0p
Expired	(3,194,037)	380.2p	(5,347,906)	358.7p
Outstanding at end of year	53,139,941	190.7p	38,023,501	267.9p
Exercisable at end of year	11,272,515	249.6p	2,542,320	421.0p

1. The number of shares granted in the year ended 28 March 2020 includes 1,413,958 shares granted for the rights issue which completed in June 2019.

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 265.7p (last year: 290.8p).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

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

	2020 Three-year plan	2019 Three-year plan
Grant date	Dec 19	Nov 18
Share price at grant date	189p	309p
Exercise price	151p	247p
Option life in years	3 years	3 years
Risk-free rate	0.5%	0.8%
Expected volatility	27.6%	27.9%
Expected dividend yield	5.7%	6.1%
Fair value of option	33p	54p

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 Employee SAYE Scheme are as follows:

Options granted ¹	2020	Number of options	Weighted average remaining contractual life (years)		
			2019	2020	2019
January 2016	3,720	2,436,408	–	0.3	416p
January 2017	11,344,003	17,140,666	0.3	1.3	250p
January 2018	5,557,053	8,711,023	1.3	2.3	251p
January 2019	4,910,783	9,735,404	2.3	3.3	238p
February 2020	31,324,382	–	3.3	–	151p
	53,139,941	38,023,501	2.4	1.9	191p

1. For the purpose of the above table the option granted date is the contract start date.

2. The option price for the SAYE schemes for January 2016, January 2017, January 2018 and January 2019 have been adjusted downwards to reflect the impact of the rights issue which completed in June 2019.

B. Performance Share Plan*

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 170 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 2019/20 included earnings per share (EPS), return on capital employed (ROCE), and total shareholder return (TSR). The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Further details are set out in the Remuneration Report. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report.

During the year, 12,924,621 shares (last year: 8,006,094) were awarded under the plan. The weighted average fair value of the shares awarded was 161.0p (last year: 264.2p). As at 28 March 2020, 20,502,705 shares (last year: 17,296,405) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme. It is now operated for approximately 40 of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 28 March 2020, 1,359,166 shares (last year: 2,595,337) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for the senior management team. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, 3,645,421 shares (last year: 1,710,368) have been awarded under the plan. The weighted average fair value of the shares awarded was 150.0p (last year: 295.2p). As at 28 March 2020, 4,896,084 shares (last year: 2,364,783) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

E. Republic of Ireland Save As You Earn scheme

Sharesave, the Company's Save As You Earn scheme was introduced in 2009 to all employees in the Republic of Ireland for a 10-year period, after approval by shareholders at the 2009 ACM and again at the 2019 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, 327,689 options (last year: 169,422) were granted, at a fair value of 33.4p (last year: 53.6p). As at 28 March 2020, 790,977 options (last year: 672,203) were outstanding under the scheme. The number of options granted in January 2016, January 2017, January 2018 and January 2019 have been adjusted upwards to reflect the impact of the rights issue which completed in June 2019.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 1,557,996 (last year: 1,712,922) shares with a book value of £3.4m (last year: £5.1m) and a market value of £1.5m (last year: £4.8m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under the senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

* All awards both this year and last year were conditional shares. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 31 March 2018					
Cost	136.4	112.3	1,400.0	65.6	1,714.3
Accumulated amortisation and impairments	(59.0)	(104.2)	(928.1)	(23.8)	(1,115.1)
Net book value	77.4	8.1	471.9	41.8	599.2
Year ended 30 March 2019					
Opening net book value	77.4	8.1	471.9	41.8	599.2
Additions	–	–	10.3	84.8	95.1
Transfers and reclassifications	–	–	81.0	(75.7)	5.3
Asset write-offs	–	–	(5.9)	(8.4)	(14.3)
Amortisation charge	–	(5.3)	(179.1)	–	(184.4)
Exchange difference	0.1	–	(1.1)	–	(1.0)
Closing net book value	77.5	2.8	377.1	42.5	499.9
At 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation, impairments and write-offs	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9
Year ended 28 March 2020					
Opening net book value	77.5	2.8	377.1	42.5	499.9
Additions	–	–	1.1	76.5	77.6
Transfers and reclassifications	–	–	91.8	(91.4)	0.4
Asset impairments	(13.4)	–	–	–	(13.4)
Asset write-offs	–	–	(0.5)	–	(0.5)
Amortisation charge	–	(2.8)	(162.0)	–	(164.8)
Exchange difference	(0.1)	–	–	–	(0.1)
Closing net book value	64.0	–	307.5	27.6	399.1
At 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation and impairments and write-offs	(72.4)	(112.3)	(1,187.6)	(32.1)	(1,404.4)
Net book value	64.0	–	307.5	27.6	399.1

Goodwill related to the following assets and groups of Cash-Generating Units (CGUs):

	per una £m	India £m	Other £m	Total goodwill £m
Net book value at 30 March 2019	69.5	7.3	0.7	77.5
Asset impairments	(13.4)	–	–	(13.4)
Exchange difference	–	(0.1)	–	(0.1)
Net book value at 28 March 2020	56.1	7.2	0.7	64.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations.

Goodwill for India is monitored by management at a country level, including the combined retail and wholesale businesses, and has been tested for impairment on that basis.

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m, and is held at a net book value of £nil (last year: £2.8m). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. The Board-approved Budget and Three-Year Plan reflect a more conservative view of the short-term future performance of the per una assets and the Board-approved Covid-19 scenario further significantly reduces sales and profits in 2020/21. A proportion of UK Clothing & Home operating costs are allocated to per una based on the sales mix.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 0.7%, which is a reduction from the overall Group long term growth rate of 2%, reflecting the risk associated with the early stage of the relaunch of the per una brand and the potential impact of the Covid-19 pandemic. This is lower than the long-term growth rate used in the prior year (2.3%). The Group's current view of achievable long-term growth for India is 5.9%.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 9.7% for per una (last year: 9.1%) which reflects the additional risk of Covid-19 as at 28 March 2020 and 14.3% for India (last year: 17.3%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions, both individually and in combination. Management has considered reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for each asset.

For India, there is no reasonably possible change in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

per una

The future cash flows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years; however, adjustments have been made to reflect the impact of Covid-19 on the Clothing & Home business and the proximity of the brand relaunch to the disruption caused by Covid-19. The plan assumes a sales decrease of 46.4% in 2020/21 (reflecting the Covid-19 scenario of 70% decline in Clothing & Home sales compared with budget in the four months to July 2020, followed by a slow recovery back to budget by February 2021), followed by a significant increase in sales in 2021/22 of 82.6% (returning to the original levels planned for the year) and a 0.7% increase in 2022/23. The success of these plans will determine the strategic role of the brand within the Group.

The outcome of the value in use calculation is an impairment of £13.4m.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Neither a 50 basis point increase in the WACC rate nor a reduction in the perpetuity growth rate to 0% would cause a significant increase in the impairment charge. A 20% reduction in operating profit over the whole three-year plan period would cause an £11.2m increase in impairment and in combination, these reasonably possible changes in the key assumptions would cause an increase of £17.0m in the impairment charge.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £5,494.2m (last year: £5,662.3m) consists of owned assets of £3,863.9m (last year: £3,986.9m) and right-of-use assets of £1,630.3m (last year: £1,675.4m).

PROPERTY, PLANT AND EQUIPMENT – OWNED

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2018				
Cost	2,932.5	7,003.4	96.8	10,032.7
Accumulated depreciation, impairments and write-offs	(532.2)	(5,102.2)	(18.0)	(5,652.4)
Net book value	2,400.3	1,901.2	78.8	4,380.3
Year ended 30 March 2019				
Opening net book value	2,400.3	1,901.2	78.8	4,380.3
Additions	0.9	30.9	170.1	201.9
Transfers and reclassifications	(7.8)	166.7	(168.8)	(9.9)
Disposals	(2.5)	(0.4)	–	(2.9)
Asset impairments	(18.6)	(74.6)	–	(93.2)
Asset write-offs	(35.3)	(8.6)	–	(43.9)
Depreciation charge	(85.5)	(356.1)	–	(441.6)
Exchange difference	(2.7)	(1.1)	–	(3.8)
Closing net book value	2,248.8	1,658.0	80.1	3,986.9
At 30 March 2019				
Cost	2,885.9	5,673.6	98.1	8,657.6
Accumulated depreciation, impairments and write-offs	(637.1)	(4,015.6)	(18.0)	(4,670.7)
Net book value	2,248.8	1,658.0	80.1	3,986.9
Year ended 28 March 2020				
Opening net book value	2,248.8	1,658.0	80.1	3,986.9
Additions	2.1	27.7	244.9	274.7
Transfers and reclassifications	22.2	183.6	(205.0)	0.8
Asset impairments	(48.2)	(20.3)	–	(68.5)
Asset write-offs	(1.8)	(7.1)	–	(8.9)
Depreciation charge	(62.0)	(267.2)	–	(329.2)
Exchange difference	6.3	1.8	–	8.1
Closing net book value	2,167.4	1,576.5	120.0	3,863.9
At 28 March 2020				
Cost	2,887.5	5,457.1	138.0	8,482.6
Accumulated depreciation, impairments and write-offs	(720.1)	(3,880.6)	(18.0)	(4,618.7)
Net book value	2,167.4	1,576.5	120.0	3,863.9

Asset write-offs in the year include assets with gross book value of £680.5m (last year: £1,467.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

Right-of-use assets

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 29 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 31 March 2018	1,762.5	46.8	1,809.3
Additions	187.1	1.3	188.4
Transfers and reclassifications	4.6	–	4.6
Disposals	(68.6)	–	(68.6)
Right-of-use asset impairments	(93.2)	–	(93.2)
Depreciation charge	(153.2)	(10.5)	(163.7)
Exchange difference	(1.4)	–	(1.4)
As at 30 March 2019	1,637.8	37.6	1,675.4
Additions	140.3	40.4	180.7
Transfers and reclassifications	0.2	(0.2)	–
Disposals	(18.9)	–	(18.9)
Right-of-use asset impairments	(34.2)	–	(34.2)
Depreciation charge	(155.9)	(18.7)	(174.6)
Exchange difference	1.8	0.1	1.9
As at 28 March 2020	1,571.1	59.2	1,630.3

Impairment of property, plant and equipment and right-of-use assets

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of Outlets stores, which are considered together as one CGU. Click & Collect sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

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, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 12% to 17% (last year: 9% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairments – UK stores (excluding the UK store estate programme)

During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their ‘value in use’ recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group’s current view of achievable long-term growth of 2%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2%. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £72.7m and a 20 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.1m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their ‘value in use’ recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £36.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £22.9m. Neither a 50 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year, the Group has recognised an impairment charge of £9.0m in Ireland and £0.2m in the Czech Republic as a result of store impairment testing (last year: £nil).

For Irish and Czech Republic stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 14.1% (last year: 10.4%) and for Czech Republic stores is 12.4% (last year: 10.7%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

For Irish stores, a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £6.5m. Reasonably possible changes in other key assumptions, including a 20 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a significant increase to the impairment charge. Reasonably possible changes in key assumptions for Czech Republic stores do not lead to a significant increase in the impairment charge.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 OTHER FINANCIAL ASSETS

	2020 £m	2019 £m
Non-current		
Unlisted investments	9.7	9.9
Current		
Short-term investments ¹	11.7	141.8

1. Includes £5.8m (last year: £5.0m) of money market deposits held by the Marks and Spencer plc in an escrow account.

Upon transition to IFRS 9, non-current unlisted investments were irrevocably designated as fair value through other comprehensive income. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 (Restated) £m
Non-current		
Trade receivables	0.2	0.1
Lease receivables – net	69.2	72.3
Other receivables	2.2	2.0
Prepayments	191.0	198.6
	262.6	273.0
Current		
Trade receivables	150.8	121.8
Less: provision for impairment of receivables	(4.0)	(3.2)
Trade receivables – net	146.8	118.6
Lease receivables – net	0.1	0.2
Other receivables	41.0	30.5
Prepayments	84.8	89.6
Accrued income	25.3	28.3
	298.0	267.2

The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit loss (see note 21). Included in accrued income is £17.4m (last year: £21.9m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

The maturity analysis of the Group's lease receivables is as follows:

	2020 £m	2019 £m
Timing of cash flows		
Within one year	7.1	1.2
Between one and two years	4.7	3.5
Between two and three years	4.7	4.8
Between three and four years	4.7	4.8
Between four and five years	4.7	4.8
More than five years	135.0	144.5
Total undiscounted cash flows	160.9	163.6
Effect of discounting	(86.9)	(91.1)
Present value of lease payments receivable	74.0	72.5
Less: provision for impairment of receivables	(4.7)	–
Net investment in the lease	69.3	72.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £248.4m (last year: £285.4m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.42% (last year: 0.74%). These deposits have an average maturity of 3 days (last year: 9 days).

19 TRADE AND OTHER PAYABLES

	2020 £m	2019 (Restated) £m
Current		
Trade and other payables	943.2	904.2
Social security and other taxes	64.4	43.7
Accruals	379.3	442.4
Deferred income	39.5	34.1
	1,426.4	1,424.4
Non-current		
Other payables	206.6	3.0
Deferred income	16.0	12.6
	222.6	15.6

Included within non-current other payables is £202.4m (last year: £nil) of contingent consideration relating to the investment in Ocado Retail Limited. See note 30 for further details.

A contract liability arises in respect of gift cards and voucher schemes as payment has been received for a performance obligation which will be performed at a later point in time. Included within trade and other payables are gift card/voucher scheme liabilities:

	2020 £m	2019 £m
Opening balance	186.9	199.4
Issues	423.8	413.6
Released to the income statement	(429.9)	(426.1)
Closing balance	180.8	186.9

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. This is a form of reverse factoring which has the objective of serving the Group's suppliers by giving them early access to funding. The Group settles these amounts in accordance with each supplier's agreed payment terms.

The Group's trade payables balance includes £215.6m (last year: £200.0m) relating to payments due to M&S suppliers under these arrangements. The substance of the contractual terms of the arrangements do not differ to those under the original contract and therefore the Group considers the amounts owed to the finance provider are akin to amounts owed to the supplier. During the year ended 28 March 2020, the arrangements were used by 157 suppliers (last year: 183 suppliers), with a maximum facility available of £299.0m (last year: £381.0m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2020 £m	2019 (Restated) £m
Current		
Bank loans and overdrafts	84.3	72.3
Lease liabilities	197.2	181.6
6.125% £400m Medium Term Notes 2019 ¹	–	399.8
Interest accrued on Medium Term Notes	35.1	37.0
Revaluation of Medium Term Notes ⁶	–	3.7
	316.6	694.4
Non-current		
6.125% £300m Medium Term Notes 2021 ¹	299.2	298.7
3.00% £300m Medium Term Notes 2023 ¹	298.0	297.4
4.75% £400m Medium Term Notes 2025 ^{1,5}	399.4	399.3
3.25% £250m Medium Term Notes 2027 ^{1,4}	247.6	–
7.125% US\$300m Medium Term Notes 2037 ^{2,3}	192.1	192.1
Revaluation of Medium Term Notes ⁶	64.8	45.8
Lease liabilities	2,364.8	2,395.2
	3,865.9	3,628.5
Total	4,182.5	4,322.9

1. These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.
 2. Interest on these bonds is payable semi-annually.
 3. US\$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
 4. In July 2019, a £250m 3.25% Medium Term Note was issued which matures in July 2027.
 5. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £175m (last year: £375m) was swapped from fixed to floating rate.
 6. Revaluation consists of fair value hedge adjustment of £13.6m (last year: £13.8m) and foreign exchange loss on revaluation of the 7.125% US\$300m Medium Term Notes 2037 of £50.8m (last year: £35.6m).

Leases

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 29 for the accounting policy and restatements respectively. The lease liabilities recognised on adoption of the new leasing standard are reflected in borrowings.

The Group also has certain leases with lease terms of 12 months or less and leases of assets with low values. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

Set out below are the carrying amounts of lease liabilities and the movements during the period.

	2020 £m	2019 (Restated) £m
Opening lease liabilities	2,576.8	2,589.9
Additions	204.1	150.4
Interest expense relating to lease liabilities	141.3	148.2
Payments	(335.7)	(312.7)
Disposals	(25.7)	–
Exchange difference	1.2	1.0
	2,562.0	2,576.8
Current	197.2	181.6
Non-current	2,364.8	2,395.2

The maturity analysis of lease liabilities are disclosed in note 21 (a).

