

# Marks and Spencer plc financial statements 2012



REGISTERED NUMBER

00214436

# Group directors' report

## Business review and principal activities

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. We employ over 81,000 people and have around 1,100 stores including Simply Food franchised stores. We also trade in wholly-owned stores in the Republic of Ireland, France, Hong Kong and China, through partly-owned stores in a number of European countries and in franchises within Asia, Europe and the Middle East.

Further information that fulfils the Business review requirements of the Companies Act 2006 and includes analysis using financial key performance indicators can be found in the following sections of the Marks and Spencer Group plc Annual Report:

Chairman's statement on pages 2 – 3

Chief Executives review on pages 8 – 14

Financial review on pages 34 – 37

Strategic review on pages 15 – 33

Environmental, Social and Community matters on pages 30 – 31 and Employees on pages 32 – 33

Marks and Spencer plc is incorporated and domiciled in England and Wales. The Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Summary of Group results                                      |            |            |
| Revenue   | 9,934.3    | 9,740.3    |
| Operating profit before non-underlying operating profit items | 810.0      | 824.9      |
| Underlying net finance costs                                  | (104.1)    | (110.6)    |
| Underlying profit before tax                                  | 705.9      | 714.3      |
| Profit on property disposals                                  | -          | 2.9        |
| IAS 19 Ireland one-off pension credit                         | -          | 10.7       |
| IAS 36 Impairment of assets                                   | (44.9)     | (6.3)      |
| IAS 39 Fair value movement of financial instrument            | 15.6       | 54.3       |
| IAS 39 Fair value movement of embedded derivative             | (0.2)      | 20.3       |
| Strategic programme costs                                     | (18.4)     | (15.6)     |
| Profit before tax   | 658.0      | 780.6      |

Group revenue increased by 2.0% to £9,934.3m. Group operating profit (before adjustments to underlying operating profit) decreased by 1.8% to £810.0m.

Underlying net finance costs, were £104.1m compared with £110.6m last year. The average interest rate of borrowings during the period was 6.5% (last year 6.4%). Profit before tax was £658.0m compared with £780.6m last year.

## Group profit and dividends

The profit for the financial year, after taxation, amounts to £489.6m (last year £598.6m). The directors have declared dividends as follows:

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Ordinary shares   |            |            |
| Paid interim dividend 3.5p (last year 3.5p)             | 99.8       | 99.8       |
| Proposed final dividend 6.1p (last year 6.1p)           | 173.9      | 173.9      |
| Total ordinary dividend 9.6p per share (last year 9.6p) | 273.7      | 273.7      |

## Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to competition from other retailers, the economic outlook, employee retention, new stores and distribution centres and the modernisation of the existing portfolio. The directors manage these risks at a Marks and Spencer Group plc level and they are discussed on pages 45 to 48 of that Group's annual report which does not form part of this report, but is still considered up to date in this respect. Copies of the Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Waterside House, 35 North Wharf Road, London W2 1NW.

## Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

|              |               |
|--------------|---------------|
| Marc Bolland | Amanda Mellor |
| Alan Stewart | Steven Sharp  |

# Group director's report

## Directors' responsibilities

The directors are responsible for preparing the Group Directors' Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the 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 with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Disclosure of information to auditor

Each director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to ensure that the Company's auditors are aware of that information

## Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors 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 31 March 2012 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company or of any associated company

## Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, personal letters home, email and broadcasts by the Chief Executive and members of the Group Board at key points in the year to all head office employees and store management. In addition many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication are supplemented by our employee publications including, 'Your M&S' magazine, Plan A updates and DVD presentations

More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes, in what has been a very busy year

The seventeenth meeting of the European Works Council ('EWC') (established in 1995) took place in July 2012. This Council provides an additional forum for informing, consulting with and involving employee representatives from the countries in the European Community. The EWC includes members from our party owned companies established in the Czech Republic and Greece, as well as representatives from the Republic of Ireland and the UK. The EWC will have the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This will include the directors of International and Multi-channel and the director of Plan A, which all have an impact across the European Community

Directors and senior management regularly attend the National Business Involvement Group (BIG) meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement through a scheme called the BIG idea. On a quarterly basis the Company poses a question to gather ideas and initiatives on a number of areas including how we better serve customers. Several thousand ideas are put forward each time and the winning employee receives an award and the chance to see how their idea is then implemented by the Company

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 25,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 24 to 26 in this report

We have a well established interactive Wellbeing website called [planahealth.com](http://planahealth.com), a completely bespoke wellbeing website and service designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise, to help in overcoming issues such as stress, financial challenges,

# Group director's report

achieving a positive work-life balance and problems with sleeping

The response since its launch in May 2010 has been excellent, with 11,500 employees making personal pledges to improve a specific health or wellbeing issue. Employees are able to interact with one another, post information about clubs and groups in their area and gain access to information about corporate projects which link to their personal health pledges. We have already received hundreds of testimonials from employees telling us that they are enjoying the programme, feel better as a result and enjoy its social/community based style.

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated trustees have been elected to the Pension Trust Board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and the M&S Retirement Plan.

## Equal opportunities

The Group is committed to an active equal opportunities Policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and one where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 85 years old and joined the business at age 80. The Company once again featured in The Times Top 50 places for Women to work in April 2012 and considers this highlights how equal opportunities are available for all.

## Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentrePlus.

## Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of or disruption to certain of these

arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse operators and the provider of the Company's E-commerce platform.

## Groceries supply code of practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') has been in force since February 2010.

The Company operates a number of systems and controls to ensure compliance with the Order and GSCOP including the following:

- the terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S incorporate GSCOP, new suppliers are issued with information as required by the Order,
- The Company has a Code Compliance Officer as required under the Order, supported by our in-house legal department, and
- Employee training on GSCOP is provided, including annual refresher programmes and new starter training.

Under the Order and GSCOP, the Company is required to submit an annual report detailing its compliance with GSCOP to the Audit Committee for approval and to the office of Fair Trading. The Company submitted its report to the Group Audit Committee on 11 May 2012 covering the period from 1 April 2011 to 31 March 2012. There were no disputes relating to GSCOP during the financial year ended 31 March 2012.

## Creditor payment policy

For all trade creditors, it is the Group's policy to:

- agree the terms of payment at the start of business with that supplier,
- ensure that suppliers are aware of the terms of payment, and
- pay in accordance with its contractual and other legal obligations.

As the main trading company, Marks and Spencer plc, has a policy concerning the payment of trade creditors as follows:

- general merchandise payments are received between 26 and 60 days after the stock was invoiced,
- food payments are received between 19 and 26 days after the stock was invoiced, and
- distribution suppliers are paid monthly, for costs incurred in that month, based on estimates, and payments are adjusted quarterly to reflect any variations to estimate.

Trade creditor days for Marks and Spencer plc for the year ended 31 March 2012 were 26 days, or 17 working days (last year 26 days, or 17 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

## Market value of properties

The directors believe that the open market value of the properties of the Group exceeds their net book value.

# Group director's report

## Charitable donations

During the year, and in line with our Plan A commitments, the Group made charitable donations to support the community of £11.4m (last year £12.3m), excluding management costs and memberships. These principally comprised cash donations of £6.9m (last year £6.9m) which included Breakthrough Breast Cancer, Macmillan Cancer Support, Great Ormond Street hospital, UNICEF, Groundwork, WWF, MCS, our Marks & Start programme and local community donations. We also donated £1.3m (last year £1.3m) of employee time, principally on fundraising and volunteering, Marks & Start, school work experience programmes. As a business we have reduced our waste in the last five years and now do not send anything to landfill. This reduction in waste is reflected in our overall reduction in waste stock donations to a variety of charities, £3.2m (last year £4.1m) to a variety of charities including Oxfam, The Newlife Foundation and Shelter.