The following amounts were recognised in profit or loss:

	2020 £m	2019 (Restated) £m
Expenses relating to short-term leases	1.0	0.2
Expenses relating to low-value assets	2.4	4.1
Expenses relating to variable consideration	6.0	4.6

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 need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

Financial risk management

The principal financial risks faced by the Group are liquidity and funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity and funding risk

The risk that the Group could be unable to settle or meet its obligations as they fall due:

- The Group's funding strategy ensures a mix of funding sources offering sufficient headroom, maturity and flexibility, and cost-effectiveness to match the requirements of the Group.
- Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, Medium Term Notes and committed syndicated bank facilities.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. The facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually. The Group was not in breach of this covenant at the reporting date.

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax or remove the covenant conditions for the tests arising in September 2020, March 2021, and September 2021.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £50m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £nil) 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 £1.3bn (last year: £1.4bn) was in issuance as at the balance sheet date.

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables of £1,529.1m (last year: £1,349.6m) (see note 19) and derivatives is as follows:

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities (Restated) £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities (Restated) £m	Cash inflow on derivatives' £m	Cash outflow on derivatives' £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(72.3)	(487.2)	(312.2)	(71.9)	(943.6)	1,591.0	(1,564.6)	26.4
Between one and two years	–	(62.7)	(320.4)	(71.9)	(455.0)	228.6	(217.0)	11.6
Between two and five years	–	(751.3)	(846.4)	(143.6)	(1,741.3)	282.4	(241.4)	41.0
More than five years	–	(895.5)	(3,814.7)	–	(4,710.2)	230.8	(191.5)	39.3
	(72.3)	(2,196.7)	(5,293.7)	(287.4)	(7,850.1)	2,332.8	(2,214.5)	118.3
Effect of discounting	–	572.4	2,716.9	15.0	3,304.3			
At 30 March 2019	(72.3)	(1,624.3)	(2,576.8)	(272.4)	(4,545.8)			
Timing of cash flows								
Within one year	(84.3)	(71.9)	(340.2)	(71.9)	(568.3)	1,972.0	(1,898.0)	74.0
Between one and two years	–	(371.9)	(329.4)	(71.9)	(773.2)	183.5	(167.2)	16.3
Between two and five years	–	(451.6)	(834.2)	(71.9)	(1,357.7)	296.8	(238.4)	58.4
More than five years	–	(1,164.0)	(3,674.2)	–	(4,838.2)	235.3	(188.3)	47.0
Total undiscounted cash flows	(84.3)	(2,059.4)	(5,178.0)	(215.7)	(7,537.4)	2,687.6	(2,491.9)	195.7
Effect of discounting	–	523.2	2,616.0	8.3	3,147.5			
At 28 March 2020	(84.3)	(1,536.2)	(2,562.0)	(207.4)	(4,389.9)			

1. Derivative cash flows are disclosed on a gross basis and comparative amounts have been adjusted to reflect this.

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through the default or non-performance of the counterparties with whom it transacts.

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (S&P)/Moody's A-/A3 (BBB+/Ba1 for committed lending banks). In the event of a rating by one agency being different from the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower agency rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The below credit ratings are at the reporting date. Senior management performs a daily review of all counterparty positions and as of May 2020 there have been no breaches to any counterparty limits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments ¹	–	–	–	16.4	168.3	83.9	–	0.7	269.3
Net derivative assets ²	–	–	–	16.9	21.0	11.8	–	0.3	50.0
At 30 March 2019	–	–	–	33.3	189.3	95.7	–	1.0	319.3
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short term investments ¹	–	–	–	42.4	59.4	15.7	–	3.6	121.1
Net derivative assets ²	–	–	–	79.2	66.2	26.8	–	–	172.2
At 28 March 2020	–	–	–	121.6	125.6	42.5	–	3.6	293.3

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance.
Excludes cash in hand and in transit £139.0m (last year: £157.9m).

2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

The Group has a very low retail credit risk due to transactions principally being of high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £150.8m (last year: £121.8m), lease receivables £69.3m (last year: £72.5m), other receivables £43.2m (last year: £32.5m), cash and cash equivalents £248.4m (last year: £285.4m) and derivatives £172.2m (last year: £50.0m).

Impairment of financial assets

The credit risk management practices of the Group include internal review and reporting of the ageing of trade and other receivables by days past due by a centralised accounts receivable function, and grouped by respective contractual revenue stream, along with liaison with the debtors by the credit control function.

The Group applies the IFRS 9 simplified approach in measuring expected credit losses which use a lifetime expected credit loss allowance for all trade receivables and lease receivables.

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry, as well as by geographical location and days past due. In addition to the expected credit losses calculated using a provision matrix, the Group may provide additional provision for the receivables of particular customers if the deterioration of financial position was observed.

The expected loss rates are determined based on the average write-offs as a proportion of average debt over a period of 36 months prior to the reporting date. The historical loss rates are adjusted for current and forward-looking information where significant. The Group considers GDP growth, unemployment, sales growth and bankruptcy rates of the countries in which goods are sold to be the most relevant factors and, where the impact of these is significant, adjusts the historical loss rates based on expected changes in these factors.

The forward-looking macro-economic data incorporated into the UK and International calculations represented the best available relevant information at the reporting date. This resulted in increased provisions for the financial year by £0.9m to reflect a lower expected recovery of trade receivables.

Historical experience has indicated that debts aged 180 days or over are generally not recoverable. The Group has incorporated this into the expected loss model through a uniform loss rate for ageing buckets below 180 days dependent on the revenue stream and country and providing for 100% of debt aged over 180 days past due. Where the Group specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include the failure of the debtor to engage in a payment plan, and failure to make contractual payments within 180 days past due.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Impairment losses on trade receivables are presented as net impairment losses within operating profit and subsequent recoveries are credited to the same line item.

	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
As at 30 March 2019							
Gross carrying amount – trade receivables	111.9	3.9	0.8	1.6	1.7	1.9	121.8
Expected loss rate	0.51%	2.69%	6.49%	11.34%	20.41%	100.0%	2.62%
Lifetime expected credit loss	0.5	0.1	0.1	0.2	0.4	1.9	3.2
Net carrying amount	111.4	3.8	0.7	1.4	1.3	–	118.6
As at 28 March 2020							
Gross carrying amount – trade receivables	127.7	19.6	1.7	0.4	0.5	0.9	150.8
Expected loss rate	1.59%	2.63%	24.60%	3.75%	29.22%	100.0%	2.67%
Lifetime expected credit loss	2.0	0.5	0.4	–	0.2	0.9	4.0
Net carrying amount	125.7	19.1	1.3	0.4	0.3	–	146.8

The closing loss allowances for trade receivables reconciles to the opening loss allowances as follows:

	2020 £m	2019 £m
Trade receivables expected loss provision		
Opening loss allowance as at 31 March 2019	3.2	1.0
Increase in loss allowance recognised in profit and loss during the year	0.9	2.4
Receivables written off during the year as uncollectable	(0.1)	(0.2)
Closing loss allowance as at 28 March 2020	4.0	3.2

The closing loss allowances for lease receivables reconciles to the opening loss allowances as follows:

	2020 £m	2019 £m
Lease receivables expected loss provision		
Opening loss allowance as at 31 March 2019	–	–
Increase in loss allowance recognised in profit and loss during the year	4.7	–
Receivables written off during the year as uncollectable	–	–
Closing loss allowance as at 28 March 2020	4.7	–

The provision for other receivables is highly immaterial (it can be quantified) and therefore no disclosure is provided.

(c) Foreign currency risk

Transactional foreign currency exposure arises primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar, incurred in the sourcing of Clothing & Home products from Asia.

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

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,872.9m (last year: £1,755.6m) with a weighted average maturity date of 11 months (last year: seven months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 28 March 2020 will be reclassified to the income statement at various dates over the following 18 months (last year: 17 months) from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The foreign exchange forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is deferred in equity and subsequently either reclassified to profit or loss or removed from equity and included in the initial cost of inventory as part of the “basis adjustment”. This will be realised in the income statement once the hedged item is sold.

As a result of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures, the Group has reviewed the FX hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the income statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of “highly probable” as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group’s treasury policy, hedges are entered into by business line and by season. At the time of reporting, management had identified over-hedging in Clothing & Home stock purchases resulting in a gain of £2.9m in profit and loss this financial year.

The foreign exchange forwards are recognised at fair value. The Group has considered and elected not to apply credit/debit valuation adjustments, owing to their relatively short dated nature. The risks at the reporting date are representative of the financial year.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges. The change in the fair value of the hedging instrument, to the degree effective, is retained in other comprehensive income, segregated by cost and effect of hedging. Under IFRS 9, the currency basis on the cross-currency swaps are excluded from the hedge designation and recognised in other comprehensive income – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result. In order to more closely align the hedging instrument with the original hypothetical the Group successfully renegotiated the cross-currency swaps portfolio during the year, receiving £7.7m cash settlement from the counterparty banks, and increasing the average pay fixed GBP leg from 7.3% to 7.5%.

The cross-currency swaps are recognised at fair value. The inclusion of credit risk on cross-currency swaps will cause ineffectiveness of the hedge relationship. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps’ relative materiality and longer dated nature.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group’s foreign currency intercompany loans are designated as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £3.4m gain (last year: £3.9m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £157.0m (last year: £129.0m).

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:

	2020			2019		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	(restated) Total £m
Currency						
Sterling	3,672.2	274.4	3,946.6	3,646.4	447.2	4,093.6
Euro	109.8	–	109.8	110.9	–	110.9
Other	126.1	–	126.1	118.4	–	118.4
	3,908.1	274.4	4,182.5	3,875.7	447.2	4,322.9

The floating rate sterling borrowings are linked to interest rates related to LIBOR, mainly for periods of six months.

As at the balance sheet date and excluding lease liabilities, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 4.8% (last year: 4.8%) and the weighted average time for which the rate is fixed is six years (last year: five years).

There were no significant changes in hedge accounting when compared with the prior year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £3,908.1m (last year: £3,875.7m) representing the public bond issues and lease liabilities, amounting to 93% (last year: 90%) of the Group's gross borrowings.

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

	2020 %	2019 %
Committed and uncommitted borrowings	N/A	N/A
Medium Term Notes	4.6%	4.8%
Leases	5.5%	5.6%

The interest rate swaps are recognised at fair value. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six-monthly compared with 12-monthly on the receive fixed legs and related debt. This will cause ineffectiveness of the hedging relationship.

The Group is exposed to GBP LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has identified where LIBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The Group aims to have its transition and fallback plans in place by the end of 2020.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks with the aim of implementing this language into its ISDA agreements.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Fair value hedge	Pay six-month GBP LIBOR, 2025 receive sterling fixed interest rate swaps		£175m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

The below table illustrates the effects of hedge accounting on the consolidated statement of financial position and consolidated income statement through detailing separately by risk category and each type of hedge the details of the associated hedging instrument and hedged item.

	30 March 2019					
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,423.6	129.0	200.0	193.5	203.0	175.0
Carrying amount assets/(liabilities)	27.4	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%	100%	100%	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument ¹	95.9	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness	(95.9)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3% GBP/EUR 1.12, CBP/USD 1.32		3.2%
Amounts recognised within finance costs in profit and loss	–	3.9	–	(3.5)	–	0.1
Balance on cash flow hedge reserve at 30 March 2019	(12.8)	N/A	N/A	(8.4)	1.7	N/A
Balance on cost of hedging reserve at 30 March 2019	–	N/A	N/A	(14.6)	–	N/A

	28 March 2020					
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,699.3	157.0	–	193.5	173.6	175.0
Carrying amount assets/(liabilities)	60.8	(0.3)	–	83.8	9.5	18.4
Maturity date	to Feb 2021	to Oct 2020	–	Dec 2037	to Aug 2021	Jun 2025
Hedge ratio	100%	100%	–	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument ¹	33.4	(0.6)	–	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness ¹	(30.5)	4.0	–	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBP/USD 1.3, GBP/EUR 1.15	N/A	–	7.5% GBP/USD 1.32, CBP/EUR 1.15		3.3%
Amounts recognised within finance costs in profit and loss	2.9	3.4	–	5.9²	–	–
Balance on cash flow hedge reserve at 28 March 2020	(37.3)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	–	N/A	N/A	(7.1)	–	N/A

1. The £(0.6)m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge for certain intercompany loans/deposits which are represented in the £4.0m as the net foreign exchange gains and losses under this strategy.

2. The £5.9m gain represents previously recognised hedge ineffectiveness that reversed out during the financial year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

	28 March 2020				30 March 2019				
	Notional value		Fair value		Notional value		Fair value		
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	
Current									
Forward foreign exchange contracts	– cash flow hedges	1,385.0	314.3	71.0	(10.2)	1,073.8	349.8	34.3	(6.9)
	– held for trading	61.9	95.1	2.5	(2.8)	53.9	75.1	0.7	(0.4)
Interest rate swaps	– fair value hedges	–	–	–	–	200.0	–	5.3	–
		1,446.9	409.4	73.5	(13.0)	1,327.7	424.9	40.3	(7.3)
Non-current									
Cross currency swaps	– cash flow hedges	193.5	–	83.8	–	–	193.5	4.7	(0.7)
Forward foreign exchange contracts	– cash flow hedges	153.1	20.5	10.2	(0.7)	84.8	118.2	0.5	(2.1)
Interest rate swaps	– fair value hedges	175.0	–	18.4	–	175.0	–	14.6	–
		521.6	20.5	112.4	(0.7)	259.8	311.7	19.8	(2.8)

The Group's hedging reserves disclosed in the consolidated statement of changes in equity, relate to the following hedging instruments:

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS ¹ £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	Total hedge reserve £m
Opening balance 1 April 2018	0.8	(13.9)	2.4	(10.7)	57.5	35.9	0.4	(17.8)	76.0
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	(111.3)	(19.2)	–	–	(130.5)
Add: Costs of hedging deferred and recognised in OCI ²	(0.8)	(0.7)	–	(1.5)	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	42.7	–	–	–	42.7
Less: Reclassified from OCI to profit or loss	–	–	–	–	–	15.8	–	–	15.8
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	–	–	0.4	(0.2)	10.4	10.6
Less: Deferred tax	–	–	0.5	0.5	–	–	–	–	–
Closing balance 30 March 2019	–	(14.6)	2.9	(11.7)	(11.1)	32.9	0.2	(7.4)	14.6
Opening balance 31 March 2019	–	(14.6)	2.9	(11.7)	(11.1)	32.9	0.2	(7.4)	14.6
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	(59.2)	(88.6)	–	–	(147.8)
Add: Costs of hedging deferred and recognised in OCI	–	7.5	–	7.5	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	21.8	–	–	–	21.8
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	–	2.9	15.6	(0.1)	–	18.4
Less: Deferred tax	–	–	(1.5)	(1.5)	–	–	–	24.4	24.4
Closing balance 28 March 2020	–	(7.1)	1.4	(5.7)	(45.6)	(40.1)	0.1	17.0	(68.6)

1. Cross-currency interest rate swaps.

2. Other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

In incorporating the effects of the Covid-19 pandemic on the Group forecast hedged transactions, management has identified some resulting over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases no longer expected to occur amounts to a £2.9m gain (last year: £nil). The applicable cash flow hedges have been discontinued prospectively; derivatives with the notional value of US\$76.6m will be subsequently accounted for at fair value through profit and loss.

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges (see note 20 for details of fair value adjustment). The ineffective portion recognised in profit or loss that arises from fair value hedges amounts to a £nil gain or loss (last year: £0.1m gain) as the gain on the hedged items was £3.8m (last year: £4.6m gain) and the movement on the hedging instruments was £3.8m loss (last year: £4.5m loss).

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net loss in fair value of interest rate swap	(3.8)	(4.5)
Net gain on hedged items	3.8	4.6
Ineffectiveness	-	0.1

The Group holds a number of cross-currency interest rate swaps to designate its USD to GBP fixed debt. These are reported as cash flow hedges. Nil ineffectiveness (last year: £3.5m loss) was recognised in the profit and loss arising from the cash flow hedge amounts as the loss on the hedged items was £79.7m (last year: £4.4m gain) and the movement on the hedging instruments was £79.7m gain (last year: £7.9m loss). A gain of £5.9m was recognised in the profit and loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	79.7	(7.9)
Net (loss)/gain on hedged items	(79.7)	4.4
Ineffectiveness	-	(3.5)

Sensitivity analysis

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

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

Interest rates The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

Foreign exchange The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivatives. This value is expected to be materially offset by the re-translation of the related transactional exposures.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 30 March 2019				
Impact on income statement: gain/(loss)	5.4	(4.0)	-	-
Impact on other comprehensive income: (loss)/gain	(4.3)	2.5	226.8	(226.8)
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	-	-
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	–	3.2
Derivative financial assets	60.1	–	60.1	(10.1)	50.0
Cash and cash equivalents	34.8	(34.8)	–	–	–
	119.8	(56.5)	63.3	(10.1)	53.2

Trade and other payables	(264.6)	21.7	(242.9)	–	(242.9)
Derivative financial liabilities	(10.1)	–	(10.1)	10.1	–
Bank loans and overdrafts	(107.1)	34.8	(72.3)	–	(72.3)
	(381.8)	56.5	(325.3)	10.1	(315.2)

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	–	4.3
Derivative financial assets	185.9	–	185.9	(13.7)	172.2
Cash and cash equivalents	13.2	(13.2)	–	–	–
	217.7	(27.5)	190.2	(13.7)	176.5
Trade and other payables	(272.8)	14.3	(258.5)	–	(258.5)
Derivative financial liabilities	(13.7)	–	(13.7)	13.7	–
Bank loans and overdrafts	(97.5)	13.2	(84.3)	–	(84.3)
	(384.0)	27.5	(356.5)	13.7	(342.8)

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA 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 that 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

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

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
- trading derivatives	-	2.5	-	2.5	-	0.7	-	0.7
Derivatives used for hedging	-	183.4	-	183.4	-	59.5	-	59.5
Short-term investments	-	11.7	-	11.7	-	141.8	-	141.8
Unlisted investments ¹	-	-	9.7	9.7	-	-	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- trading derivatives	-	(2.8)	-	(2.8)	-	(0.4)	-	(0.4)
- contingent consideration (see note 30) ²	-	-	(202.4)	(202.4)	-	-	-	-
Derivatives used for hedging	-	(10.9)	-	(10.9)	-	(9.7)	-	(9.7)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m) (see note 16) which is a Level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.

2. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance targets are binary and, based on the latest five-year plan of Ocado Retail Limited, are expected to be met and therefore the full (discounted) amount has been recognised. The discount rates used ranged from 1.7% to 2.2% and a 0.5% change in the discount rates would result in a change in fair value of £4.5m.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,653.8m (last year: £10,224.7m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £6,328.7m (last year: £7,008.6m). Additionally, the scheme assets include £4,325.1m (last year: £3,216.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

The following table represents the changes in Level 3 instruments held by the pension schemes:

	2020 £m	2019 £m
Opening balance	3,216.1	2,836.9
Fair value (loss)/gain recognised in other comprehensive income	(130.1)	136.3
Additional investment	1,239.1	242.9
Closing balance	4,325.1	3,216.1

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 12), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's Medium Term Notes (Level 1 equivalent) was £1,536.2m (last year: £1,673.8m), the fair value of this debt was £1,531.4m (last year: £1,724.0m).

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so, the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was six years (last year: five years). As one of several actions taken by rating agencies in response to the Covid-19 pandemic, the Group credit rating was reduced to Ba1 (negative watch) with Moody's and BB+ (negative watch) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2020 £m	2019 (Restated) £m
At 30 March 2019	120.5	21.5	31.4	173.4	148.0
Provided in the year	32.7	10.9	0.7	44.3	98.5
Released in the year	(65.7)	(2.5)	(25.0)	(93.2)	(33.4)
Utilised during the year	(15.5)	(17.9)	(1.7)	(35.1)	(67.1)
Exchange differences	–	0.6	–	0.6	(0.3)
Discount rate unwind	4.9	–	–	4.9	7.9
Reclassification to trade and other payables	(16.9)	–	–	(16.9)	19.8
At 28 March 2020	60.0	12.6	5.4	78.0	173.4
Analysed as:					
Current				21.5	100.7
Non-current				56.5	72.7

Property provisions relate to dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one building. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

Restructuring provisions relate to the estimated costs associated with the International exit strategy and the strategic programme to transition to a single-tier UK distribution network. These provisions are expected to be utilised within the next year and over the period of closure of sites.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The release during the year relates to the finalisation of charges for certain employee-related matters provided for during 2018.

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% as applicable (last year: 19% and 17%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

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

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 1 April 2018	(33.9)	(29.3)	(208.0)	109.8	(161.4)	(3.7)	(165.1)
Credited/(charged) to income statement	3.8	23.2	(1.6)	12.3	37.7	5.3	43.0
Credited/(charged) to equity/other comprehensive income	–	–	14.4	(11.7)	2.7	(0.2)	2.5
At 30 March 2019	(30.1)	(6.1)	(195.2)	110.4	(121.0)	1.4	(119.6)
At 31 March 2019	(30.1)	(6.1)	(195.2)	110.4	(121.0)	1.4	(119.6)
Credited/(charged) to income statement	1.8	5.9	(7.1)	9.2	9.8	(2.2)	7.6
Credited/(charged) to equity/other comprehensive income				(196.5)	(24.4)	(220.9)	0.5
At 28 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)

Other short-term temporary differences relate mainly to employee share options, financial instruments and IFRS 16.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £335.7m (last year: £321.7m) and a tax value of £63.8m (last year: £61.1m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m p.a. were extended to include capital losses. It is considered that the full benefit of the losses will continue to be recoverable due to the quantum of the gains and the group's ability to exercise a level of control over when gains are crystallised. 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 £9.5m (last year: £70.5m) and a tax value of £2.6m (last year: £14.5m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £27.0m (last year: £44.5m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.6m (last year: £2.7m) however this has not been recognised on the basis that the distribution can be controlled by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ORDINARY SHARE CAPITAL

	Shares	2020 £m	Shares	2019 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	1,625,000,230	406.3	1,624,757,346	406.2
Shares issued on rights issue	325,009,968	81.3	–	–
Shares issued on exercise of share options	49,610	–	242,884	0.1
At end of year	1,950,059,808	487.6	1,625,000,230	406.3

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.3m. Transaction costs of £26.6m were incurred resulting in £493.4m being recognised in share premium.

49,610 (last year: 242,884) ordinary shares having a nominal value of £0.0m (last year: £0.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £0.1m (last year: £0.6m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2020 £m	2019 £m
Commitments in respect of properties in the course of construction	78.7	90.1
Software capital commitments	8.6	6.8
	87.3	96.9

B. Other material contracts

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

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

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

Cash flows from operating activities

	2020 £m	2019 (Restated) £m
Profit on ordinary activities after taxation	27.4	45.3
Income tax expense	39.8	38.9
Finance costs	234.5	248.7
Finance income	(46.9)	(34.8)
Operating profit	254.8	298.1
Share of results of Ocado Retail Limited	(2.6)	–
(Increase)/decrease in inventories	(29.3)	73.8
(Increase) in receivables	(9.2)	(81.7)
(Decrease)/increase in payables	(10.0)	69.0
Adjusting items net cash outflows ^{1,2}	(75.4)	(99.3)
Depreciation, amortisation and write-offs	632.5	702.6
Non-cash share-based payment expense	18.5	19.2
Defined benefit pension funding	(37.9)	(37.9)
Adjusting items M&S Bank ³	(12.6)	(20.9)
Adjusting operating profit items	335.9	427.5
Cash generated from operations	1,064.7	1,350.4

1. Excludes £11.3m (last year: £nil) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

2. Adjusting items net cash outflows relate to the utilisation of the provisions for International store closures and impairments, strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, store impairments and property charges, CMP and other pension equalisation, and establishing the investment in Ocado Retail Limited.

3. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 1 April 2018 (Restated) £m	Cash flow (Restated) £m	Exchange and other non-cash movements (Restated) £m	At 30 March 2019 (Restated) £m
Net cash/(debt)				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(88.4)	11.1	5.0	(72.3)
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	–
	(36.7)	(35.6)	–	(72.3)
Cash and cash equivalents (see note 18)	207.7	77.9	(0.2)	285.4
Net cash per statement of cash flows	171.0	42.3	(0.2)	213.1
Current financial assets (see note 16)	13.7	128.1	–	141.8
Liabilities from financing activities				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	–
Medium Term Notes (see note 20)	(1,622.9)	(1.4)	(12.5)	(1,636.8)
Lease liabilities (see note 20)	(2,589.9)	170.1	(157.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(327.8)	61.6	–	(266.2)
Derivatives held to hedge Medium Term Notes	–	–	23.9	23.9
Liabilities from financing activities	(4,592.3)	277.0	(140.6)	(4,455.9)
Less: Derivative instruments and cash flows related to interest	38.2	–	(12.6)	25.6
Net debt	(4,369.4)	447.4	(153.4)	(4,075.4)
	At 31 March 2019 (Restated) £m	Cash flow £m	Exchange and other non-cash movements £m	At 28 March 2020 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(72.3)	(12.0)	–	(84.3)
	(72.3)	(12.0)	–	(84.3)
Cash and cash equivalents (see note 18)	285.4	(37.5)	0.5	248.4
Net cash per statement of cash flows	213.1	(49.5)	0.5	164.1
Current financial assets (see note 16)	141.8	(130.1)	–	11.7
Liabilities from financing activities				
Medium Term Notes (see note 20)	(1,636.8)	150.0	(14.3)	(1,501.1)
Lease liabilities (see note 20)	(2,576.8)	201.4	(186.6)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(266.2)	63.5	–	(202.7)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	102.2
Liabilities from financing activities	(4,455.9)	407.2	(114.9)	(4,163.6)
Less: Derivative instruments and cash flows related to interest	25.6	7.7	(70.7)	(37.4)
Net debt	(4,075.4)	235.3	(185.1)	(4,025.2)

B. Reconciliation of net debt to statement of financial position

	2020 £m	2019 (Restated) £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	248.4	285.4
Current financial assets (see note 16)	11.7	141.8
Bank loans and overdrafts (see note 20)	(84.3)	(72.3)
Medium Term Notes – net of hedging derivatives	(1,471.4)	(1,624.3)
Lease liabilities (see note 20)	(2,562.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	(207.4)	(272.4)
	(4,065.0)	(4,118.6)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	39.8	43.2
Total net debt	(4,025.2)	(4,075.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Joint ventures and associates

A shareholder loan facility with Ocado Retail Limited has been established in the year, with Ocado Retail Limited having the ability to draw down up to £30m from each shareholder. At year end, Ocado Retail Limited has not utilised this facility.

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited. The revolving credit facility was undrawn at 28 March 2020.

C. Marks & Spencer UK Pension Scheme

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

D. Key management compensation

The Group has determined that the key management personnel constitute the Board and the members of the Operating Committee.

	2020 £m	2019 £m
Salaries and short-term benefits	5.9	8.0
Share-based payments	1.7	1.1
Total	7.6	9.1

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

The Group applied IFRS 16 Leases for the first time. The Group applied the standard using the fully retrospective method, with the date of initial application of 31 March 2019, and has restated its results for comparative periods as if the Group had always applied the new standard.

The Group recognises a right-of-use asset and corresponding liability at the date at which a leased asset is made available for use by the Group, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. Previously, rental costs under operating leases were charged to the consolidated income statement in equal annual amounts over the lease term.

The impact of adopting IFRS 16 on the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows is presented in the following tables.

CONSOLIDATED INCOME STATEMENT

	52 weeks ended 30 March 2019 (Restated)								
	Profit before adjusting items			Adjusting items			Total		
	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	
Revenue	10,377.3	–	10,377.3	–	–	–	10,377.3	–	10,377.3
Operating profit	601.0	124.6	725.6	(438.6)	11.1	(427.5)	162.4	135.7	298.1
Finance income	33.8	1.0	34.8	–	–	–	33.8	1.0	34.8
Finance costs	(111.6)	(137.1)	(248.7)	–	–	–	(111.6)	(137.1)	(248.7)
Profit before tax	523.2	(11.5)	511.7	(438.6)	11.1	(427.5)	84.6	(0.4)	84.2
Income tax expense	(106.0)	–	(106.0)	58.7	8.4	67.1	(47.3)	8.4	(38.9)
Profit for the year	417.2	(11.5)	405.7	(379.9)	19.5	(360.4)	37.3	8.0	45.3
Attributable to:									
Owners of the parent	413.4	(11.3)	402.1	(379.9)	19.5	(360.4)	33.5	8.2	41.7
Non-controlling interest	3.8	(0.2)	3.6	–	–	–	3.8	(0.2)	3.6
	417.2	(11.5)	405.7	(379.9)	19.5	(360.4)	37.3	8.0	45.3
Basic earnings per share	25.4p	(1.7p)	23.7p	(23.3p)	2.1p	(21.2p)	2.1p	0.4p	2.5p
Diluted earnings per share	25.4p	(1.8p)	23.6p	(23.3p)	2.1p	(21.2p)	2.1p	0.3p	2.4p

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	52 weeks ended 30 March 2019		
	As reported £m	Impact of IFRS 16 £m	Restated £m
Profit for the year	37.3	8.0	45.3
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	(79.9)	–	(79.9)
Tax credit on items that will not be reclassified	14.0	–	14.0
	(65.9)	–	(65.9)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income	(15.4)	0.8	(14.6)
Cash flow hedges			
– fair value movements in other comprehensive income	132.0	–	132.0
– reclassified and reported in profit or loss	(16.0)	–	(16.0)
Tax charge on cash flow hedges	(19.0)	–	(19.0)
	81.6	0.8	82.4
Other comprehensive income for the year, net of tax	15.7	0.8	16.5
Total comprehensive income for the year	53.0	8.8	61.8
Attributable to:			
Owners of the parent	49.2	9.0	58.2
Non-controlling interests	3.8	(0.2)	3.6
	53.0	8.8	61.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 March 2019			As at 1 April 2018		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Assets						
Non-current assets						
Property, plant and equipment	4,028.5	1,633.8	5,662.3	4,393.9	1,795.7	6,189.6
Trade and other receivables	200.7	72.3	273.0	209.0	0.5	209.5
Other non-current assets	1,480.6	–	1,480.6	1,629.4	–	1,629.4
	5,709.8	1,706.1	7,415.9	6,232.3	1,796.2	8,028.5
Current assets						
Trade and other receivables	322.5	(55.3)	267.2	308.4	(56.0)	252.4
Other current assets	1,167.9	–	1,167.9	1,009.5	–	1,009.5
	1,490.4	(55.3)	1,435.1	1,317.9	(56.0)	1,261.9
Total assets	7,200.2	1,650.8	8,851.0	7,550.2	1,740.2	9,290.4
Liabilities						
Current liabilities						
Trade and other payables	1,461.3	(36.9)	1,424.4	1,405.9	(28.8)	1,377.1
Borrowings and other financial liabilities	513.1	181.3	694.4	125.6	158.1	283.7
Provisions	148.6	(47.9)	100.7	98.8	(42.6)	56.2
Current tax liabilities	26.2	–	26.2	50.0	–	50.0
Other current liabilities	79.2	–	79.2	145.7	–	145.7
	2,228.4	96.5	2,324.9	1,826.0	86.7	1,912.7
Non-current liabilities						
Trade and other payables	322.4	(306.8)	15.6	333.8	(317.5)	16.3
Borrowings and other financial liabilities	1,279.5	2,349.0	3,628.5	1,670.6	2,383.9	4,054.5
Provisions	250.1	(177.4)	72.7	193.1	(101.3)	91.8
Deferred tax liabilities	218.4	(98.8)	119.6	255.7	(90.6)	165.1
Other non-current liabilities	220.5	–	220.5	316.8	–	316.8
	2,290.9	1,766.0	4,056.9	2,770.0	1,874.5	4,644.5
Total liabilities	4,519.3	1,862.5	6,381.8	4,596.0	1,961.2	6,557.2
Net assets	2,680.9	(211.7)	2,469.2	2,954.2	(221.0)	2,733.2
Equity						
Issued share capital	406.3	–	406.3	406.2	–	406.2
Share premium account	416.9	–	416.9	416.4	–	416.4
Capital redemption reserve	2,210.5	–	2,210.5	2,210.5	–	2,210.5
Hedging reserve	(14.6)	–	(14.6)	(76.0)	–	(76.0)
Cost of hedging reserve	11.7	–	11.7	10.7	–	10.7
Other reserve	(6,542.2)	–	(6,542.2)	(6,542.2)	–	(6,542.2)
Foreign exchange reserve	(44.7)	0.8	(43.9)	(29.3)	–	(29.3)
Retained earnings	6,237.1	(212.3)	6,024.8	6,560.4	(221.0)	6,339.4
Total shareholders' equity	2,681.0	(211.5)	2,469.5	2,956.7	(221.0)	2,735.7
Non-controlling interests in equity	(0.1)	(0.2)	(0.3)	(2.5)	–	(2.5)
Total equity	2,680.9	(211.7)	2,469.2	2,954.2	(221.0)	2,733.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

CONSOLIDATED STATEMENT OF CASH FLOWS

		52 weeks ended 30 March 2019	
	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Cash flows from operating activities			
Cash generated from operations	1,041.0	309.4	1,350.4
Income tax paid	(105.7)	–	(105.7)
Net cash inflow from operating activities	935.3	309.4	1,244.7
Net cash used in investing activities	(388.0)	–	(388.0)
Cash flows from financing activities			
Interest paid	(86.4)	(142.6)	(229.0)
Decrease in obligations under leases	(3.3)	(166.8)	(170.1)
Other financing activities	(415.3)	–	(415.3)
Net cash used in financing activities	(505.0)	(309.4)	(814.4)
Net cash inflow from activities	42.3	–	42.3
Effects of exchange rate changes	(0.2)	–	(0.2)
Opening net cash	171.0	–	171.0
Closing net cash	213.1	–	213.1

(i) Income statement

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on a straight-line basis over the term of the lease. The Group recognised these costs within operating costs. On adoption of IFRS 16, these costs have been removed and replaced with costs calculated on an IFRS 16 basis. Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset within operating costs.