We also had another particularly successful year supporting a number of our charity partners in raising funds of £8.5m (last year £10.9m). This principally consisted of funds raised from customer clothing donations to Oxfam through The Clothing Exchange, funds raised by Groundwork as a result of M&S support and employee and customer donations.

## Events after the reporting period

The details and impacts of events after the reporting period can be found in note 28 on page 38.

## Political donations

No political donations were made during the year ended 31 March 2012. Marks & Spencer 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.

## 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 £267m Medium Term Notes issued by the Company on 28 March 2007 and £400m Medium Term Notes issued by the Company on 30 November 2009 and the £300m Medium Term Notes issued by the Company on the 6 December 2011 to various institutions ('MTN') and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN,

–the £250m puttable callable reset notes issued by the Company to various institutions on 11 December 2007 under the Group's £3bn EMTN programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN,

–the \$500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note,

–the \$300m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note,

–the £1.325bn Credit Agreement dated 29 September 2011 between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest,

–the amended and restated Relationship Agreement dated 1 February 2012 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company relating to M&S Money, 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 Money continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement). Where a third-party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a rebranding exercise with the new controller following a change of control (which includes any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement,

–the agreement between Marks and Spencer plc and Marks and Spencer Pension Trust Limited (as trustee of The Marks and Spencer Pension Scheme) (the 'Pension Fund') dated 12 May 2010 relating to Marks and Spencer Scottish Limited Partnership (the 'Partnership') contains a clause such that, upon a change of control of the Company, Marks and Spencer plc shall elect that the Partnership either (i) surrenders its discretion over the payment of annual distributions to the Pension Fund, or (ii) increases the rate at which compensatory interest accrues on any annual payments by the Partnership that Marks and Spencer plc has elected (as general partner of the Partnership) to defer,

–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.

# Group director's report

## **Going concern**

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 45 to 47 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements.

## **Independent auditors**

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the next Annual General Meeting.

On behalf of the Board



Amanda Mellor, Executive Director

London 5 September 2012

# Independent auditors report' to the members of Marks and Spencer plc

We have audited the group and parent company financial statements (the "financial statements") of Marks and Spencer plc for the 52 weeks ended 31 March 2012 which comprise the Consolidated income statement, the Consolidated and Company statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Marks and Spencer plc financial statements 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2012 and of the Group's profit and Group's and parent company's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, 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.

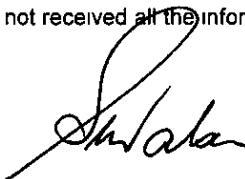
## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Group Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



**Stuart Watson** (Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London 5 September 2012

## Consolidated income statement

|  | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>£m |
|--|-------|---------------------------------------|--------------------------------------|
| Revenue  | 2, 3  | 9,934 3                               | 9,740 3                              |
| Operating profit                                   | 2, 3  | 746 5                                 | 836 9                                |
| Finance income                                     | 6     | 48 3                                  | 96 6                                 |
| Finance costs                                      | 6     | (136 8)                               | (152 9)                              |
| Profit before tax                                  | 4     | 658 0                                 | 780 6                                |
| Income tax expense                                 | 7     | (168 4)                               | (182 0)                              |
| Profit for the year                                |       | 489 6                                 | 598 6                                |
| Attributable to                                    |       |                                       |                                      |
| Equity shareholders of the Company                 |       | 513 1                                 | 612 0                                |
| Non-controlling interests                          |       | (23 5)                                | (13 4)                               |
|  |       | 489 6                                 | 598 6                                |
| Non-GAAP measures Underlying profit before tax     |       |                                       |                                      |
| Profit before tax                                  |       | 658 0                                 | 780 6                                |
| Adjusted for                                       |       |                                       |                                      |
| Profit on property disposals                       | 5     | —                                     | (2 9)                                |
| IAS 19 Ireland one-off pension credit              | 5     | —                                     | (10 7)                               |
| IAS 36 Impairment of assets                        | 5     | 44 9                                  | 6 3                                  |
| IAS 39 Fair value movement of financial instrument | 5     | (15 6)                                | (54 3)                               |
| IAS 39 Fair value movement of embedded derivative  | 5     | 0 2                                   | (20 3)                               |
| Strategic programme costs                          | 5     | 18 4                                  | 15 6                                 |
| Underlying profit before tax                       | 1     | 705 9                                 | 714 3                                |

## Consolidated statement of comprehensive income

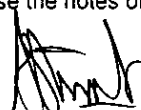
|  | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>£m |
|--|-------|---------------------------------------|--------------------------------------|
| Profit for the year  |       | 489 6                                 | 598 6                                |
| Other comprehensive income                                 |       |                                       |                                      |
| Foreign currency translation differences                   |       | (15 1)                                | (16 4)                               |
| Actuarial (losses)/gains on retirement benefit schemes     | 10    | (189 9)                               | 286 0                                |
| Tax on retirement benefit schemes                          |       | 50 4                                  | (78 0)                               |
| Fair value movement on available-for-sale assets           |       | (2 8)                                 | (9 3)                                |
| Cash flow and net investment hedges                        |       |                                       |                                      |
| — fair value movements in equity                           |       | 53 0                                  | (57 8)                               |
| — reclassified and reported in net profit                  |       | (23 0)                                | 42 1                                 |
| — amount recognised in inventories                         |       | 13 7                                  | (11 2)                               |
| Tax on cash flow hedges and net investment hedges          |       | (7 3)                                 | 19 4                                 |
| Other comprehensive (loss)/income for the year, net of tax |       | (121 0)                               | 174 8                                |
| Total comprehensive income for the year                    |       | 368 6                                 | 773 4                                |
| Attributable to  |       |                                       |                                      |
| Equity shareholders of the Company                         |       | 392 1                                 | 786 8                                |
| Non-controlling interests                                  |       | (23 5)                                | (13 4)                               |
|  |       | 368 6                                 | 773 4                                |

# Consolidated statement of financial position

|  | Notes | As at<br>31 March 2012<br>£m | As at<br>2 April 2011<br>£m |
|--|-------|------------------------------|-----------------------------|
| <b>Assets</b>  |       |                              |                             |
| <b>Non-current assets</b>                                      |       |                              |                             |
| Intangible assets  | 13    | 584 3                        | 527 7                       |
| Property, plant and equipment                                  | 14    | 4,789 9                      | 4,662 2                     |
| Investment property  |       | 15 9                         | 16 0                        |
| Investment in joint ventures                                   |       | 14 4                         | 13 0                        |
| Other financial assets   | 15    | 43 2                         | 32 8                        |
| Retirement benefit asset                                       | 10    | 91 3                         | 182 6                       |
| Trade and other receivables                                    | 16    | 270 2                        | 276 1                       |
| Derivative financial instruments                               | 20    | 44 2                         | 21 8                        |
|  |       | 5,853 4                      | 5,732 2                     |
| <b>Current assets</b>  |       |                              |                             |
| Inventories  |       | 681 9                        | 685 3                       |
| Other financial assets   | 15    | 2 802 2                      | 2807 7                      |
| Trade and other receivables                                    | 16    | 253 0                        | 250 3                       |
| Derivative financial instruments                               | 20    | 67 0                         | 18 4                        |
| Current tax receivable   |       | 1 6                          | 1 6                         |
| Cash and cash equivalents                                      | 17    | 196 1                        | 470 2                       |
|  |       | 4,001 8                      | 4,233 5                     |
| <b>Total assets</b>  |       | <b>9,855 2</b>               | <b>9,965 7</b>              |
| <b>Liabilities</b>   |       |                              |                             |
| <b>Current liabilities</b>                                     |       |                              |                             |
| Trade and other payables                                       | 18    | 1,449 1                      | 1,347 6                     |
| Borrowings and other financial liabilities                     | 19    | 327 7                        | 602 3                       |
| Partnership liability to the Marks & Spencer UK Pension Scheme | 11    | 71 9                         | 71 9                        |
| Derivative financial instruments                               | 20    | 60 5                         | 50 7                        |
| Provisions   | 21    | 8 4                          | 22 7                        |
| Current tax liabilities  |       | 87 8                         | 115 0                       |
|  |       | 2,005 4                      | 2,210 2                     |
| <b>Non-current liabilities</b>                                 |       |                              |                             |
| Retirement benefit deficit                                     | 10    | 13 3                         | 14 1                        |
| Trade and other payables                                       | 18    | 280 8                        | 262 3                       |
| Borrowings and other financial liabilities                     | 19    | 1,948 1                      | 1,924 1                     |
| Derivative financial instruments                               | 20    | 27 2                         | 37 5                        |
| Provisions   | 21    | 24 0                         | 22 0                        |
| Deferred tax liabilities                                       | 22    | 195 7                        | 196 5                       |
|  |       | 2 489 1                      | 2 456 5                     |
| <b>Total liabilities</b>                                       |       | <b>4,494 5</b>               | <b>4,666 7</b>              |
| <b>Net assets</b>  |       | <b>5,360 7</b>               | <b>5,299 0</b>              |
| <b>Equity</b>  |       |                              |                             |
| Issued share capital   | 23    | 712 5                        | 712 5                       |
| Share premium account  |       | 386 1                        | 386 1                       |
| Capital redemption reserve                                     |       | 8 0                          | 8 0                         |
| Hedging reserve  |       | 14 8                         | (11 3)                      |
| Other reserve  |       | 427 9                        | 499 8                       |
| Retained earnings  |       | 3,822 8                      | 3,700 0                     |
| <b>Total shareholders' equity</b>                              |       | <b>5,372 1</b>               | <b>5,295 1</b>              |
| <b>Non-controlling interests in equity</b>                     |       | <b>(11 4)</b>                | <b>3 9</b>                  |
| <b>Total equity</b>  |       | <b>5 360 7</b>               | <b>5,299 0</b>              |