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to operating costs. The net impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was £135.7m.

The impact on adjusting items as a result of IFRS 16 is due to additional accelerated depreciation and impairments following the recognition of the right-of-use assets and the removal of rental elements of onerous lease and onerous contract provisions. The net impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was a reduction in the charge of £11.1m.

Under IFRS 16, finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the income statement for the 52 weeks ended 30 March 2019 was £137.1m.

Also, under IFRS 16, interest income is recognised on subleases reclassified as finance leases. This is recognised within finance income. The impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was £1.0m.

The net impact of the above adjustments to profit after tax for the 52 weeks ended 30 March 2019 was an increase of £8.0m.

(ii) Right-of-use asset

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Group's contractual right to access an identified asset under the terms of the lease contract.

(iii) Lease liability

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Group's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) Working capital

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the statement of financial position as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) Taxation

A deferred tax asset has been recognised on the transition to IFRS 16 representing the temporary difference on the amounts taken to reserves.

(vi) Cash flow statement

Adopting IFRS 16 has resulted in reclassifying lease payments from operating activities to financing activities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

On 5 August 2019, the Group acquired a 50% interest in Ocado Retail Limited, a company incorporated in the UK which is one of the world's largest dedicated online grocery retailers. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited operates Ocado.com, supported by the Ocado Smart Platform technology and will bring together the strength of M&S's brand and its leading food quality and product development, with Ocado's proprietary technology and award-winning service.

Ocado Retail Limited is considered an associate of the M&S Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as M&S Group will have an option to obtain more power over the company if certain conditions are met. If M&S is deemed to have obtained control, Ocado Retail Limited will then be consolidated as a subsidiary of the Group. Through Board representation and shareholder voting rights, the Group is currently considered to have significant influence, therefore the investment in Ocado Retail Limited is treated as an associate and applies the equity method of accounting.

Ocado Retail Limited has a year-end date of 1 December 2019, aligning with its parent company, Ocado Group Plc. Ocado Retail Limited has prepared financial information for M&S Group purposes to the nearest quarter-end date of Ocado Retail Limited's year end. The results of Ocado Retail Limited are incorporated in these financial statements from the date of acquisition to 1 March 2020. There were no significant events or transactions in the period from 2 March 2020 to 28 March 2020.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

	As at 5 Aug 2019 £m
Ocado Retail Limited	
Current assets	161.2
Non-current assets	934.1
Current liabilities	(149.2)
Non-current liabilities	(317.7)
Total identifiable net assets	628.4
Group's share of total identifiable net assets	314.2
Goodwill	449.1
Total consideration	763.3
Satisfied by:	
Cash	560.9
Contingent consideration	202.4
Total consideration	763.3

The investment in associate is recognised at a cost of £769.0m. This incorporates initial consideration of £560.9m paid in cash on acquisition, contingent consideration of £202.4m and transaction costs of £5.7m.

Summarised financial information in respect of Ocado Retail Limited (the Group's only material associate) is set out below and represents amounts in the Ocado Retail Limited financial statements prepared in accordance with IFRS, adjusted by the Group for equity accounting purposes.

	As at 1 Mar 2020 £m
Ocado Retail Limited	
Current assets	484.9
Non-current assets	206.6
Current liabilities	(489.7)
Non-current liabilities	(178.2)
Net assets	23.6
5 August 2019 to 1 March 2020 £m	
Revenue	979.7
Profit for the period	5.1
Other comprehensive income	-
Total comprehensive income	5.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ocado Retail Limited recognised in the consolidated financial statements:

	As at 28 Mar 2020 £m
Ocado Retail Limited	
Net assets	23.6
Proportion of the Group's ownership interest	11.8
Goodwill	449.1
Brand	255.7
Customer relationships	98.9
Other adjustments to align accounting policies	(66.4)
Acquisition costs	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	754.8

The contingent consideration arrangement requires Ocado Retail Limited to achieve a target level of earnings in the financial year ending in November 2023, for specified capacity levels to be achieved and utilised within a specific customer fulfilment centre (CFC) by November 2023 and to begin providing service to customers from a new CFC. The potential undiscounted amount of all future payments that the Group could be required to pay under the contingent consideration arrangement is up to £187.5m plus 4% interest. The fair value of the contingent consideration arrangement of £202.4m was estimated by applying an appropriate discount rate to the expected future payments which are based on the current five-year plan for Ocado Retail Limited.

In addition, the Group holds immaterial investments in joint ventures totalling £5.6m (last year: £4.0m). The Group's share of losses totalled £0.9m (last year: £0.5m loss).

31 SUBSEQUENT EVENTS

The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 34 as well as set out within note 1 and the basis of preparation on page 116 which summarises the Covid-19 scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions). No adjustments to the key estimates and judgements that impact the balance sheet as at 28 March 2020 have been identified. Where any material changes in key estimates and judgements have been identified updates have been made to the financial statements as adjusting post balance sheet events.

The following non-adjusting events have occurred since 28 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme to furlough c.27,000 colleagues across our Clothing & Home business and Support centres, which should generate cash savings of c.£50m up to 30 June 2020.
- On 28 April, the Group announced that formal agreement had been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m.
- In addition, the Group implemented extended payment terms for suppliers in Clothing & Home.

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note 11 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

COMPANY STATEMENT OF FINANCIAL POSITION

	As at 28 March 2020 Notes	As at 30 March 2019 £m
Assets		
Non-current assets		
Investments in subsidiary undertakings	C6 8,763.2	9,269.5
Total assets	8,763.2	9,269.5
Liabilities		
Current liabilities		
Amounts owed to subsidiary undertakings	2,543.4	2,548.5
Total liabilities	2,543.4	2,548.5
Net assets	6,219.8	6,721.0
Equity		
Ordinary share capital	C7 487.6	406.3
Share premium account	C7 910.4	416.9
Capital redemption reserve	2,210.5	2,210.5
Merger reserve	C7 311.0	1,397.3
Retained earnings	2,300.3	2,290.0
Total equity	6,219.8	6,721.0

The Company's loss for the year was £892.5m (last year: profit of £305.0m).

The financial statements were approved by the Board and authorised for issue on 26 May 2020. The financial statements also comprise the notes C1 to C7.

Steve Rowe, Chief Executive Officer

David Surdeau, Interim Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2018	406.2	416.4	2,210.5	1,397.3	2,279.3	6,709.7
Profit for the year	–	–	–	–	305.0	305.0
Dividends	–	–	–	–	(303.5)	(303.5)
Capital contribution for share-based payments	–	–	–	–	9.2	9.2
Shares issued on exercise of employee share options	0.1	0.5	–	–	–	0.6
At 30 March 2019	406.3	416.9	2,210.5	1,397.3	2,290.0	6,721.0
At 31 March 2019	406.3	416.9	2,210.5	1,397.3	2,290.0	6,721.0
Loss for the year	–	–	–	–	(892.5)	(892.5)
Dividends	–	–	–	–	(191.1)	(191.1)
Capital contribution for share-based payments	–	–	–	–	7.6	7.6
Shares issued on rights issue	81.3	493.4	–	–	–	574.7
Shares issued on exercise of employee share options	–	0.1	–	–	–	0.1
Realisation of merger reserve	–	–	–	(1,086.3)	1,086.3	–
At 28 March 2020	487.6	910.4	2,210.5	311.0	2,300.3	6,219.8

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 £m
Cash flow from investing activities		
Dividends received	193.8	305.0
Additional investment in subsidiary	(572.4)	–
Net cash (used in)/generated from investing activities	(378.6)	305.0
Cash flows from financing activities		
Shares issued on exercise of employee share options	0.1	0.6
Repayment of intercompany loan	(5.1)	(2.1)
Proceeds from rights issue net of costs	574.7	–
Equity dividends paid	(191.1)	(303.5)
Net cash generated from/(used in) financing activities	378.6	(305.0)
Net cash inflow	–	–
Cash and cash equivalents at beginning and end of year	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activity of the Company and the nature of the Company's operations is as a holding entity.

These financial statements are presented in sterling, which is the Company's functional currency, and are rounded to the nearest hundred thousand.

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use which requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flows over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (see the basis of preparation in note 1 of the Group financial statements and the glossary for details on this Covid-19 scenario), focusing on the external impact of social distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business. See note C6 for further details on the assumptions and associated sensitivities.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,081,875 (last year: £1,028,666). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 DIVIDENDS

	2020 per share	2019 (Restated) per share	2020 £m	2019 £m
Dividends on equity ordinary shares				
Paid final dividend	6.8p	11.4p	115.1	193.1
Paid interim dividend	3.9p	6.5p	76.0	110.4
	10.7p	17.9p	191.1	303.5

Dividend per share figures above have been restated to reflect the bonus element of the June 2019 rights issue.

As announced by the Group on 20 March 2020, the Board of Directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Board of Directors do not, at this stage, anticipate paying a dividend for 2020/21.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £193.8m (last year: £305.0m) and decreased its loan from Marks and Spencer plc by £5.1m (last year: £2.1m). The outstanding balance was £2,543.4m (last year: £2,548.5m) and is non-interest bearing. There were no other related party transactions.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2020 £m	2019 £m
Beginning of the year	9,269.5	9,260.3
Contributions to subsidiary undertakings relating to share-based payments	7.6	9.2
Additions	572.4	-
Impairment loss	(1,086.3)	-
End of year	8,763.2	9,269.5

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc and Marks and Spencer Holdings Limited.

During the year, the Company purchased additional shares in Marks and Spencer Holdings Limited (£572.4m) to fund the investment in Ocado Retail Limited.

Impairment of investments in subsidiary undertakings

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 28 March 2020, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc, indicating a potential impairment. In addition, the ongoing Covid-19 pandemic and subsequent lockdown has resulted in significant market and business disruption; alongside the underlying economic uncertainty surrounding the Brexit transition, these have led to significant uncertainties regarding trading and the longer-term impact on the business.

The recoverable amount of the investment in Marks and Spencer plc of £8,190.8m has been determined based on a value in use calculation using cash flow projections from 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 projected cash flows have been updated to include the Covid-19 scenario reflecting the Group's best estimate of what could have been reasonably known about the expected impact of the Covid-19 pandemic as at 28 March 2020. The cash flows include ongoing capital expenditure required to maintain the store network but exclude any growth capital initiatives not committed.

The key assumptions for the value in use calculation are those regarding the discount rate, growth rates and expected trading performance.

Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the Group. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital (WACC), which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate. The rate used to discount the forecast cash flows is 8.6% (last year: 9.1%).

Cash flows beyond the three-year period are extrapolated using an estimated average long-term growth rate of 2.0%, which is based on inflation forecasts by recognised bodies.

The value in use calculation also includes the intercompany payable due from the Company to the subsidiary of £2,543.4m.

As a result of this analysis, the Company has recognised an impairment charge of £1,086.3m.

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. An amount equal to the impairment charge of £1,086.3m has been transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17.

Sensitivity analysis

As disclosed in the accounting policies note C1, the cash flows used within the impairment model, the long-term growth rate and the discount rate are sources of estimation uncertainty and small movements in these assumptions could lead to further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions:

- A 20 basis point decrease in the long-term growth rate would result in an additional impairment charge of £267.7m.
- A 5% reduction in cash flows from the three-year plan would result in an additional impairment charge of £503.9m.
- A 50 basis point increase in the discount rate would result in an additional impairment charge of £704.1m.

In the event that all three were to occur simultaneously, an additional impairment charge of £1,391.4m would be recorded.

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 28 March 2020 is disclosed below.

Subsidiary and other related undertakings registered in the UK⁽ⁱ⁾

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 ordinary	–	100	Marks and Spencer Holdings Limited	£1 ordinary	100	–
Founders Factory Retail Limited	£0.0001 ordinary	–	0.004	Marks and Spencer Pension Trust Limited⁽ⁱⁱ⁾	£1 ordinary A	100	–
Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 preferred	–	100		£1 ordinary B	–	–
Hedge End Park Limited	£1 ordinary B	–	50		£1 ordinary C	–	–
Registered Office: 33 Holborn, London, EC1N 2HT				Marks and Spencer plc	£0.25 ordinary	100	–
M&S Limited	£1 ordinary	–	100	Marks and Spencer Property Developments Limited	£1 ordinary	–	100
Manford (Textiles) Limited	£1 ordinary	–	100	Marks and Spencer Scottish Limited Partnership^(iv)	Partnership interest	–	100
Marks and Spencer Company Archive (CIC)⁽ⁱⁱⁱ⁾	N/A	–	–	Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU			
Marks and Sparks Limited	£1 ordinary	–	100	Ocado Retail Limited	£0.01 ordinary	–	50
Marks and Spencer (Northern Ireland) Limited	£1 ordinary	–	100	Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX			
Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR				St. Michael (Textiles) Limited	£1 ordinary	–	100
Marks and Spencer France Limited	€1.14 ordinary	–	100	St. Michael Finance plc	£1 ordinary	–	100
Marks and Spender Guernsey Investments LLP	Partnership interest	–	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 28 March 2020. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number	Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Amethyst Leasing (Properties) Limited	–	100	4246934	Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	5502523
Busexport Limited	–	100	4411320	Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	5502520
Marks & Spencer Outlet Limited	–	100	4039568	Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	5502588
Marks & Spencer Simply Foods Limited	–	100	4739922	Marks and Spencer 2005 (Pudsey Store) Limited	–	100	5502544
Marks and Spencer (Bradford) Limited	–	100	10011863	Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	5502502
Marks and Spencer (Initial LP) Limited	100	–	SC315365	Marks and Spencer Chester Limited	–	100	5174129
Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA				Marks and Spencer Hungary Limited	–	100	8540784
Marks and Spencer (Property Investments) Limited	–	100	5502582	Marks and Spencer International Holdings Limited	–	100	2615081
Marks and Spencer (Property Ventures) Limited	–	100	5502513	Marks and Spencer Investments	–	100	4903061
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	5502608	Marks and Spencer Property Holdings Limited	–	100	2100781
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	5502519	Minterton Services Limited	–	100	4763836
Marks and Spencer 2005 (Chester Store) Limited	–	100	5502542	Ruby Properties (Cumbernauld) Limited	–	100	4922798
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	5502598	Ruby Properties (Hardwick) Limited	–	100	4716018
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	5502546	Ruby Properties (Long Eaton) Limited	–	100	4716031
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	5502538	Properties (Thorncliffe) Limited	–	100	4716110
Marks and Spencer 2005 (Kensington Store) Limited	–	100	5502478	Ruby Properties (Tunbridge) Limited	–	100	4716032
				Simply Food (Property Investments)	–	100	5502543
				Simply Food (Property Ventures) Limited	–	100	2239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £32.5m in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.

(ii) No share capital, as the company is limited by guarantee. Marks and Spencer plc is the sole member.

(iii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C ordinary shares are both directors of that company.