The financial statements were approved by the Board and authorised for issue on 5 September 2012  
The financial statements also comprise the notes on pages 12 to 39

Alan Stewart Chief Finance Officer



## Consolidated statement of changes in equity

|  | Ordinary<br>share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Capital<br>redemption<br>reserve<br>£m | Hedging<br>reserve<br>£m | Other<br>reserve <sup>1</sup><br>£m | Retained<br>earnings <sup>2</sup><br>£m | Total<br>£m | Non-<br>controlling<br>interest<br>£m | Total<br>£m |
|--|------------------------------------|-----------------------------------|--|--------------------------|-------------------------------------|---|-------------|---------------------------------------|-------------|
| At 4 April 2010  | 712.5                              | 386.1                             | 8.0                                    | 11.6                     | 571.7                               | 3,109.3                                 | 4,799.2     | 17.3                                  | 4,816.5     |
| Profit/(loss) for the year                             | -                                  | -                                 | -                                      | -                        | -                                   | 612.0                                   | 612.0       | (13.4)                                | 598.6       |
| Other comprehensive income                             | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| Foreign currency translation                           | -                                  | -                                 | -                                      | (0.7)                    | -                                   | (15.7)                                  | (16.4)      | -                                     | (16.4)      |
| Actuarial gains on retirement benefit schemes          | -                                  | -                                 | -                                      | -                        | -                                   | 286.0                                   | 286.0       | -                                     | 286.0       |
| Tax on retirement benefit schemes                      | -                                  | -                                 | -                                      | -                        | -                                   | (78.0)                                  | (78.0)      | -                                     | (78.0)      |
| Fair value movement in equity on available for sale    | -                                  | -                                 | -                                      | -                        | -                                   | (9.3)                                   | (9.3)       | -                                     | (9.3)       |
| Cash flow and net investment hedges                    | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| - fair value movements                                 | -                                  | -                                 | -                                      | (60.4)                   | -                                   | 2.6                                     | (57.8)      | -                                     | (57.8)      |
| - reclassified and reported in net profit <sup>3</sup> | -                                  | -                                 | -                                      | 42.1                     | -                                   | -                                       | 42.1        | -                                     | 42.1        |
| - amount recognised in inventories                     | -                                  | -                                 | -                                      | (11.2)                   | -                                   | -                                       | (11.2)      | -                                     | (11.2)      |
| Tax on cash flow hedges and net investment hedges      | -                                  | -                                 | -                                      | 7.3                      | -                                   | 12.1                                    | 19.4        | -                                     | 19.4        |
| Other comprehensive income                             | -                                  | -                                 | -                                      | (22.9)                   | -                                   | 197.7                                   | 174.8       | -                                     | 174.8       |
| Total comprehensive (expenses)/income                  | -                                  | -                                 | -                                      | (22.9)                   | -                                   | 809.7                                   | 786.8       | (13.4)                                | 773.4       |
| Transactions with owners                               | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| Dividends  | -                                  | -                                 | -                                      | -                        | -                                   | (250.8)                                 | (250.8)     | -                                     | (250.8)     |
| Recognition of financial liability <sup>4</sup>        | -                                  | -                                 | -                                      | -                        | (71.9)                              | -                                       | (71.9)      | -                                     | (71.9)      |
| Credit for share-based payments                        | -                                  | -                                 | -                                      | -                        | -                                   | 31.7                                    | 31.7        | -                                     | 31.7        |
| Deferred tax on share schemes                          | -                                  | -                                 | -                                      | -                        | -                                   | 0.1                                     | 0.1         | -                                     | 0.1         |
| At 2 April 2011  | 712.5                              | 386.1                             | 8.0                                    | (11.3)                   | 499.8                               | 3,700.0                                 | 5,295.1     | 3.9                                   | 5,299.0     |
| At 3 April 2011  | 712.5                              | 386.1                             | 8.0                                    | (11.3)                   | 499.8                               | 3,700.0                                 | 5,295.1     | 3.9                                   | 5,299.0     |
| Profit/(loss) for the year                             | -                                  | -                                 | -                                      | -                        | -                                   | 513.1                                   | 513.1       | (23.5)                                | 489.6       |
| Other comprehensive income                             | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| Foreign currency translation                           | -                                  | -                                 | -                                      | (1.1)                    | -                                   | (14.0)                                  | (15.1)      | -                                     | (15.1)      |
| Actuarial losses on retirement benefit schemes         | -                                  | -                                 | -                                      | -                        | -                                   | (189.9)                                 | (189.9)     | -                                     | (189.9)     |
| Tax on retirement benefit schemes                      | -                                  | -                                 | -                                      | -                        | -                                   | 50.4                                    | 50.4        | -                                     | 50.4        |
| Fair value movement in equity on available for sale    | -                                  | -                                 | -                                      | -                        | -                                   | (2.8)                                   | (2.8)       | -                                     | (2.8)       |
| Cash flow and net investment hedges                    | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| - fair value movements                                 | -                                  | -                                 | -                                      | 43.8                     | -                                   | 9.2                                     | 53.0        | -                                     | 53.0        |
| - reclassified and reported in net profit <sup>3</sup> | -                                  | -                                 | -                                      | (23.0)                   | -                                   | -                                       | (23.0)      | -                                     | (23.0)      |
| - amount recognised in inventories                     | -                                  | -                                 | -                                      | 13.7                     | -                                   | -                                       | 13.7        | -                                     | 13.7        |
| Tax on cash flow hedges and net investment hedges      | -                                  | -                                 | -                                      | (7.3)                    | -                                   | -                                       | (7.3)       | -                                     | (7.3)       |
| Other comprehensive income                             | -                                  | -                                 | -                                      | 26.1                     | -                                   | (147.1)                                 | (121.0)     | -                                     | (121.0)     |
| Total comprehensive income/(expenses)                  | -                                  | -                                 | -                                      | 26.1                     | -                                   | 366.0                                   | 392.1       | (23.5)                                | 368.6       |
| Transactions with owners                               | -                                  | -                                 | -                                      | -                        | -                                   | -                                       | -           | -                                     | -           |
| Dividends  | -                                  | -                                 | -                                      | -                        | -                                   | (273.6)                                 | (273.6)     | -                                     | (273.6)     |
| Transactions with non-controlling shareholders         | -                                  | -                                 | -                                      | -                        | -                                   | (6.4)                                   | (6.4)       | 8.2                                   | 1.8         |
| Recognition of financial liability <sup>4</sup>        | -                                  | -                                 | -                                      | -                        | (71.9)                              | -                                       | (71.9)      | -                                     | (71.9)      |
| Credit for share-based payments                        | -                                  | -                                 | -                                      | -                        | -                                   | 32.5                                    | 32.5        | -                                     | 32.5        |
| Deferred tax on share schemes                          | -                                  | -                                 | -                                      | -                        | -                                   | 4.3                                     | 4.3         | -                                     | 4.3         |
| At 31 March 2012                                       | 712.5                              | 386.1                             | 8.0                                    | 14.8                     | 427.9                               | 3,822.8                                 | 5,372.1     | (11.4)                                | 5,360.7     |

1 The Other reserve includes discretionary distributions to the Marks & Spencer UK Pension Scheme of £427.9m (last year £499.8m) (see note 11)

2 The Retained earnings reserve includes a cumulative £5.1m gain (last year £19.1m gain) in the currency reserve

3 Amounts reclassified and reported in net profit have all been recorded in cost of sales

4 Following the Marks & Spencer Group plc's payment of an interim dividend in relation to 2011/12 the associated distribution of £71.9m became payable to the Marks & Spencer UK Pension Scheme and has been recognised as a liability (see note 11)

## Consolidated cash flow information

|   | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>£m |
|---|-------|---------------------------------------|--------------------------------------|
| <b>Consolidated statement of cash flows</b>                   |       |                                       |                                      |
| <b>Cash flows from operating activities</b>                   |       |                                       |                                      |
| Cash generated from operations                                | 25    | 1,352.1                               | 1,385.2                              |
| Income tax paid   |       | (149.1)                               | (185.3)                              |
| <b>Net cash generated from operating activities</b>           |       | <b>1,203.0</b>                        | <b>1,199.9</b>                       |
| <b>Cash flows from investing activities</b>                   |       |                                       |                                      |
| Purchase of property, plant and equipment                     |       | (564.3)                               | (327.3)                              |
| Proceeds from sale of property, plant and equipment           |       | –                                     | 3.5                                  |
| Purchase of intangible assets                                 |       | (156.4)                               | (126.5)                              |
| Purchase of current financial assets                          |       | (44.8)                                | (44.3)                               |
| Interest received   |       | 7.7                                   | 4.1                                  |
| <b>Net cash used in investing activities</b>                  |       | <b>(757.8)</b>                        | <b>(490.5)</b>                       |
| <b>Cash flows from financing activities</b>                   |       |                                       |                                      |
| Interest paid   |       | (135.9)                               | (146.4)                              |
| Cash (outflow)/inflow from borrowings                         |       | (41.4)                                | 18.4                                 |
| Repayment of syndicated bank facility                         |       | –                                     | (217.5)                              |
| Movement in parent company loan                               |       | 50.1                                  | 11.7                                 |
| Issue of medium-term notes                                    |       | 295.5                                 | –                                    |
| Redemption of medium-term notes                               |       | (307.6)                               | –                                    |
| Monetisation of derivative assets                             |       | –                                     | 32.8                                 |
| Decrease in obligations under finance leases                  |       | (13.0)                                | (15.7)                               |
| Payment of liability to the Marks & Spencer UK Pension Scheme |       | (71.9)                                | (67.9)                               |
| Equity dividends paid   |       | (273.6)                               | (250.8)                              |
| Purchase of own shares by employee trust                      |       | (13.2)                                | (12.0)                               |
| <b>Net cash used in financing activities</b>                  |       | <b>(511.0)</b>                        | <b>(647.4)</b>                       |
| <b>Net cash (outflow)/inflow from activities</b>              |       | <b>(65.8)</b>                         | <b>62.0</b>                          |
| Effects of exchange rate changes                              |       | (1.9)                                 | (1.2)                                |
| Opening net cash  |       | 263.5                                 | 202.7                                |
| <b>Closing net cash</b>                                       | 26    | <b>195.8</b>                          | <b>263.5</b>                         |

|   | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>£m |
|---|-------|---------------------------------------|--------------------------------------|
| <b>Reconciliation of net cash flow to movement in net debt</b>            |       |                                       |                                      |
| Opening net debt  |       | 690.9                                 | 535.1                                |
| Net cash (outflow)/inflow from activities                                 |       | (65.8)                                | 62.0                                 |
| (Decrease)/Increase in current financial assets                           |       | (5.3)                                 | 44.3                                 |
| Decrease in debt financing  |       | 138.4                                 | 238.2                                |
| Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash) |       | (71.9)                                | (71.9)                               |
| Exchange and other non-cash movements                                     |       | (1.7)                                 | (116.8)                              |
| Movement in net debt  |       | (6.3)                                 | 155.8                                |
| <b>Closing net debt</b>   | 26    | <b>684.6</b>                          | <b>690.9</b>                         |

## Notes to the financial statements

### 1 Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 46 to 47 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements

There are no IFRS or IFRS IC interpretations that are effective for the first time in this financial period that have had a material impact on the Group

The following IFRS, IFRS IC interpretations and amendments have been issued but are not yet effective and have not been early adopted by the Group

IAS 19, 'Employee benefits' was amended in June 2011 and is effective for periods beginning on or after 1 January 2013. The impact will be to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. The Group is yet to assess the full impact of this amendment

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 for the requirement to prepare and deliver financial statements in accordance with the Companies Act

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

#### Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below

#### Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group

#### Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated

#### Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered and the significant risks and rewards of ownership have been transferred to the buyer

#### Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid

#### Pensions

Funded pension plans are in place for the Group's UK employees and some employees overseas

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within finance income. This is based on the market value of the assets of the schemes at the start of the financial year

A charge is also made within finance income representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment

Actuarial gains and losses are recognised immediately in the statement of comprehensive income

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due

#### Intangible assets

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

**B Brands** Acquired brand values are held on the statement of financial position initially at cost. Defined life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment at least annually. Any impairment in value is recognised immediately in the income statement

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

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

## Notes to the financial statements continued

### 1 Accounting policies continued

#### Property, plant and equipment

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

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

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

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

Any impairment in value is charged to the income statement.

#### Leasing

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

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

#### Leasehold prepayments

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

#### Cash and cash equivalents

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

#### Inventories

Inventories are valued at the lower of cost and net realisable value using the retail method, which is computed on the basis of selling price less the appropriate trading margin. All inventories are finished goods.

#### 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 annually, and the charge is adjusted to reflect actual and estimated levels of vesting.

#### Foreign currencies

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

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

#### Taxation

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

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

#### Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

## Notes to the financial statements continued

### 1 Accounting policies continued

**A Trade receivables** Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

**B Investments and other financial assets** Investments and other financial assets are classified as either 'available-for-sale' or 'fair value through profit or loss'. They are initially measured at fair value, including transaction costs, with the exception of 'fair value through profit or loss'. Financial assets held at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in comprehensive income is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

**C Classification of financial liabilities and equity** Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**D Bank borrowings** Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**E Loan notes** Long-term loans are initially measured at fair value and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

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

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

#### Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest 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), or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

**A Cash flow hedges** Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in comprehensive income and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

**B Fair value hedges** For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of the carrying amount, are recognised in the income statement.

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

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

**D Discontinuance of hedge accounting** Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to net profit or loss for the period.

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

#### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

## Notes to the financial statements continued

### 1 Accounting policies continued

#### Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

**A Impairment of goodwill and brands** The Group is required to test, at least annually, whether the goodwill or brands have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 13 for further details.