(iv) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

International subsidiary undertakings⁽ⁱ⁾

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)	Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100	Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100				INR 10 Class B	100
Marks & Spencer Inc.	Brussels Square, Canada 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100				INR 5 Class C(ii)	-
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100	Aprell Limited	24/29 Mary Street, Ireland Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer Commercial (Shanghai) Ltd	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'an District, Shanghai, China	China	Registered Capital	100	Marks and Spencer (Ireland) Limited	24-27 Mary Street, Ireland Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100	Marks and Spencer (Israel) Limited	31 Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	100
			CZK 100,000 Ordinary	100	Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
			CZK 1,000,000 Ordinary	100	UAB MSF Lithuania	A. Goštauto g. 40B, Vilnius m., Lithuania	Lithuania	LTL 100 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	Registered Capital	100	M & S Mode International B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermo Street, Athens, Greece	Greece	€3 Ordinary	80	Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney, Guernsey	Guernsey	£1 Ordinary	100	Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership Interest	100	Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, Singapore #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	No Par Value Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100	M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (Hungary) Kft (in liquidation)	1103 Budapest, Kőér utca 2/A C. ép	Hungary	HUF280,500,000 Quota	100	Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100	Marks and Spencer Clothing Textile Trading J.S.C	Havalani Karsisi İstanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy Istanbul Turkey	Turkey	TRL 25.00 Ordinary	100
					Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 262 Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	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 5 Class C shares 100% owned by JV partner.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.3m. Transaction costs of £26.6m were incurred resulting in £493.4m being recognised in share premium.

49,610 (last year: 242,884) ordinary shares having a nominal value of £0.0m (last year: £0.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13 of the Group financial statements. The aggregate consideration received was £0.1m (last year: £0.6m).

Merger reserve

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. An amount equal to the impairment charge of £1,086.3m has been transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2020 52 weeks £m	2019 (Restated ²) 52 weeks £m	2018 52 weeks £m	2017 52 weeks £m	2016 53 weeks £m
Income statement					
Revenue¹					
UK Clothing & Home	3,209.1	3,499.8			
UK Food	6,028.2	5,903.4			
Total UK	9,237.3	9,403.2	9,611.0	9,441.7	9,470.8
International	944.6	974.1	1,087.2	1,180.3	1,084.6
	10,181.9	10,377.3	10,698.2	10,622.0	10,555.4
Operating profit before adjusting items¹					
UK Clothing & Home	223.9	355.2			
UK Food	236.7	212.9			
Other	19.4	27.0			
Total UK	480.0	595.1	535.4	626.2	726.7
International	110.7	130.5	135.2	64.4	58.2
Total operating profit before adjusting items	590.7	725.6	670.6	690.6	784.9
Net interest payable	(211.2)	(239.7)	(107.4)	(106.1)	(110.6)
Pension finance income	23.6	25.8	17.7	29.3	15.3
Profit on ordinary activities before taxation and adjusting items	403.1	511.7	580.9	613.8	689.6
Adjustments to reported profit	(335.9)	(427.5)	(514.1)	(437.4)	(200.8)
Income tax expense	(39.8)	(38.9)	(37.7)	(60.7)	(84.4)
Profit after taxation	27.4	45.3	29.1	115.7	404.4
	2020 52 weeks	2019 52 weeks	2018 52 weeks	2017 52 weeks	2016 53 weeks
Basic earnings per share¹					
Basic earnings per share ¹	Basic earnings/ Weighted average ordinary shares in issue	1.3p	2.5p	1.6p	7.2p
Adjusted basic earnings per share ¹	Adjusted basic earnings/ Weighted average ordinary shares in issue	16.7p	23.7p	27.8p	30.4p
Dividend per share declared in respect of the year		3.9p	13.3p	18.7p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	4.3x	1.8x	1.5x	1.6x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	3.4x	3.6x	3.8x	3.4x
Statement of financial position					
Net assets (£m)	3,708.5	2,469.2	2,954.2	3,150.4	3,443.4
Net debt ³ (£m)	4,025.2	4,075.4	1,827.5	1,934.7	2,138.3
Capital expenditure (£m)	332.0	294.5	300.5	331.2	525.1
Stores and space					
UK stores	1,038	1,043	1,035	979	914
UK selling space (m sq ft)	16.8	17.2	17.6	17.4	17.0
International stores	481	445	429	455	469
International selling space (m sq ft)	5.0	4.9	5.2	5.9	6.1
Staffing (full-time equivalent)					
UK	49,094	50,578	53,273	53,562	52,388
International	4,894	4,862	5,655	6,202	6,507

The above results are prepared under IFRS for each reporting period on a consistent basis, with the exception of the adoption of IFRS 9 and IFRS 15 in 2019 for which comparative periods have not been restated and the adoption of IFRS 16 in 2020 for which the comparative period of 2019 has been restated.

1. Based on continuing operations.

2. Following the change in reportable segments, as disclosed in note 2, the comparative period of 2019 has been restated to reflect the new reportable segments; however, previous periods have not been restated.

3. Excludes accrued interest.

GLOSSARY

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

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

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable with similarly-titled measures reported by other companies due to differences in the way they are calculated.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose		
Income statement measures					
Like-for-like revenue growth	Movement in revenue per the income statement	Sales from non like-for-like stores	The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.	52 weeks ending	
				28 March 2020 £m	30 March 2019 £m
UK Food					
			Like-for-like	5,872.1	5,760.7
			Net new space	156.1	142.7
			Total UK Food revenue	6,028.2	5,903.4
UK Clothing & Home					
			Like-for-like	3,196.9	3,407.0
			Net new space	12.2	92.8
			Total UK Clothing & Home revenue	3,209.1	3,499.8
 M&S.com revenue/ Online revenue					
			Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.		
Revenue growth at constant currency	None	Not applicable	The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.	2019/20 £m	2018/19 £m
				%	
 International revenue					
			At constant currency	944.6	969.1
			Impact of FX retranslation	–	(2.5)
			At reported currency	944.6	974.1
					(3.0)
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Operating Committee.		

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
EBIT before adjusting items	EBIT ¹	Adjusting items (see note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT ¹	Not applicable	Calculated as Ocado Retail Limited earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items.
Operating profit before adjusting items	Profit before tax	Adjusting items (See note 5)	Operating profit before the impact of adjusting items, financing income/costs and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
Profit before tax and adjusting items	Profit before tax	Adjusting items (see note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
			This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted earnings per share	Earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year.
			This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (see note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed.
Cash flow measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose									
Other measures												
Covid-19 scenario	None	Not applicable	<p>As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan.</p> <p>As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario.</p> <p>The downside scenario assumes the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation.</p> <p>This downside scenario was approved by the Directors and is defined as the Covid-19 scenario.</p>									
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.									
Return on capital employed	None	Not applicable	<p>Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right; width: 15%;">2019/20 £m</th> <th style="text-align: right; width: 15%;">2018/19 £m</th> </tr> </thead> <tbody> <tr> <td>EBIT before adjusting items</td> <td style="text-align: right;">590.7</td> <td style="text-align: right;">725.6</td> </tr> <tr> <td>Average capital employed</td> <td style="text-align: right;">5,887.5</td> <td style="text-align: right;">6,140.2</td> </tr> </tbody> </table> <p>This measure is used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</p>		2019/20 £m	2018/19 £m	EBIT before adjusting items	590.7	725.6	Average capital employed	5,887.5	6,140.2
	2019/20 £m	2018/19 £m										
EBIT before adjusting items	590.7	725.6										
Average capital employed	5,887.5	6,140.2										
Dividend per share	None	Not applicable	The total declared dividends per share in respect of a financial year.									

1. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

IMPORTANT NOTICE

NOTICE OF
**ANNUAL
GENERAL
MEETING**
2020

Friday 3 July 2020 at 11am

Broadcast from Waterside House
35 North Wharf Road, London, W2 1NW

NO PHYSICAL ATTENDANCE PERMITTED

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all your shares in the Company, please forward this document and accompanying documents (except any personalised form of proxy, if applicable) to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

DEAR SHAREHOLDER

“I am pleased to announce the 19th Annual General Meeting of Marks and Spencer Group plc will be broadcast on 3 July 2020.”

Nick Folland, General Counsel and Company Secretary



ANNUAL GENERAL MEETING (AGM)

As the Chairman touched on in his message to shareholders contained in your Notice of Availability, the unprecedented challenges posed by the Covid-19 pandemic and its tragic consequences, of which we are all acutely aware, has necessitated a significant rethink around how companies such as ourselves operate. Inevitably, this has had an impact on our ability to run this year's AGM in the manner in which our shareholders are accustomed.

The 2020 AGM will be broadcast from M&S's Waterside House Support Centre at 11am on 3 July 2020. However, as at the publication date of this Notice, legislation and government guidance relating to Covid-19 prohibits public gatherings and restricts non-essential travel. Even if the lockdown has ended by 3 July 2020, it is likely that advice will remain in place to limit sizable gatherings. As such, shareholders will not be permitted to attend this meeting in person.

Although physical attendance will not be permitted, we have worked hard to build on our successful trial of a digital hybrid AGM last year so that shareholders are able to participate in the meeting remotely and submit their voting instructions in a number of ways, both in advance and on the day.

Shareholders are invited to participate in the AGM via a live webcast which you can access by logging on to <http://web.lumiagm.com>. On this website, you can also submit questions and your voting instructions, both during the meeting and in advance. A step-by-step guide on how to join the meeting electronically and submit your votes and questions can be found on pages 195 to 196. We strongly encourage you to log on and submit any questions in advance of the meeting.

Sadly, we have to insist on non-attendance not only for legal reasons, but because it is the right thing to do for the safety of our colleagues and shareholders. We therefore encourage shareholders not to travel to the venue on the day, as those who do will, regrettably, have to be turned away.

The formal Notice of Meeting follows this letter. If you cannot join the meeting

electronically on the day, we would still like to understand the themes and issues of concern to you, as shareholders. You may send your comments by email to chairman@marks-and-spencer.com with the heading 'AGM 2020'.

YOUR VOTE COUNTS

Your vote is important to us. You can:

- Register your proxy vote electronically by logging on to our Registrar's website, shareview.co.uk, or by using the service offered by Euroclear UK & Ireland Limited for members of CREST.
- Complete and return a paper proxy form (enclosed with this notice if you have elected for hard copy documents otherwise available from Equiniti on request).
- Join the AGM online and vote electronically. Please see page 194 of this Notice for further details.

VOTING BEFORE THE MEETING

Your vote counts and all shareholders are encouraged to vote either in advance or on the day. There are four ways to submit your voting instructions in advance of the meeting, which are available from the publication date of this Notice:

- (1) The Lumi AGM app.
- (2) The Lumi website.
- (3) Equiniti's Shareview website.
- (4) By completing and returning a paper proxy form.

Paper proxy votes must be received by no later than 11am on 1 July 2020. Paper proxy forms are available from Equiniti on request. Votes submitted electronically via options 1-3 above should be registered by no later than 11am on 1 July 2020. After then, you will no longer be able to submit your proxy vote via Shareview. Voting via the Lumi app and website will also close at this time, but will re-open for voting on the day of the meeting.

You will be able to vote in one of three ways for each of the resolutions: "For", "Against" or "Vote Withheld". Please note that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of votes "For" and "Against" each resolution.

JOINING THE MEETING AND VOTING ON THE DAY

There are two ways to vote and ask questions on the day of the meeting: (1) the Lumi AGM app; and (2) the Lumi website. Please refer to pages 194 to 196 for instructions on how to join the meeting and submit your votes on the day.

Voting on all resolutions on the day will be by way of a poll and the Lumi app and website will re-open at 9.30am on 3 July for this purpose. From that time, there will be another opportunity to vote and submit questions. Votes can be cast via the app or website once the Chairman has declared the poll open.

VOTING RESULTS

The results of the voting will be announced through a Regulatory Information Service and will be published on our website **marksandspencer.com/thecompany** on 3 July 2020 or as soon as reasonably practicable thereafter.

In 2019, all resolutions were passed at the meeting with votes ranging from 88.32% to 99.99% in favour.

EXPLANATORY NOTES

An explanation of each of the resolutions to be voted on at the AGM is set out below and on pages 186 to 187.

M&S WEBSITE

Our corporate website, **marksandspencer.com/thecompany**, is the principal means we use to communicate with our shareholders. There is a wealth of information online including:

- A copy of our full Annual Report, which includes our Strategic Report.**
- All the latest M&S news, press releases and investor presentations.**
- A detailed account of our approach to corporate governance at M&S.**

EXPLANATORY NOTES TO THE RESOLUTIONS

TO RECEIVE THE REPORTS AND ACCOUNTS

1 The Board asks that shareholders receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 28 March 2020, together with the report of the auditor.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

2 The Directors' Remuneration Report sets out the pay and benefits received by each of the directors for the year ended 28 March 2020. In line with legislation, this vote is advisory and the directors' entitlement to remuneration is not conditional on it.

APPROVAL OF THE DIRECTORS' REMUNERATION POLICY

3 The Directors' Remuneration Policy (the "Policy") is set out on pages 74-80 of the Annual Report. It sets out the Company's policy on remuneration and potential payments to directors going forward. The Policy must be approved by shareholders (by means of a separate resolution) at least once every three years. The current Policy was approved by shareholders at the AGM in 2017 and is therefore due for renewal. The Policy for which we are seeking your approval this year is largely unchanged from that approved by shareholders in 2017. The key changes to the Policy are shown on page 67 of the Annual Report. Once the Policy is approved, the Company will not be able to make a remuneration payment to a current or future director or a payment for loss of office to a current or past director unless that payment is consistent with the Policy or has been approved by a resolution of the members of the Company.

ELECTION OF DIRECTORS

4-12

The directors believe that the Board continues to maintain an appropriate balance of knowledge and skills and that all the non-executive directors are independent in character and judgement. This follows a process of formal evaluation, which confirms that each director in office at the time of the evaluation makes an effective and valuable contribution to the Board and demonstrates commitment to the role (including making sufficient time available for Board and Committee meetings and other duties as required). Tamara Ingram and Sapna Sood joined the Board on 1 June 2020. Tamara brings experience from a long leadership career in advertising, marketing and digital communications. Sapna brings in-depth knowledge of running complex supply chains, including food and clothing, as well as experience of leading large transformation programmes. Eoin Tonge is also confirmed to join the Board as Chief Financial Officer on 8 June 2020. In accordance with the UK Corporate Governance Code (and with the exception of Alison Brittain and Katie Bickerstaffe who, as previously announced, are standing down from the Board, prior to the AGM), all directors will again stand for election or re-election, as relevant, at the AGM this year. Biographies are available on pages 46 and 47 of the Annual Report, with further details available on our website, **marksandspencer.com/thecompany**. It is the Board's view that the directors' biographies illustrate why each director's contribution is, and continues to be, important to the Company's long-term sustainable success.

APPOINTMENT AND REMUNERATION OF AUDITOR

13-14

On the recommendation of the Audit Committee, the Board proposes in resolution 13 that Deloitte LLP be re-appointed as auditor of the Company.

Resolution 14 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

RENEWAL OF THE POWERS OF THE BOARD TO ALLOT SHARES

15

Paragraph (A) of this resolution 15 would give the directors the authority to allot ordinary shares of the Company up to an aggregate nominal amount equal to £162,504,984 (representing 650,019,936 ordinary shares of 25p each). This amount represents approximately one-third (33.33%) of the Company's issued share capital as at 25 May 2020, the latest practicable date before the publication of this Notice.

In line with guidance issued by the Investment Association (IA), paragraph (B) of this resolution would give the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £325,009,968 (representing 1,300,039,872 ordinary shares), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. This amount (before any reduction) represents approximately two-thirds (66.66%) of the issued ordinary share capital of the Company as at 25 May 2020, the latest practicable date before the publication of this Notice.

The authorities sought under paragraphs (A) and (B) of this resolution will expire at the conclusion of the AGM in 2021 or on 1 October 2021, whichever is sooner. The directors have no present intention to exercise either of the authorities sought under this resolution except, under paragraph (A), to satisfy options under the Company's share option schemes; however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources.

As at the date of this Notice, no shares are held by the Company in treasury.

AUTHORITY TO DISAPPLY PRE-EMPTION RIGHTS

16–17

Resolutions 16 and 17 are proposed as special resolutions. If the directors wish to allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are first offered to shareholders in proportion to their existing holdings.

At last year's AGM, a special resolution was passed, in line with institutional shareholder guidelines, empowering the directors to allot equity securities for cash without first offering them to existing shareholders in proportion to their existing holdings. It is proposed, under resolution 16, that this authority be renewed. If approved, the resolution will authorise directors to issue shares in connection with pre-emptive offers, or otherwise to issue shares for cash up to an aggregate nominal amount of £24,375,748 (representing 97,502,990 ordinary shares) which includes the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company as at 25 May 2020, being the latest practicable date before the publication of this Notice.