**B Impairment of property, plant and equipment and computer software** Property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See notes 13 and 14 for further details.

**C Depreciation of property, plant and equipment and amortisation of computer software** Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 13 and 14 for further details.

#### D Post-retirement benefits

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 10 for further details of assumptions and note 11 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

**E Refunds and loyalty scheme accruals** Accruals for sales returns and loyalty scheme redemptions are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These accruals are reviewed regularly and updated to reflect management's latest best estimates, however, actual returns and redemptions could vary from these estimates.

#### Non-GAAP performance measures

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures

used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- profits and losses on the disposal of properties,
- significant and one-off impairment charges that distort underlying trading,
- costs relating to strategy changes that are not considered normal operating costs of the underlying business,
- one-off pension credits arising on changes of the defined benefit pension scheme rules, and
- non-cash fair value movements in financial instruments

## Notes to the financial statements continued

### 2 Segmental information

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

The chief operating decision maker has been identified as the executive directors of Marks and Spencer Group plc. The executive directors review the Group's internal reporting in order to assess performance and allocate resources, across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

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

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments, by subcategory.

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

|                                  | 2012             |                               |                 | 2011             |                               |                 |
|----------------------------------|------------------|-------------------------------|-----------------|------------------|-------------------------------|-----------------|
|                                  | Management<br>£m | Adjustment <sup>2</sup><br>£m | Statutory<br>£m | Management<br>£m | Adjustment <sup>2</sup><br>£m | Statutory<br>£m |
| General Merchandise              | 4,241.5          | (46.4)                        | 4,195.1         | 4,273.0          | (39.4)                        | 4,233.6         |
| Food                             | 4,718.8          | (45.7)                        | 4,673.1         | 4,543.9          | (44.5)                        | 4,499.4         |
| UK revenue                       | 8,960.3          | (92.1)                        | 8,868.2         | 8,816.9          | (83.9)                        | 8,733.0         |
| Franchised                       | 379.4            | –                             | 379.4           | 343.7            | –                             | 343.7           |
| Owned                            | 689.4            | (2.7)                         | 686.7           | 665.8            | (2.2)                         | 663.6           |
| International revenue            | 1,068.8          | (2.7)                         | 1,066.1         | 1,009.5          | (2.2)                         | 1,007.3         |
| Group revenue                    | 10,029.1         | (94.8)                        | 9,934.3         | 9,826.4          | (86.1)                        | 9,740.3         |
| UK operating profit <sup>1</sup> | 676.6            | (18.6)                        | 658.0           | 677.9            | 1.1                           | 679.0           |
| International operating profit   | 133.4            | (44.9)                        | 88.5            | 147.0            | 10.9                          | 157.9           |
| Group operating profit           | 810.0            | (63.5)                        | 746.5           | 824.9            | 12.0                          | 836.9           |
| Finance income                   | 32.7             | 15.6                          | 48.3            | 42.3             | 54.3                          | 96.6            |
| Finance costs                    | (136.8)          | –                             | (136.8)         | (152.9)          | –                             | (152.9)         |
| Profit before tax                | 705.9            | (47.9)                        | 658.0           | 714.3            | 66.3                          | 780.6           |

1 UK operating profit includes a contribution of £50.7m (last year £35.2m) in respect of fees received from HSBC in relation to M&S Money.

2 Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. Management profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, non-cash fair value movements in financial instruments and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 5).

### Other segmental information

|   | 2012     |                     |             | 2011     |                     |             |
|---|----------|---------------------|-------------|----------|---------------------|-------------|
|   | UK<br>£m | International<br>£m | Total<br>£m | UK<br>£m | International<br>£m | Total<br>£m |
| Additions to property, plant and equipment and intangible assets (excluding goodwill) | 671.4    | 66.1                | 737.5       | 463.6    | 27.9                | 491.5       |
| Depreciation and amortisation   | 435.8    | 34.3                | 470.1       | 434.5    | 33.0                | 467.5       |
| Impairment and asset write-offs   | 7.3      | 50.5                | 57.8        | 3.4      | –                   | 3.4         |
| Total assets  | 8,828.9  | 1,026.2             | 9,855.2     | 8,909.2  | 1,056.5             | 9,965.7     |
| Non-current assets  | 4,934.8  | 918.6               | 5,853.4     | 4,780.9  | 951.3               | 5,732.2     |

## Notes to the financial statements continued

### 3 Expense analysis

|   | 2012             |                   |             | 2011             |                   |             |
|---|------------------|-------------------|-------------|------------------|-------------------|-------------|
|   | Underlying<br>£m | Adjustments<br>£m | Total<br>£m | Underlying<br>£m | Adjustments<br>£m | Total<br>£m |
| Revenue   | 9,934 3          | –                 | 9,934 3     | 9,740 3          | –                 | 9,740 3     |
| Cost of sales   | (6,179 1)        | –                 | (6,179 1)   | (6,015 6)        | –                 | (6,015 6)   |
| Gross profit  | 3,755 2          | –                 | 3 755 2     | 3,724 7          | –                 | 3,724 7     |
| Selling and administrative expenses                       | (3,021 9)        | –                 | (3,021 9)   | (2,959 7)        | –                 | (2,959 7)   |
| Other operating income                                    | 76 7             | –                 | 76 7        | 59 9             | –                 | 59 9        |
| Non-GAAP adjustments to underlying profit<br>(see note 5) | –                | (63 5)            | (63 5)      | –                | 12 0              | 12 0        |
| Operating profit  | 810 0            | (63 5)            | 746 5       | 824 9            | 12 0              | 836 9       |

The selling and administrative expenses are further analysed below

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Employee costs (see note 10A)                   | 1 252 6    | 1,263 5    |
| Occupancy costs                                 | 637 9      | 585 3      |
| Repairs, renewals and maintenance of property   | 101 4      | 101 8      |
| Depreciation, amortisation and asset write-offs | 479 7      | 467 5      |
| Other costs                                     | 550 3      | 541 6      |
| Selling and administrative expenses             | 3 021 9    | 2,959 7    |

### 4 Profit before taxation

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

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Net foreign exchange losses/(gains)            | 0 1        | (3 0)      |
| Cost of inventories recognised as an expense   | 6,127 0    | 5,781 8    |
| Depreciation of property, plant, and equipment |            |            |
| – owned assets                                 | 393 5      | 403 3      |
| – under finance leases                         | 11 3       | 13 2       |
| Amortisation of intangible assets              | 65 3       | 51 0       |
| Profit on property disposals                   | –          | (2 9)      |
| Operating lease rentals payable                |            |            |
| – property                                     | 278 7      | 247 6      |
| – fixtures, fittings and equipment             | 7 8        | 8 7        |

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

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Annual audit of the Company and the consolidated financial statements | 1 0        | 1 0        |
| Other services pursuant to legislation                                | 0 3        | 0 1        |
| Tax services  | 0 4        | 0 6        |
| Other services  | 0 1        | 0 1        |
|   | 1 8        | 1 8        |

## Notes to the financial statements continued

### 5 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significant and distort the Group's underlying performance. These adjustments include:

- Profit and loss on the disposal of properties – these are one-off in nature and therefore create volatility in reported earnings,
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme rules whereby members' future pensionable pay increases have been capped at 4.0%,
- IAS 36 impairment of assets – due to the continuing decline of the Greek economy, the carrying value of the Marks and Spencer Marinopoulos B.V. goodwill has been fully impaired to reflect its recoverable value (note 13) and the net book value of property, plant and equipment in loss making stores in the Greece group have been impaired (note 14). Last year, the value of an investment property was impaired to reflect its recoverable value, in line with its current market value,
- IAS 39 fair value movement on the Czech put option – the put option value has been revised to reflect the latest three year business plan,
- IAS 39 fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%, and
- Strategic programme costs relate to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs, accelerated depreciation and exit from technology in the prior year. These costs are not considered normal operating costs of the business.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

|  | Note   | 2012<br>£m | 2011<br>£m |
|--|--------|------------|------------|
| Profit on property disposals                       |        | –          | 2.9        |
| IAS 19 Ireland one-off pension credit              | 10     | –          | 10.7       |
| IAS 36 Impairment of assets                        | 13, 14 | (44.9)     | (6.3)      |
| IAS 39 Fair value movement of financial instrument | 6, 20  | 15.6       | 54.3       |
| IAS 39 Fair value movement of embedded derivative  | 20     | (0.2)      | 20.3       |
| Strategic programme costs                          |        | (18.4)     | (15.6)     |
| Total adjustments                                  |        | (47.9)     | 66.3       |

### 6 Finance income/costs

|  | 2012<br>£m | 2011<br>restated<br>£m |
|--|------------|------------------------|
| Bank and other interest receivable                                   | 7.1        | 4.7                    |
| Pension finance income (net) (see note 11E)                          | 25.6       | 37.6                   |
| Underlying finance income  | 32.7       | 42.3                   |
| Fair value movement on financial instrument (see note 5)             | 15.6       | 54.3                   |
| Finance income   | 48.3       | 96.6                   |
| Fee payable on the transfer of derivative assets to the pension fund | –          | (8.5)                  |
| Interest on bank borrowings  | (5.5)      | (7.7)                  |
| Interest payable on syndicated bank facility                         | (3.0)      | (1.8)                  |
| Interest payable on medium-term notes                                | (126.4)    | (126.9)                |
| Interest payable on finance leases                                   | (0.7)      | (4.2)                  |
| Unwind of discounts on financial instruments                         | (1.2)      | (3.8)                  |
| Finance costs  | (136.8)    | (152.9)                |
| Net finance costs  | (88.5)     | (56.3)                 |

The fair value movement on financial instrument represents the valuation of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. This excludes the annual unwind of the discount on the financial instrument which is included in underlying finance costs (see note 20).

## Notes to the financial statements continued

### 7 Income tax expense

#### A Tax charge

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| <b>Current tax</b>                                  |            |            |
| UK corporation tax on profits for the year          |            |            |
| – current year                                      | 175.9      | 215.8      |
| – adjustments in respect of prior years             | (9.3)      | (8.6)      |
| UK current tax                                      | 166.6      | 207.2      |
| Overseas current tax                                | 11.6       | 11.1       |
| Total current tax                                   | 178.2      | 218.3      |
| <b>Deferred tax</b>                                 |            |            |
| – origination and reversal of temporary differences | (10.5)     | (30.4)     |
| – adjustments in respect of prior years             | 14.0       | 7.2        |
| – changes in tax rate                               | (13.3)     | (13.1)     |
| Total deferred tax (see note 22)                    | (9.8)      | (36.3)     |
| Total income tax expense                            | 168.4      | 182.0      |

#### B Tax reconciliation

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Profit before tax  | 658.0      | 780.6      |
| Tax at the standard UK corporation tax rate of 26% (last year 28%)     | 171.1      | 218.6      |
| Depreciation, charges and other amounts on non-qualifying fixed assets | 3.6        | 1.9        |
| Other income and expenses not taxable or deductible                    | (11.1)     | (11.2)     |
| Deferred tax rate change benefit                                       | (13.1)     | (12.9)     |
| Overseas profits taxed at rates different to those of the UK           | (8.6)      | (4.2)      |
| Benefit of current year losses not recognised                          | 14.3       | 7.3        |
| Adjustments to tax charge in respect of prior periods                  | 4.7        | (1.4)      |
| Adjustments to underlying profit                                       |            |            |
| Profit on property disposals   | –          | (0.8)      |
| IAS 19 Ireland one-off pension credit                                  | –          | (1.7)      |
| IAS 36 Impairment of assets  | 11.7       | 1.8        |
| IAS 39 Fair value movement of financial instrument                     | (4.0)      | (15.2)     |
| Deferred tax rate change benefit                                       | (0.2)      | (0.2)      |
| Total income tax expense   | 168.4      | 182.0      |

The effective tax rate was 25.6% (last year 23.3%) and the underlying effective tax rate was 24.5% (last year 25.1%)

On 21 March 2012, the Chancellor of the Exchequer announced the main rate of corporation tax will reduce from 26% to 24% from 1 April 2012. This change of rate became substantively enacted for the purposes of IAS 12 "Income Taxes" on 26 March 2012 when the House of Commons passed a resolution in respect of it under the provisional Collection of Taxes Act 1968. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 24%, which has resulted in the recognition of a deferred tax credit of £13.3m in the income statement (reducing the total effective tax rate by 2.0%), and the recognition of a deferred tax credit of £1.8m in other comprehensive income.

The Chancellor further stated his intention to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 and a further 1% reduction to 22% from 1 April 2014. These changes have not been substantively enacted at the date of the statement of financial position. Had these changes been enacted, then the cumulative effects would have been credits to the income statement of £19.9m (23%) or £26.5m (22%), and credits to other comprehensive income of £2.7m (23%) or £3.6m (22%).

## Notes to the financial statements continued

### 8 Dividends

|  | 2012<br>per share | 2011<br>per share | 2012<br>£m | 2011<br>£m |
|--|-------------------|-------------------|------------|------------|
| <b>Dividends on equity ordinary shares</b> |                   |                   |            |            |
| Paid final dividend                        | 6 1p              | 5 3p              | 173 9      | 151 0      |
| Paid interim dividend                      | 3 5p              | 3 5p              | 99 7       | 99 8       |
|  | 9 6p              | 8 8p              | 273 6      | 250 8      |

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2012 of 6 1p per share amounting to a dividend of £173 9m. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results

### 9 Employees

#### A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were

|  | 2012<br>Total<br>£m | 2011<br>Total<br>£m |
|--|---------------------|---------------------|
| Wages and salaries                         | 1,060 4             | 1,076 3             |
| Social security costs                      | 77 7                | 78 5                |
| Pension costs                              | 57 7                | 60 0                |
| Share-based payments (see note 12)         | 32 5                | 31 7                |
| Employee welfare and other personnel costs | 46 0                | 37 2                |
| Capitalised staff costs                    | (21 7)              | (20 2)              |
| Aggregate remuneration                     | 1,252 6             | 1,263 5             |
| One-off pension credit (see note 5)        | –                   | (10 7)              |
| Total aggregate remuneration               | 1,252 6             | 1,252 8             |

Details of key management compensation are given in note 27

#### B Average monthly number of employees

|   | 2012   | 2011   |
|---|--------|--------|
| <b>UK stores</b>                          |        |        |
| – management and supervisory categories   | 5,784  | 5,696  |
| – other                                   | 65,474 | 63,005 |
| <b>UK head office</b>                     |        |        |
| – management and supervisory categories   | 2,782  | 2,453  |
| – other                                   | 718    | 681    |
| <b>Overseas</b>                           | 6,450  | 6,334  |
| Total average monthly number of employees | 81,208 | 78,169 |

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 57,054 (last year 54,675)

#### C Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Marks and Spencer Group plc Annual Remuneration Report on pages 54 to 67

|                       | 2012<br>£m | 2011<br>£m |
|-----------------------|------------|------------|
| Highest paid director | 1,682      | 4,382      |
| Aggregate emoluments  | 2,386      | 4,711      |

No directors (last year nil) accrued retirement benefits under a defined benefit scheme

The highest paid director has not exercised any share options during the current and prior years

The highest paid director was not awarded any performance shares (last year nil) in relation to the Group's long-term incentive plan

## Notes to the financial statements continued

### 10 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 14,000 active members (last year 15,000), 56,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 9,000 active members (last year 9,000) and some 2,000 deferred members (last year 2,000).

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost of £32.1m (last year £22.4m excluding a one-off pension credit of £10.7m), £12.0m (last year £1.0m) relates to the UK defined benefit section, £15.9m (last year £14.3m) to the UK defined contribution section and £4.2m (last year £7.1m) to other retirement benefit schemes.

### A Pensions and other post-retirement liabilities

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Total market value of assets                       | 6,186.4    | 5,398.1    |
| Present value of scheme liabilities                | (6,095.1)  | (5,215.5)  |
| Net funded pension plan asset                      | 91.3       | 182.6      |
| Unfunded retirement benefits                       | (0.8)      | (0.9)      |
| Post-retirement healthcare                         | (12.5)     | (13.2)     |
| Net retirement benefit asset                       | 78.0       | 168.5      |
| Analysed in the statement of financial position as |            |            |
| Retirement benefit asset                           | 91.3       | 182.6      |
| Retirement benefit deficit                         | (13.3)     | (14.1)     |
|  | 78.0       | 168.5      |

### B Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2009 and showed a deficit of £1.3bn. A funding plan of £800m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

|   | 2012<br>% | 2011<br>% |
|---|-----------|-----------|
| Rate of increase in salaries                        | 1.0       | 1.0       |
| Rate of increase in pensions in payment for service | 2.3-3.1   | 2.4-3.4   |
| Discount rate                                       | 4.6       | 5.5       |
| Inflation rate                                      | 3.1       | 3.4       |
| Long-term healthcare cost increases                 | 7.1       | 7.4       |

The inflation rate of 3.1% reflects the Retail Price Index (RPI) rate. In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.1% (last year 2.7%) has been used. Last year, the change from RPI to CPI for deferred revaluation was included in the results, resulting in a gain of approximately £170m, taken as an actuarial gain on the obligation.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c £110m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c £75m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c £65m.

### C Demographic assumptions

Apart from cash commutation and post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2009. The allowance for cash commutation reflects actual scheme experience. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2009 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the SAPS tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

## Notes to the financial statements continued

### 10 Retirement benefits continued

|                                | 2012<br>years | 2011<br>years |
|--------------------------------|---------------|---------------|
| Current pensioners (at age 65) |               |               |
| – males                        | 22 1          | 22 0          |
| – females                      | 23 4          | 23 4          |
| Future pensioners (at age 65)  |               |               |
| – males                        | 23 2          | 23 2          |
| – females                      | 24 3          | 24 3          |

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c £200m

### D Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are

|   | 2012<br>£m | 2011<br>£m | 2012<br>% | 2011<br>% |
|---|------------|------------|-----------|-----------|
| Scottish Limited Partnership interest (see note 11) | 664 8      | 656 0      | 11        | 12        |
| UK equities   | 232 6      | 303 3      | 4         | 6         |
| Overseas equities                                   | 777 4      | 839 4      | 13        | 16        |
| Government bonds                                    | 1,750 9    | 1,446 9    | 28        | 27        |
| Corporate bonds                                     | 1,455 7    | 1,531 4    | 23        | 28        |
| Swaps <sup>1</sup>                                  | 275 9      | (48 2)     | 4         | (1)       |
| Cash and other                                      | 1,029 1    | 669 3      | 17        | 12        |
| Total market value of assets                        | 6,186 4    | 5,398 1    | 100       | 100       |

1 The swaps hedge interest and inflation rate exposures within the schemes' liabilities

The expected long-term rates of return are

|   | 2012<br>% | 2011<br>% |
|---|-----------|-----------|
| Scottish Limited Partnership interest (see note 11) | 3 5       | 4 6       |
| UK equities   | 7 8       | 8 4       |
| Overseas equities                                   | 7 8       | 8 4       |
| Government bonds                                    | 3 3       | 4 3       |
| Corporate bonds                                     | 4 9       | 5 8       |
| Swaps <sup>1</sup>                                  | 3 3       | 4 1       |
| Cash and other                                      | 3 3       | 4 1       |
| Overall expected return                             | 4 9       | 5 8       |

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 107,216 (last year 122,362) ordinary shares in Marks and Spencer Group plc through its investment in an Aquila Life UK Equity Index Fund.

### E Analysis of amount charged against profits

|                                     | 2012<br>£m | 2011<br>£m |
|-------------------------------------|------------|------------|
| Operating cost                      |            |            |
| Current service cost                | 56 7       | 59 0       |
| Curtailment charge                  | 1 0        | 1 0        |
| One-off pension credit (see note 5) | –          | (10 7)     |
|                                     | 57 7       | 49 3       |
| Finance cost                        |            |            |
| Expected return on plan assets      | (307 4)    | (323 1)    |
| Interest on scheme liabilities      | 281 8      | 285 5      |
| Net finance income                  | (25 6)     | (37 6)     |
| Total                               | 32 1       | 11 7       |

## Notes to the financial statements continued

### 10 Retirement benefits continued

#### F Scheme assets

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

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Fair value of scheme assets at start of year  | 5,398 1    | 4,948 6    |
| Expected return on scheme assets <sup>1</sup> | 307 4      | 323 1      |
| Employer contributions                        | 131 9      | 259 8      |
| Contributions from scheme members             | –          | 0 2        |
| Benefits paid                                 | (230 4)    | (256 3)    |
| Actuarial gain                                | 581 0      | 124 1      |
| Exchange movement                             | (1 6)      | (1 4)      |
| Fair value of scheme assets at end of year    | 6,186 4    | 5,398 1    |

1 The actual return on scheme assets was £888 4m (last year return of £447 2m)

Future contributions to the UK scheme will be made at the rate of 17.9% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c £35m to the UK defined benefit scheme for the year ended 30 March 2013. In addition to this, a further £32m (last year £35m) of cash contributions were made in March 2012 per the funding plan agreed in May 2010.

#### G Retirement benefit obligations

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

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Present value of obligation at start of year | 5,229 6    | 5,315 1    |
| Current service cost                         | 56 7       | 59 0       |
| Curtailment charge                           | 1 0        | 1 0        |
| One-off pension credit (see note 5)          | –          | (10 7)     |
| Interest cost                                | 281 8      | 285 5      |
| Contributions from scheme members            | –          | 0 2        |
| Benefits paid                                | (230 4)    | (256 3)    |
| Actuarial loss/(gain)                        | 770 9      | (161 9)    |
| Exchange movement                            | (1 2)      | (2 3)      |
| Present value of obligation at end of year   | 6,108 4    | 5,229 6    |
| Analysed as                                  |            |            |
| Present value of pension scheme liabilities  | 6,095 1    | 5,215 5    |
| Unfunded pension plans                       | 0 8        | 0 9        |
| Post-retirement healthcare                   | 12 5       | 13 2       |
| Present value of obligation at end of year   | 6,108 4    | 5,229 6    |

#### H Cumulative actuarial gains and losses recognised in equity

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Loss at start of year                               | (1,222 9)  | (1,508 9)  |
| Net actuarial (losses)/gains recognised in the year | (189 9)    | 286 0      |
| Loss at end of year                                 | (1,412 8)  | (1,222 9)  |

#### I History of experience gains and losses

|   | 2012<br>£m | 2011<br>£m | 2010<br>£m | 2009<br>£m | 2008<br>£m |
|---|------------|------------|------------|------------|------------|
| Experience adjustments arising on scheme assets               | 581 0      | 124 1      | 867 7      | (1,280 3)  | (422 6)    |
| Experience (losses)/gains arising on scheme liabilities       | (85 3)     | (8 4)      | 36 2       | 81 2       | (61 5)     |
| Changes in assumptions underlying the present value of scheme | (685 6)    | 170 3      | (1,155 5)  | 272 0      | 1 089 5    |
| Actuarial (losses)/gains recognised in equity                 | (189 9)    | 286 0      | (251 6)    | (927 1)    | 605 4      |
| Fair value of scheme assets                                   | 6,186 4    | 5,398 1    | 4,948 6    | 3,977 0    | 5,045 5    |
| Present value of scheme liabilities                           | (6,095 1)  | (5,215 5)  | (5,298 6)  | (4,112 4)  | (4,542 3)  |
| Pension scheme asset/(deficit)                                | 91 3       | 182 6      | (350 0)    | (135 4)    | 503 2      |

## Notes to the financial statements continued

### 11 Marks & Spencer UK Pension Scheme interest in the 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. As such, the partnership is consolidated into the results of the Group.