The Pre-Emption Group's Statement of Principles also supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities and sales of treasury shares for cash where these represent no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares) and are used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the

transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, the purpose of resolution 17 is to authorise the directors to allot new shares and other equity securities pursuant to the allotment authority given by resolution 15, or sell treasury shares for cash, without first being required to offer such securities to existing shareholders, up to a further nominal amount of £24,375,748 (representing 97,502,990 ordinary shares), being approximately 5% of the issued ordinary share capital of the Company as at 25 May 2020, the latest practicable date before the publication of this Notice. The authority granted by this resolution, if passed, will only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 17 is used, the Company will publish details of its use in its next Annual Report.

The authority granted by resolution 17 would be in addition to the general authority to disapply pre-emption rights under resolution 16. The maximum nominal value of equity securities which could be allotted if both authorities were used would be £48,751,496, which represents approximately 10% of the issued ordinary share capital of the Company as at 25 May 2020, being the latest practicable date before the publication of this Notice.

The directors intend to adhere to the provisions in the Pre-emption Group's Statement of Principles and not to allot shares or other equity securities or sell treasury shares for cash on a non pre-emptive basis pursuant to the authority in resolution 16 in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company, excluding treasury shares, within a rolling three-year period, other than:

- (i) With prior consultation with shareholders; or
- (ii) In connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The directors have no current intention to allot shares except in connection with employee share schemes. These authorities will expire at the conclusion of the AGM in 2021 or on 1 October 2021, whichever is sooner.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

18

Authority is sought for the Company to purchase up to 10% of its issued ordinary shares renewing the authority granted by the shareholders at previous AGMs.

The directors have no present intention of exercising the authority to purchase the Company's own shares; however, this authority would provide them with the flexibility to do so in the future, if the prevailing market conditions made such purchases in the best interests of shareholders generally.

Ordinary shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled. It remains the Company's intention to cancel any shares it buys back rather than hold them in treasury. The Company currently holds no shares in treasury. The minimum price, exclusive of expenses, which may be paid for an ordinary share is 25p.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

The maximum price, exclusive of expenses, that may be paid for an ordinary share is the highest of:

- (i) An amount equal to 105% of the average market value for an ordinary share for the five business days immediately preceding the date of the purchase; and
- (ii) The higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Company has options outstanding over 52.5 million ordinary shares, representing 2.7% of the Company's issued ordinary share capital as at 25 May 2020, the latest practicable date before the publication of this Notice.

If the existing authority given at the 2019 AGM and the authority now being sought by this resolution were to be fully used, these options would represent 2.99% of the Company's ordinary share capital in issue at that date.

NOTICE OF GENERAL MEETING

19

In accordance with the Companies Act 2006 (the "2006 Act"), the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

- (i) Has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and
- (ii) Offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 19 seeks such approval and, should this resolution be approved, it will be valid until the end of the next AGM. This is the same authority that was sought and granted at last year's AGM.

AUTHORITY TO MAKE POLITICAL DONATIONS

20

The 2006 Act prohibits companies from making any political donations to EU political organisations or independent candidates, or incurring EU political expenditure, unless authorised by shareholders in advance.

The Company does not make, and does not intend to make, donations to EU political organisations or independent election candidates, nor does it incur or intend to incur any EU political expenditure.

However, the definitions of political donations, political organisations and political expenditure used in the 2006 Act are very wide. As a result, this can cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform.

Shareholder approval is being sought on a precautionary basis only, to allow the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, to continue to support the community and put forward its views to wider business and government interests, without running the risk of inadvertently breaching legislation.

The Board is therefore seeking authority to make political donations and to incur political expenditure not exceeding £50,000 in total. In line with best practice guidelines published by the IA, this resolution is put to shareholders annually rather than every four years as required by the 2006 Act.

APPROVAL OF AMENDMENTS TO THE PERFORMANCE SHARE PLAN RULES

21

This resolution seeks shareholders' approval for amendments to the rules of the Marks and Spencer Group Performance Share Plan 2015 (the PSP). The amendments are made to take account of updated legislation, recent updates to corporate governance requirements, and to align the rules with the Directors' Remuneration Policy (including the Remuneration Committee's discretion to make upwards or downwards adjustments to the level of vesting of awards, to ensure an appropriate level of vesting in the context of company and individual performance and to avoid formulaic outcomes in accordance with corporate governance best practice).

APPROVAL OF THE RESTRICTED SHARE PLAN AND DEFERRED SHARE BONUS PLAN RULES

22–23

These resolutions seek shareholders' approval for the Marks and Spencer Group Restricted Share Plan 2015, as amended (the RSP), and the Marks and Spencer Group Deferred Share Bonus Plan 2015, as amended (the DSBP), (together with the RSP, the "Plans"). The Plans were adopted by the Remuneration Committee on 7 July 2015. It is proposed the rules of the Plans be amended to permit the use of treasury or new issue shares to satisfy awards made under the Plans, which requires the approval of shareholders. The Plan rules are also to be updated to take account of updated legislation, recent updates to corporate governance requirements, and to align the rules with the Directors' Remuneration Policy, in line with the amendments to the PSP rules described above. The principal terms of the Plans are summarised on pages 191 to 193 of this Notice.

RECOMMENDATION

Your directors believe that the proposals described above are in the best interests of the Company and its shareholders as a whole, and recommend you give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

Yours faithfully,

Nick Folland

Nick Folland, General Counsel and Company Secretary

London, 26 May 2020

NOTICE OF MEETING

3 JULY 2020

Notice is hereby given that the Annual General Meeting of Marks and Spencer Group plc (the "Company") will be broadcast from Waterside House, 35 North Wharf Road, London, W2 1NW in accordance with the information provided on page 194 on Friday 3 July 2020 at 11am (the "AGM") for the purposes set out below. Please note, no physical attendance is permitted.

Resolutions 1 to 15 and 20 to 23 will be proposed as ordinary resolutions, and resolutions 16 to 19 will be proposed as special resolutions.

1. To receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 28 March 2020, together with the report of the auditor.

2. To approve the Directors' Remuneration Report for the year ended 28 March 2020, as set out on pages 66 to 92 of the Annual Report (excluding the Directors' Remuneration Policy set out on pages 74 to 82).

3. To approve the Directors' Remuneration Policy as set out on pages 74 to 80 of the Annual Report.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

4. Archie Norman

5. Steve Rowe

6. Andrew Fisher

7. Andy Halford

8. Pip McCrostie

9. Justin King

To elect the following directors appointed to the Board since the last Annual General Meeting:

10. Eoin Tonge

11. Sapna Sood

12. Tamara Ingram

To view our Board biographies go to the Investors section of our corporate website, marksandspencer.com/thecompany

13. To resolve that Deloitte LLP be, and is hereby, re-appointed as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

14. To resolve that the Audit Committee determine the remuneration of the auditor on behalf of the Board.

15. DIRECTORS' AUTHORITY TO ALLOT SHARES

To resolve that the directors be and are hereby authorised generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(A) Up to a nominal amount of £162,504,984 (such amount to be reduced by any allotments or grants made under paragraph (B) below in excess of such sum); and

(B) Comprising equity securities (as defined in Section 560(1) of the Companies Act 2006) up to a nominal amount of £325,009,968 (such amount to be reduced by any allotments made under paragraph (A) above) in connection with an offer by way of a rights issue:

(i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The authorities conferred on the directors to allot securities under paragraphs (A) and (B) will expire at the conclusion of the AGM of the Company to be held in 2021 or on 1 October 2021, whichever is sooner, unless previously revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might

require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

16. GENERAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of resolution 15, the directors be empowered to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution (set out in this Notice of Meeting), and/or to sell ordinary shares held by the Company as treasury shares for cash, as if Section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be limited:

(A) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (B) of resolution 15, by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(B) in the case of the authority granted under paragraph (A) of resolution 15 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) above) up to a nominal amount of £24,375,748,

and shall expire at the conclusion of the AGM to be held in 2021 or on 1 October 2021, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided

that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

17. ADDITIONAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of resolution 15, the directors be empowered in addition to any authority granted under resolution 16 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution 15 (set out in this Notice of Meeting) and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be:

- (A)** limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £24,375,748; and
- (B)** used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice of Meeting,

and shall expire at the conclusion of the AGM to be held in 2021 or on 1 October 2021, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

18. COMPANY'S AUTHORITY TO PURCHASE ITS OWN SHARES

To resolve as a special resolution that the Company is authorised for the purposes of Section 701 of the Companies Act 2006 to make one or more market purchases (as defined in Section 693(4) of the Companies Act 2006) of its ordinary shares of 25p each ("ordinary shares"), such power to be limited:

- (A)** To a maximum number of 195 million ordinary shares.

(B) By the condition that the minimum price which may be paid for an ordinary share is 25p and the maximum price which may be paid for an ordinary share is the highest of:

- (i)** an amount equal to 105% of the average market value of an ordinary share for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
- (ii)** the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out,

in each case, exclusive of expenses, such power to apply until the end of the AGM to be held in 2021 or until 1 October 2021, whichever is sooner, but in each case so that the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase ordinary shares pursuant to any such contract as if the power had not ended.

19. CALLING OF GENERAL MEETINGS ON 14 DAYS' NOTICE

To resolve as a special resolution that a general meeting other than an Annual General Meeting may be called on no fewer than 14 clear days' notice.

20. POLITICAL DONATIONS

To resolve that, in accordance with Section 366 of the Companies Act 2006, the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, be and are hereby authorised to:

- (A)** make political donations to political parties or independent election candidates, not exceeding £50,000 in total;
- (B)** make political donations to political organisations other than political parties, not exceeding £50,000 in total; and
- (C)** incur political expenditure not exceeding £50,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000, during the period beginning with the date of the passing of this resolution and ending at the conclusion of the AGM to be held in 2021 or on 1 October 2021, whichever is sooner.

For the purpose of this resolution, the terms "political donations", "political parties", "independent election candidates", "political organisations" and "political expenditure" have the meanings

set out in Sections 363 to 365 of the Companies Act 2006.

21. AMENDMENTS TO THE PERFORMANCE SHARE PLAN RULES

To approve the amendments to the rules of the Marks and Spencer Group Performance Share Plan 2015 (the PSP), as summarised in the explanatory notes and as shown in the copy of the PSP rules presented to the meeting, and authorise the directors of the Company to do all acts and things they consider necessary or expedient to implement and give effect to this resolution.

22. APPROVAL OF THE RESTRICTED SHARE PLAN RULES

To approve the rules of the Marks and Spencer Group Restricted Share Plan 2015, as amended (the RSP), the principal terms of which are summarised pages 191 to 192 of this Notice, and a copy of the rules of which are presented to the meeting, and authorise the directors of the Company to do all acts and things they consider necessary or expedient to implement and give effect to the RSP, and to establish further plans based on the RSP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under any further plans will count against any limits on individual or overall participation in the RSP.

23. APPROVAL OF THE DEFERRED SHARE BONUS PLAN RULES

To approve the rules of the Marks and Spencer Group Deferred Share Bonus Plan 2015, as amended (the DSBP), the principal terms of which are summarised on pages 192 to 193 of this Notice, and as shown in the copy of the rules presented to the meeting, and authorise the directors of the Company to do all acts and things they consider necessary or expedient to implement and give effect to the DSBP, and to establish further plans based on the DSBP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under any further plans will count against any limits on individual or overall participation in the DSBP.

By order of the Board

Nick Folland, General Counsel and Company Secretary

London, 26 May 2020

Registered office Waterside House, 35 North Wharf Road, London W2 1NW.

Registered in England and Wales No. 4256886.

NOTES

- 1.** Biographies of the directors seeking election are given in the Annual Report on pages 46 and 47, including membership of the principal Committees. The terms of the current directors' service contracts are such that all executive director appointments may be terminated by the Company giving 12 months' notice and by the individual giving six months' notice; non-executive directors have agreements for service which can be terminated on three months' notice by either party; the Chairman has an agreement for service which requires six months' notice by either party.
- 2.** Registered Shareholders: Members are entitled to appoint a proxy to exercise all or any of their rights to electronically attend, ask questions and vote on their behalf at the AGM. Members may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. To request one or more paper proxy forms (to appoint more than one proxy), please contact our shareholder helpline on 0345 609 0810. Please indicate the number of shares in relation to which each proxy is authorised to act in the box below the proxy holder's name. Please also indicate if the instruction is one of multiple instructions being given, and if a proxy is being appointed for less than your full entitlement, please enter the number of shares in relation to which each such proxy is entitled to act in the box below the relevant proxy holder's name. The proxy form assumes you wish to vote on all your shares in the same way. To vote only part of your holding or to vote some shares one way and some another, please contact the shareholder helpline. All proxy forms must be signed and should be returned together.
- 3.** If you would like to submit your vote electronically in advance of the AGM, you can do so by downloading the Lumi ACM smartphone app or accessing the Lumi website, <http://web.lumiagm.com>. Instructions are available on page 195 and 196 of this Notice. Alternatively, you can submit your instruction by visiting shareview.co.uk (see page 197 for further instructions). You are advised to read the terms and conditions of use. All advance electronic votes should be submitted by no later than 11am on Wednesday 1 July 2020. If you return paper and electronic instructions, those received last by the Registrar before 11am on Wednesday 1 July 2020 will take precedence. Electronic communication facilities are available to all shareholders and those that use them will not be disadvantaged.
- 4.** In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 5.** Votes submitted in advance of the meeting using the Lumi ACM app or website will constitute an instruction to appoint the Chairman of the meeting as proxy. The shares covered by the instruction will be voted as directed by the shareholder in respect of the resolutions referred to in this Notice of Meeting and any adjournment thereof.
- 6.** To be valid, any proxy form or other instrument appointing a proxy must be received by post (during normal business hours only) or by hand at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 11am on Wednesday 1 July 2020.
- 7.** The return of a completed paper proxy form, other such instrument or any CREST proxy instruction (as described in paragraph 15 on the following page) will not prevent a shareholder voting electronically later if he/she/they wishes to do so.
- 8.** Indirect shareholders: Any person to whom this Notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- 9.** The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 to 7 does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
- 10.** To be entitled to join the meeting, submit questions and vote (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be entered on the Register of Members of the Company by 6.30pm on Wednesday 1 July 2020 (or, in the event of any adjournment, 6.30pm on the date which is two working days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to join, submit questions and vote at the meeting.
- 11.** The following documents are available for inspection at an agreed time at the Company's registered office: Waterside House, 35 North Wharf Road, London W2 1NW. Email company.secretary@marks-and-spencer.com during normal business hours on any weekday (excluding public holidays).
- (i)** Copies of the executive directors' service contracts.
 - (ii)** Copies of the non-executive directors' letters of appointment.
 - (iii)** Copies of the directors' Deeds of Indemnity.
 - (iv)** A copy of the Articles of Association of the Company.
 - (v)** The rules of the Marks and Spencer Group Restricted Share Plan 2015, as amended.
 - (vi)** The rules of the Marks and Spencer Group Deferred Share Bonus Plan 2015, as amended.
 - (vii)** The rules of the Marks and Spencer Group Performance Share Plan 2015, as amended.
 - (viii)** Copies of these documents will also be available at the AGM for at least 15 minutes before and during the meeting.
- 12.** Shareholders are advised that, unless otherwise specified, the telephone numbers, website and email addresses set out in this Notice or proxy forms are not to be used for the purpose of serving information or documents on the Company, including the service of documents or information relating to proceedings at the Company's AGM.
- 13.** As at 25 May 2020 (the latest practicable date before the publication of this Notice), the Company's issued share capital consists of 1,950,059,808 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 25 May 2020 are 1,950,059,808.
- 14.** CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST-sponsored members, and those CREST members who have appointed a service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.
- 15.** For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message ("CREST proxy instruction") must be properly

NOTES CONTINUED

authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST manual (available via euroclear.com).

The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by 11am on Wednesday 1 July 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

16. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her/their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the

CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

17. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

18. Any corporation that is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

19. Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

- (i) The audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
- (ii) Any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies

Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

20. Any member electronically joining the meeting has the right to ask questions. The Company must have cause to answer any such question relating to the business being dealt with at the meeting but no such answer need be given if:

- (i) To do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; or
- (ii) The answer has already been given on a website in the form of an answer to a question; or
- (iii) It is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

21. A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found at marksandspencer.com/thecompany

22. Please see the letter dated 26 May 2020 from the General Counsel and Company Secretary on pages 184 to 187 for further explanatory notes.

SUMMARY OF THE PRINCIPAL TERMS OF THE RESTRICTED SHARE PLAN

1.1 INTRODUCTION

The Marks and Spencer Group Restricted Share Plan (the **RSP**) permits the grant of options, conditional awards or forfeitable share awards over ordinary shares (**Shares**) in the Company (**Awards**), at the discretion of the remuneration committee of the Board of Directors (the **Committee**). The RSP was adopted by the Committee on 7 July 2015. It is proposed the RSP be amended to permit the use of treasury or new issue shares to satisfy awards made under the RSP, and so shareholders are asked to approve the RSP rules, in accordance with the UKLA Listing Rules.

1.2 ELIGIBILITY

All employees of the Company or a participating company (the **Group**) (including executive directors) are eligible to participate in the RSP. The Committee determines which employees will be

granted Awards and what type of Awards will be granted. Employees holding an Award are referred to as "participants".

1.3 GRANT OF AWARDS

Awards may usually be granted during the six week period following (i) the date on which the RSP is approved by shareholders, or (ii) the announcement of Company results for any period. Awards may also be granted when the Committee considers circumstances are sufficiently exceptional to justify the grant of Awards (including to allow the quarterly grant of Awards where the Committee determines appropriate).

No Awards may be granted from 6 July 2025 (that is, the expiry of the period of 10 years beginning with the date on which the RSP was established by the Company).

No payment is required for the grant of an Award. Awards are not transferable except on death and are not pensionable.

1.4 DIVIDENDS EQUIVALENTS

The Committee may decide that an Award will include the right to a payment in cash or Shares on vesting, equivalent to dividends that would have been paid on the Shares subject to the Awards between grant and vesting.

1.5 DILUTION LIMITS

No Award may be granted under the RSP if it would cause the number of Shares issued or issuable under the Company's share plans in the preceding ten years to exceed 10% of the Company's issued ordinary share capital at that time.

In addition, no Award may be granted under the RSP if it would cause the number of Shares issued or issuable under the RSP or any other of the Company's executive share plans in the preceding ten years to exceed 5% of the Company's issued ordinary share capital at that time.

SUMMARY OF THE PRINCIPAL TERMS OF THE RESTRICTED SHARE PLAN CONTINUED

1.6 CONDITIONS

The vesting of Awards may be subject to the satisfaction of one or more conditions which will be stated at the date of grant. The Committee may choose to apply no formal performance conditions, save for continued service.

1.7 NORMAL VESTING

Awards normally vest, subject to the satisfaction of any applicable performance conditions stated at the date of grant, on the day after the end of the restricted period specified by the Committee on the date of grant, provided the participant remains employed in the Group. Following vesting, Awards which are granted as options are normally exercisable up to the tenth anniversary of the date of grant.

The Committee may adjust the level of vesting (upwards or downwards) to ensure it is appropriate and fair in the context of the overall performance of the Company or the participant.

Shares allotted under the RSP rank equally with other Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

1.8 POST-VESTING AND POST-CESSATION HOLDING REQUIREMENTS

Following the vesting of an Award or the cessation of a participant's employment with the Group, the Shares subject to an Award may be subject to a holding period, determined by the Committee at the time of grant, during which they may not be assigned, or disposed of.

Where an Award has been granted subject to a post-vesting or post-cessation holding requirement, the vested or exercised Shares will be delivered (net of any tax liability) to such nominee, or other holding arrangement, as the Committee may determine.

1.9 MALUS AND CLAWBACK

The Committee may in its absolute discretion determine before vesting to reduce the number of Shares subject to an Award, cancel the Award or impose further conditions on the Award in circumstances it considers appropriate, including, but not limited to, a material misstatement of the Company's audited results.

In addition, the Committee may in its absolute discretion reclaim Awards paid to individuals for up to two years after their vesting date, if the Committee determines the circumstances to be appropriate. Circumstances include gross misconduct or where a material misstatement of the financial reports has occurred.

1.10 LEAVERS

An Award will lapse if a participant ceases to hold employment with the Group prior to vesting, unless the cessation is by reason of disability, ill-health, injury, retirement with the agreement of the employer, sale of the employing company or business unit out of the Group or any other reason at the Committee's discretion. In these circumstances the Award will vest on the date of cessation (unless the Committee determines it will vest on another date). Awards will be pro-rated, unless the Committee determines otherwise, to reflect the period between grant and cessation as a proportion of the original vesting period. In the event of death, an Award will vest in full if it has not already vested.

Awards granted as options may be exercised during a period of 12 months commencing on the date of vesting, provided that options must be exercised before the expiry of ten years following the date of grant.

1.11 CORPORATE EVENTS

Awards will vest on a takeover, scheme of arrangement or winding up (except an internal reorganisation). Awards granted as options may be exercised during a period of one month following the

relevant event (provided always that options must be exercised before the expiry of ten years following the grant date). On an internal reorganisation, Awards will be replaced by equivalent awards over shares in a new holding company unless the Committee decides otherwise.

If a demerger, special dividend or similar event is proposed which, in the Committee's opinion, would materially affect the market price of Shares subject to Awards, the Committee may determine those Awards will vest. Awards granted as options may be exercised during such period as the Committee may determine.

1.12 VARIATION OF CAPITAL

On a variation in the Company's share capital, a special dividend or any event that would materially affect the market price of the Shares subject to Awards, the Committee may adjust the number of Shares subject to Awards as appropriate.

1.13 ALTERATIONS

The Committee may amend the rules of the RSP, provided that no amendment to the advantage of participants or employees may be made to: (a) the provisions relating to who is eligible to participate, (b) the individual limits on participation, (c) the overall limits on the number of Shares that can be issued or transferred from treasury under the RSP, (d) the basis for determining a participant's entitlement to, and the terms of, Shares or cash, (e) the adjustments that may be made in the event of any variation of capital, or (f) the adjustment provision in the RSP rules, without the prior approval of the shareholders of the Company in a general meeting.

The above rule does not apply if the amendment is minor and made to benefit the administration of the RSP, or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

SUMMARY OF THE PRINCIPAL TERMS OF THE DEFERRED SHARE BONUS PLAN

1.1 INTRODUCTION

The Marks and Spencer Group Deferred Share Bonus Plan (the **DSBP**) provides for part of a participant's cash bonus in respect of a financial year granted under the Company's discretionary bonus arrangements, to be awarded in the form of options, conditional awards or forfeitable share awards over ordinary shares (**Shares**) in the Company (**Awards**),

at the discretion of the remuneration committee of the Board of Directors (the **Committee**). The DSBP was adopted by the Committee on 7 July 2015. It is proposed the DSBP be amended to permit the use of treasury or new issue shares to satisfy awards made under the DSBP, and so shareholders are asked to approve the DSBP rules, in accordance with the UKLA Listing Rules.

1.2 ELIGIBILITY

All employees of the Company or a participating company (the **Group**) (including executive directors) are eligible to participate in the DSBP in any financial year, provided they received a cash bonus under the Company's discretionary bonus arrangement in the same financial year. The Committee determines which employees will be granted Awards and what type of Awards will be granted. Employees holding an Award are referred to as "participants".

SUMMARY OF THE PRINCIPAL TERMS OF THE DEFERRED SHARE BONUS PLAN CONTINUED

1.3 GRANT OF AWARDS

Awards may usually be granted during the six week period following (i) the date on which the DSBP is approved by shareholders, or (ii) the announcement of Company results for any period. Awards may also be granted when the Committee considers circumstances are sufficiently exceptional to justify the grant of Awards.

No Awards may be granted from 6 July 2025 (that is, the expiry of the period of 10 years beginning with the date on which the DSBP was established by the Company).

No payment is required for the grant of an Award. Awards are not transferable except on death and are not pensionable.

1.4 DIVIDENDS EQUIVALENTS

The Committee may decide that an Award will include the right to a payment in cash or Shares on vesting, equivalent to dividends that would have been paid on the Shares subject to the Awards between grant and vesting.

1.5 INDIVIDUAL LIMIT

The maximum total market value of Shares over which an Award may be granted to any participant during any financial year of the Company may not exceed such amount as is specified in any discretionary bonus arrangement operated by a participating company of the Group.

1.6 DILUTION LIMITS

No Award may be granted under the DSBP if it would cause the number of Shares issued or issuable under the Company's share plans in the preceding ten years to exceed 10% of the Company's issued ordinary share capital at that time.

In addition, no Award may be granted under the DSBP if it would cause the number of Shares issued or issuable under the DSBP or any other of the Company's executive share plans in the preceding ten years to exceed 5% of the Company's issued ordinary share capital at that time.

1.7 NORMAL VESTING

Awards normally vest following the third anniversary of the date of grant provided the participant remains employed in the Group. Following vesting, Awards which are granted as options are normally exercisable up to the tenth anniversary of the date of grant.

The Committee may adjust the level of vesting (upwards or downwards) to ensure it is appropriate and fair in the context of the overall performance of the Company or the participant.

1.8 POST-VESTING AND POST-CESSATION HOLDING REQUIREMENTS

Following the vesting of an Award or the cessation of a participant's employment with the Group, the Shares subject to an Award may be subject to a holding period, determined by the Committee at the time of grant, during which they may not be assigned, or disposed of.

Where an Award has been granted subject to a post-vesting or post-cessation holding requirement, the vested or exercised Shares will be delivered (net of any tax liability) to such nominee, or other holding arrangement, as the Committee may determine.

Shares allotted under the DSBP rank equally with other Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

1.9 MALUS AND CLAWBACK

The Committee may in its absolute discretion determine before vesting to reduce the number of Shares subject to an Award, cancel the Award or impose further conditions on the Award in circumstances it considers appropriate, including, but not limited to, a material misstatement of the Company's audited results.

In addition, the Committee may in its absolute discretion reclaim Awards paid to individuals for up to two years after their vesting date, if the Committee determines the circumstances to be appropriate. Circumstances include gross misconduct or where a material misstatement of the financial reports has occurred.

1.10 LEAVERS

An Award will lapse if a participant ceases to hold employment with the Group prior to vesting, unless the cessation is by reason of death, disability, ill-health, injury, retirement with the agreement of the employer, sale of the employing company or business unit out of the Group or any other reason at the Committee's discretion. In these circumstances, the Award will vest on the date of cessation (unless the Committee determines it will vest on the normal vesting date).

Awards granted as options may be exercised during a period of 12 months commencing on the date of vesting, provided that options must be exercised before the expiry of ten years following the grant date.

1.11 CORPORATE EVENTS

Awards will vest on a takeover, scheme of arrangement or winding up (except an internal reorganisation). Awards granted as options may be exercised during a period of one month following the relevant event (provided always that options must be exercised before the expiry of ten years following the grant date). On an internal reorganisation, Awards will be replaced by equivalent awards over shares in a new holding company unless the Committee decides otherwise.

If a demerger, special dividend or similar event is proposed which, in the Committee's opinion, would materially affect the market price of Shares subject to Awards, the Committee may determine those Awards will vest. Awards granted as options may be exercised during such period as the Committee may determine.

1.12 VARIATION OF CAPITAL

On a variation in the Company's share capital, a special dividend or any event that would materially affect the market price of the Shares subject to Awards, the Committee may adjust the number of Shares subject to Awards as appropriate.

1.13 ALTERATIONS

The Committee may amend the rules of the DSBP, provided that no amendment to the advantage of participants or employees may be made to: (a) the provisions relating to who is eligible to participate, (b) the individual limits on participation, (c) the overall limits on the number of Shares that can be issued or transferred from treasury under the DSBP, (d) the basis for determining a participant's entitlement to, and the terms of, Shares or cash, (e) the adjustments that may be made in the event of any variation of capital, or (f) the adjustment provision in the DSBP rules, without the prior approval of the shareholders of the Company in a general meeting.

The above rule does not apply if the amendment is minor and made to benefit the administration of the DSBP, or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

INFORMATION FOR THE DAY

TIMINGS



Date: Wednesday 3 June 2020

9.00am Registration opens for vote casting and question submission in advance of the meeting.

Date: Wednesday 1 July 2020

11.00am Opportunity to submit votes and questions in advance of the meeting closes.

Date: Friday 3 July 2020

9.30am Online meeting opens and question submission re-opens.

11.00am AGM begins and you will be able to vote once the Chairman declares the poll open.

1.00pm (approximately) AGM closes. The results of the poll will be released to the London Stock Exchange once collated.

PHYSICAL ATTENDANCE



In line with the government's restrictions on public gatherings, physical attendance at the meeting is not permitted. Please refer to the following information and the user guides provided on pages 195 and 196 for details of how to join and participate in the meeting electronically.

ELECTRONIC PARTICIPATION



Following the success of the trial last year, M&S is enabling shareholders to view and participate in the meeting electronically for the 2020 AGM, should they wish to do so. This can be done by either downloading the dedicated "Lumi AGM" app or by accessing the AGM website, <http://web.lumiagm.com>

DOWNLOADING THE AGM APP



To access the AGM you will need to download the latest version of the dedicated AGM App, called "Lumi AGM", onto your smartphone from the Google Play Store™ or the Apple® App Store. We recommend that you do this in advance of the meeting date. Please note that the app is not compatible with older devices operating Android 4.4 (and below) or iOS 9 (and below).

ACCESSING THE AGM WEBSITE



Lumi AGM can also be accessed online using most well-known internet browsers such as Internet Explorer (version 11), Chrome, Firefox and Safari on a PC, laptop or internet-enabled device such as a tablet or smartphone. If you wish to access the AGM using this method, please go to <https://web.lumiagm.com> on the day.

LOGGING IN



On accessing either the app or AGM website you will be asked to enter a 'Meeting ID', which is 148-646-204. You will then be prompted to enter your unique username and password. These can be found printed on your Notice of Availability that you will have received by post. Access to the meeting via the app or website will be available from 9.30 am on 3 July 2020.

VOTING



After the resolutions have been proposed, voting options will appear on the screen. Press or click the option that corresponds with the way in which you wish to vote, "For", "Against" or "Withheld". Once you have selected your choice, you will see a message on your screen confirming that your vote has been received. If you make a mistake or wish to change your voting instruction, simply press or click the correct choice until the poll is closed on that resolution. If you wish to cancel your "live" vote, please press "Cancel".

Please note that an active internet connection is required in order to successfully cast your vote when the Chairman commences polling on the resolutions. It is your responsibility to ensure connectivity for the duration of the meeting.

Advance voting will also be available on receipt of your Notice of Availability. For instructions on how to vote in advance of the meeting, please refer to the Company Secretary's letter on pages 184 to 187 of this Notice and the user guides on pages 195 to 197.

PROCESS



The process of asking questions, voting and accessing the AGM presentation will be further explained by the Chairman during the meeting.

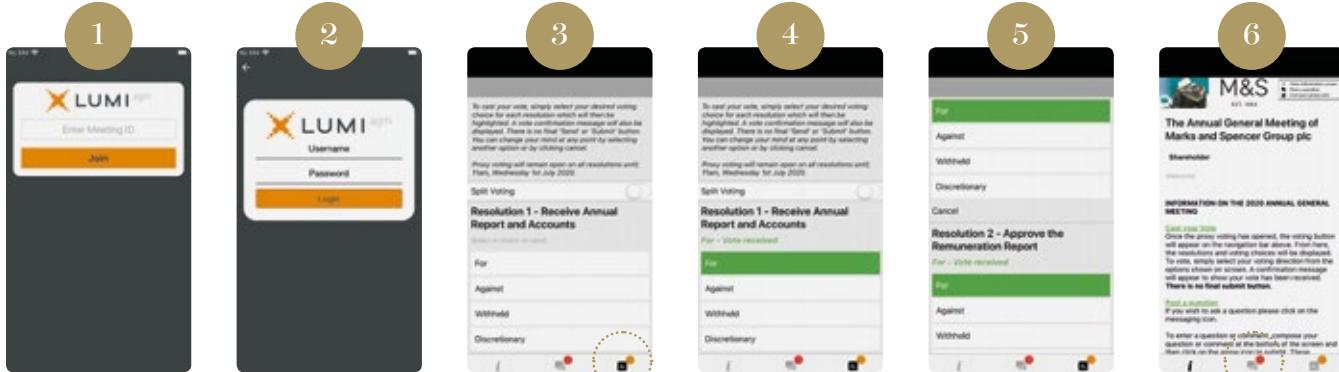
Note for duly appointed proxies and corporate representatives:

Please contact the Company's registrar before 11.00am on 2 July 2020 on 0345 609 0810 or +44 121 415 7071 if you are calling from outside the UK for your unique username and password. Please ensure a valid proxy appointment has been made by no later than the voting deadline detailed on page 184.

Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England & Wales).

ONLINE USER GUIDE TO THE ELECTRONIC 2020 ANNUAL GENERAL MEETING

APP VOTING GUIDE: BEFORE THE AGM



Open the Lumi AGM app and you will be prompted to enter the meeting ID, which can be found in your Notice of Availability.

After entering the meeting ID, you will be prompted to enter your unique username and password which can be found in your Notice of Availability.

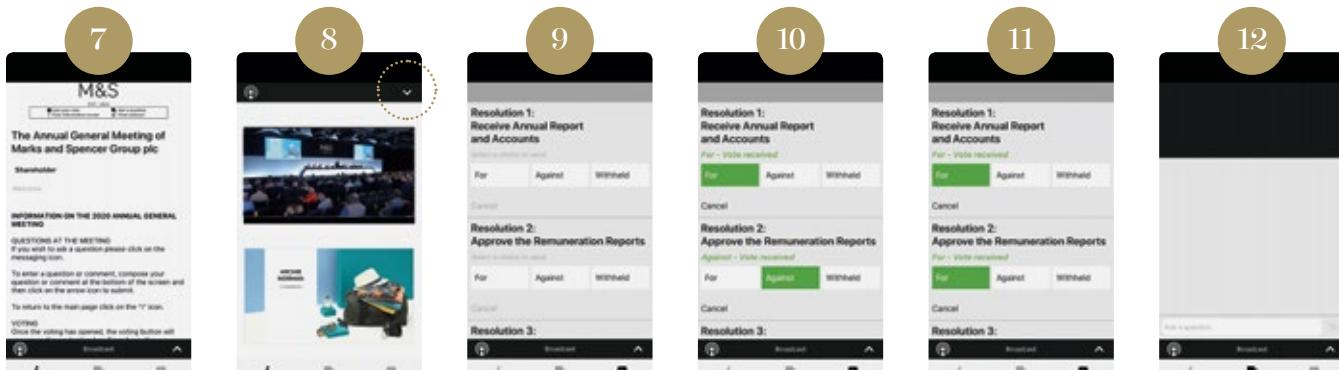
When successfully authenticated, shareholders will be taken to the Information Page. To cast a proxy vote, select the voting icon at the bottom of the screen. The resolutions and voting choices will be displayed.

To vote, simply select your voting direction from the options shown on screen. To change your mind, simply select a different option. Note: Proxy voting will close at 11:00am on 1 July 2020.

A confirmation message will appear to show your vote has been received after each motion.
There is no final submit button.

During the proxy voting period, shareholders submit a question by typing it into the message feature.

APP VOTING GUIDE: ON THE DAY



The AGM will commence at 11:00am on 3 July 2020. It can be accessed through the same app. You will be prompted to re-enter the meeting ID. Followed by your unique username and password. All of these details can be found in your Notice of Availability.

The meeting presentation will begin at the start of the AGM. To view the meeting presentation, expand the 'Broadcast Panel', located at the bottom of your device. This can be minimised by pressing the same button.

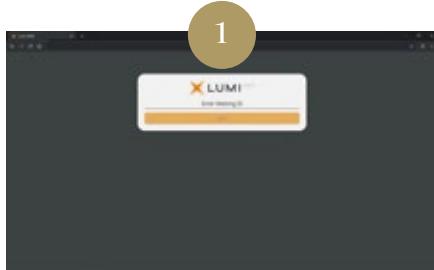
When the Chairman declares the poll open, a list of all resolutions and voting choices will appear on your device. Scroll through the list to view all resolutions.

For each resolution, press the choice corresponding with the way in which you wish to vote. When selected, a confirmation message will appear.

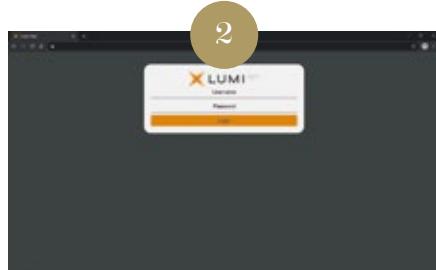
To change your mind, simply press the correct choice which will override your previous selection. To cancel your vote, press Cancel.

If you would like to ask a question, select the messaging icon. Type your message within the chat box at the bottom of the messaging screen. Click the send button to submit.

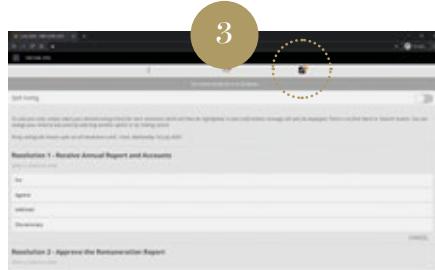
WEBSITE VOTING GUIDE: BEFORE THE AGM



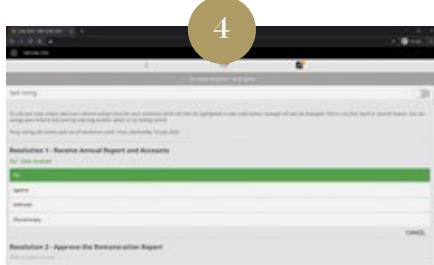
Go to <https://web.lumiagm.com> and you will be prompted to enter the meeting ID which can be found in your Notice of Availability.



After entering the meeting ID, you will be prompted to enter your unique username and password which can be found in your Notice of Availability.

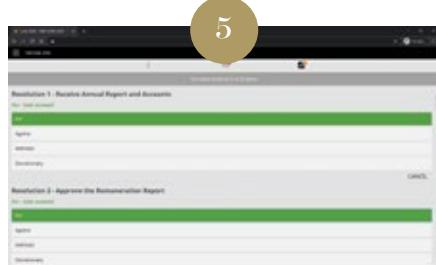


When successfully authenticated, shareholders will be taken to the Information Page. To cast a proxy vote, select the voting icon at the top of the screen. The resolutions and voting choices will be displayed.



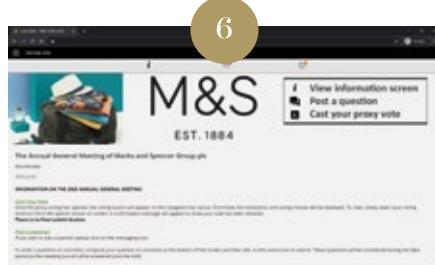
To vote, simply select your voting direction from the options shown on screen. To change your mind, simply select a different option.

Note: Proxy voting will close at 11:00am on 1 July 2020.



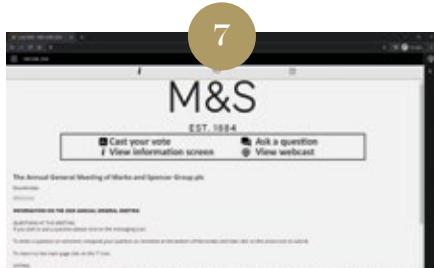
A confirmation message will appear to show your vote has been received after each motion.

There is no final submit button.



During the proxy voting period, shareholders submit a question by typing it into the message feature.

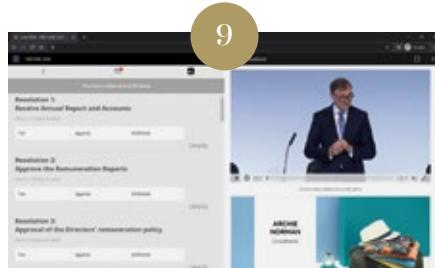
WEBSITE VOTING GUIDE: ON THE DAY



The AGM will commence at 11:00am on 3 July 2020. It can be accessed through the same platform: <https://web.lumiagm.com>. You will be prompted to re-enter the meeting ID. Followed by your unique username and password. All of these details can be found in your Notice of Availability.



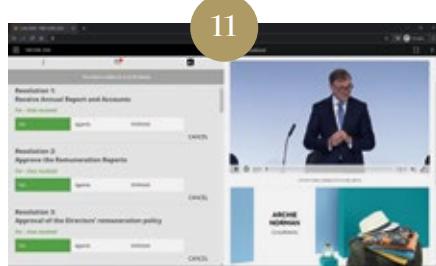
The meeting presentation will begin at the start of the AGM, the 'Broadcast Panel' will automatically appear at the side of the screen, you can expand and minimise the screen by pressing the Broadcast arrow at the top of the page.



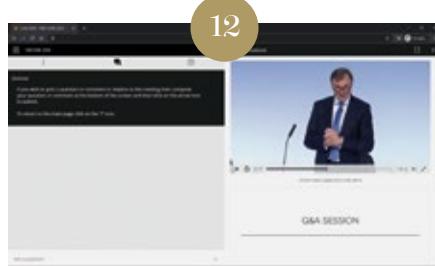
When the Chairman declares the poll open, a list of all resolutions and voting choices will appear on your device. Scroll through the list to view all resolutions.



For each resolution, press the choice corresponding with the way in which you wish to vote. When selected, a confirmation message will appear.



To change your mind, simply press the correct choice which will override your previous selection. To cancel your vote, press Cancel.



If you would like to ask a question, select the messaging icon. Type your message within the chat box at the bottom of the messaging screen. Click the send button to submit.

SHAREVIEW AGM GUIDE

REGISTERING FOR SHAREVIEW

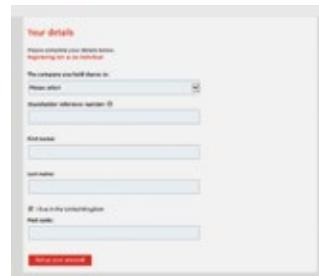
(NOTE: VOTING VIA SHAREVIEW WILL NOT BE AVAILABLE ON THE DAY OF THE MEETING)



Navigate to the following URL:
<https://www.shareview.co.uk>

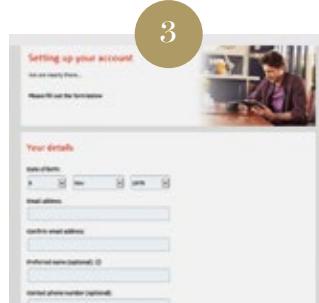
You will be presented with the following home screen. Please select the “**Register**” button in the top right hand corner.

Then select the “**Open Portfolio Account**” button.

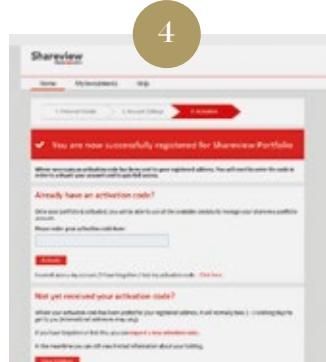


You will then be presented with the following screen.

Please complete all fields then select “**Set Up Your Account**”. Your shareholder reference number will be included on your Notice of Availability.

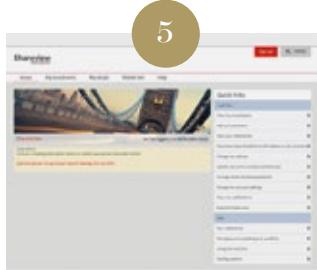


To continue with your account set up, please complete all fields including the security questions.



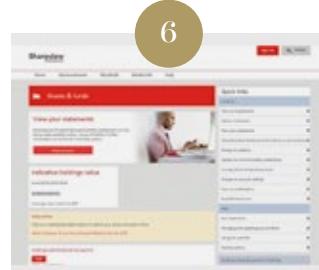
You have now successfully registered for a Shareview portfolio. To activate your account enter the activation code sent on the Notice of Availability and select the “**Activate**” button.

VOTING AND SUBMITTING A QUESTION



Once you have activated your account, you will be directed to the “**Welcome Page**”. You can select the option to submit a proxy vote, under the ‘Vote Online’ section.

Proxy voting and the option to submit questions via Shareview will close at 11:00am on 1 July 2020. Voting via Shareview will not be available on the day of the meeting.



You can also select the option to ‘**Vote online**’ from the “**My Investments**” page.



Once you have selected the option to ‘**Vote Online**’, you will then be presented with the following voting page.

To submit a question, click the link at the top of the page before submitting your vote. When submitting a question, please include your full name details in the subject line.

In order to submit your vote for each resolution, press the choice corresponding with the way in which you wish to vote. Once you have completed this section, please select “**Go**”.

You have now successfully submitted your vote.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 28 March 2020, the Company had 148,135 registered holders of ordinary shares. Their shareholdings are analysed below. It should be noted that many of our private investors hold their shares through nominee companies; therefore the actual number of shares held privately will be higher than indicated below.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1–500	76,880	51.90	14,256,619	0.73
501–1,000	27,450	18.53	20,478,808	1.05
1,001–2,000	21,984	14.84	31,393,772	1.61
2,001–5,000	15,305	10.33	46,770,769	2.40
5,001–10,000	4,046	2.73	27,760,949	1.42
10,001–100,000	1,928	1.30	43,869,203	2.25
100,001–1,000,000	364	0.25	130,216,612	6.68
1,000,001–Highest	178	0.12	1,635,313,076	83.86
Total	148,135	100	1,950,059,808	100

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	144,033	97.23	166,942,263	8.56
Institutional and corporate	4,102	2.77	1,783,117,545	91.44
Total	148,135	100	1,950,059,808	100

USEFUL CONTACTS

Marks and Spencer Group plc

Registered Office

Waterside House
35 North Wharf Road
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

General queries

Customer queries: 0333 014 8555
Shareholder queries: 0345 609 0810
Or email:
chairman@marks-and-spencer.com

Registrar/shareholder queries

Equiniti Limited, Aspect House,
Spencer Road, Lancing, West Sussex
BN99 6DA, United Kingdom
Telephone 0345 609 0810 and outside
the UK +44 (0)121 415 7071

Online: help.shareview.co.uk
(from here, you will be able to securely
email Equiniti with your enquiry).

Students

Please note, students are advised to
source information from our website.

Additional documents

An interactive version of our
Annual Report is available online at
[marksandspencer.com/
annualreport2020](http://marksandspencer.com/annualreport2020)

Additionally, the Annual Report
(which contains the Strategic Report)
is available for download in pdf format
at [marksandspencer.com/
annualreport2020](http://marksandspencer.com/annualreport2020)
Alternatively, call 0800 591 697.

General Counsel and Company Secretary

Nick Folland

2020/21 FINANCIAL CALENDAR AND KEY DATES

03 July 2020 Annual General Meeting (11am)

04 November 2020* Results – Half Year†

07 January 2021* Results, Quarter 3 Trading Update†

† Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

* Provisional dates.

SHAREHOLDER INFORMATION CONTINUED

SHAREHOLDER QUERIES

The Company's share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed on page 194. For more general queries, shareholders should consult the Investors section of our corporate website.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, a secure online platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- Sign up for electronic shareholder communication.
- Receive trading updates by email.
- View all of their shareholdings in one place.
- Update their records following a change of address.
- Have dividends paid into their bank account.
- Vote in advance of Company general meetings.

M&S encourages shareholders to sign up for electronic communication as the reduction in printing costs and paper usage makes a valuable contribution to our Plan A commitments. It is also beneficial to shareholders, who can be notified by email whenever we release trading updates to the London Stock Exchange, which are not mailed to shareholders.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

DIVIDENDS

Further to the announcements made by the Company on 20 March 2020 and 28 April 2020, the Board will not be making a final dividend payment for the 2019/20 financial year and does not anticipate paying a dividend for the 2020/21 financial year.

DUPLICATE DOCUMENTS

Many shareholders have more than one account on the Share Register and receive duplicate documentation from us as a result. If you fall into this group, please contact Equiniti to combine your accounts.

SHAREGIFT

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported "brokers" who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a "boiler room". The callers obtain your details from publicly available sources of information, including the Company's Share Register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. **Remember, if it sounds too good to be true, it probably is!**

More detailed information and guidance is available on our corporate website. We also encourage shareholders to read the FCA's guidance on how to avoid scams at fca.org.uk/consumers/protect-yourself-scams. An overview of current common scams is available on the Action Fraud website actionfraud.police.uk.

AGM

This year's AGM will be broadcast from Waterside House on 3 July 2020. The meeting will start at 11am.

In response to the current Covid-19 crisis, the UK government has established stay at home measures prohibiting, amongst other things, public gatherings and limiting non-essential travel. Even if the lockdown has ended by 3 July 2020, it is likely that advice will remain in place to limit sizable gatherings.

In light of these measures, shareholders will not be able to attend the meeting in person. However, you will be able to participate in the meeting electronically. This can be done by either downloading the dedicated "Lumi AGM" app or by accessing the AGM website, web.lumiagm.com. Further details can be found on page 194 of the Notice of Meeting and the user guides on pages 195 and 196.

The meeting will also be webcast live from Waterside House via our corporate website. This will be publicly available to all internet users and will also be available to view online after the event. To register to view the webcast, please visit the website and follow the relevant links. M&S reserves the right to retain and use footage or stills for any purpose, including Annual Reports, marketing materials and other publications. If you have any queries about the AGM or the contents of this document, please call +44 (0)20 7935 4422.

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We're all
in this together

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