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income, discretionary at the instance of Marks and Spencer plc.

The discretionary right is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. This is an equity instrument, disclosed within other reserves. Since the Group has paid an interim dividend in relation to 2011/12, the associated distribution of £71.9m is payable to the Pension Scheme and has been recognised as a liability (last year £71.9m), and is reflected as reduction in other reserves. When such reserves are no longer sufficient, this distribution will be charged to retained earnings. The future value of total discretionary scheduled payments is approximately £719m (last year £791m).

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £664.8m (last year £656.0m). For further details see note 10. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

As general partner, Marks and Spencer plc has a right of pre-emption in respect of a transfer by the Pension Scheme of its limited partnership interest to another party. This allows the general partner to direct that, instead of transferring the limited partnership interest to such a party, the general partner can instead nominate the transferee. In addition, the partnership agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at £nil.

On 21 May 2012 the terms of the Scottish Limited Partnership were changed. See note 28.

### 12 Share-based payments

The charge for share-based payments for the year was £32.5m (last year £31.7m). Of the total share-based payments charge, £15.0m (last year £11.4m) relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 59 to 60 of the Marks and Spencer Group plc Annual Report.

#### A Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in Marks and Spencer Group plc once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. 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, either three or five years after entering the scheme.

|                                      | 2012              |                                 | 2011              |                                 |
|--------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                      | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at beginning of the year | 54,295,921        | 249.9p                          | 52,560,561        | 249.9p                          |
| Granted                              | 18,366,990        | 258.0p                          | 8,162,499         | 319.0p                          |
| Exercised                            | (19,345,308)      | 205.6p                          | (1,210,770)       | 324.7p                          |
| Forfeited                            | (4,327,447)       | 285.6p                          | (3,755,659)       | 266.4p                          |
| Expired                              | (1,744,814)       | 481.8p                          | (1,460,710)       | 530.6p                          |
| Outstanding at end of the year       | 47,245,342        | 259.3p                          | 54,295,921        | 249.9p                          |
| Exercisable at end of year           | 2,803,103         | 278.9p                          | 2,150,364         | 446.6p                          |

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 325.0p (last year 366.3p).

## Notes to the financial statements continued

### 12 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

|                           | 2012<br>3-year plan | 2011<br>3-year plan |
|---------------------------|---------------------|---------------------|
| Grant date                | Nov 11              | Nov 10              |
| Share price at grant date | 322p                | 399p                |
| Exercise price            | 258p                | 319p                |
| Option life in years      | 3 years             | 3 years             |
| Risk-free rate            | 0.5%                | 1.5%                |
| Expected volatility       | 31.4%               | 44.5%               |
| Expected dividend yield   | 5.4%                | 4.0%                |
| Fair value of option      | 67p                 | 125p                |

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 15% of options will lapse over the service period as employees leave the Group

| Outstanding options granted under the UK Employees' SAYE Scheme are as follows | Number of options |            | Weighted average remaining contractual life (years) |      | Option price |
|--|-------------------|------------|---|------|--------------|
| Options granted  | 2012              | 2011       | 2012  | 2011 |              |
| January 2006   | —                 | 538,403    | —   | 0.2  | 349p         |
| January 2007   | 583,961           | 630,926    | 0.2   | 1.2  | 559p         |
| January 2008   | 655,213           | 2,178,087  | 1.2   | 0.9  | 517p         |
| January 2009   | 15,727,797        | 35,826,944 | 1.9   | 2.0  | 203p         |
| January 2010   | 6,349,388         | 7,253,289  | 1.2   | 2.2  | 292p         |
| January 2011   | 6,016,473         | 7,868,272  | 2.2   | 3.2  | 319p         |
| January 2012   | 17,912,510        | —          | 3.2   | —    | 258p         |
|  | 47,245,342        | 54,295,921 | 2.3   | 2.2  | 259p         |

#### B Performance Share Plan\*

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on adjusted (underlying basic) earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 59 of the Marks and Spencer Group plc Annual Report. Awards under this scheme have been made in each year since 2005.

During the year, 7,887,169 shares (last year 7,788,119) were awarded under the plan. The weighted average fair value of the shares awarded was 350.8p (last year 342.2p).

#### C Deferred Share Bonus Plan\*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 450 of the most senior managers. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment, and the value of any dividends earned during the deferred period will be paid on vesting.

During the year, 2,366,847 shares (last year 4,982,573) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 378.4p (last year 341.2p). As at 31 March 2012, 6,396,018 shares (last year 4,948,663) were outstanding under the scheme.

#### D Restricted Share Plan\*

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The Plan operates for senior managers below executive director level. Awards under the Plan are made as part of ongoing reviews of reward packages, and for recruitment. The shares are held in trust for a period of between one and three years, at which point they are released to the employee, subject to them still being in employment. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 1,356,046 shares (last year 651,000) have been awarded under the Plan. The weighted average fair value of the shares awarded was 356.9p (last year 355.2p).

## Notes to the financial statements continued

### 12 Share-based payments continued

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#### E Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 97,270 (last year 147,100) options were granted, at a fair value of 67.3p (last year 124.9p).

#### F Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 10,621,823 shares (last year 8,851,592) in Marks and Spencer Group plc with a book value of £34.4m (last year £27.6m) and a market value of £40.2m (last year £29.8m). 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. The Trust used funds provided by the Company to meet the Group's obligations. Awards are granted to employees at the discretion of the Company and shares awarded to employees by the Trust in accordance with the wishes of the Company under senior executive share schemes. Dividends are waived on all of these plans except for the Deferred Bonus Share Plan and Restricted Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

## Notes to the financial statements continued

### 13 Intangible assets

|   | Goodwill<br>£m | Brands<br>£m | Computer<br>software<br>£m | Computer<br>software under<br>development<br>£m | Total<br>£m |
|---|----------------|--------------|----------------------------|---|-------------|
| <b>At 3 April 2010</b>                  |                |              |                            |   |             |
| Cost or valuation                       | 127.9          | 80.0         | 239.2                      | 120.0   | 567.1       |
| Accumulated amortisation                | –              | (29.3)       | (85.0)                     | –   | (114.3)     |
| Net book value                          | 127.9          | 50.7         | 154.2                      | 120.0   | 452.8       |
| <b>Year ended 2 April 2011</b>          |                |              |                            |   |             |
| Opening net book value                  | 127.9          | 50.7         | 154.2                      | 120.0   | 452.8       |
| Additions                               | –              | –            | 83.4                       | 43.1  | 126.5       |
| – Transfers                             | –              | –            | 104.9                      | (104.9)   | –           |
| – Disposals                             | –              | –            | (0.3)                      | –   | (0.3)       |
| – Amortisation charge                   | –              | (5.3)        | (45.7)                     | –   | (51.0)      |
| Exchange difference                     | (0.3)          | –            | –                          | –   | (0.3)       |
| Closing net book value                  | 127.6          | 45.4         | 296.5                      | 58.2  | 527.7       |
| <b>At 2 April 2011</b>                  |                |              |                            |   |             |
| Cost or valuation                       | 127.6          | 80.0         | 427.1                      | 58.2  | 692.9       |
| Accumulated amortisation                | –              | (34.6)       | (130.6)                    | –   | (165.2)     |
| Net book value                          | 127.6          | 45.4         | 296.5                      | 58.2  | 527.7       |
| <b>Year ended 31 March 2012</b>         |                |              |                            |   |             |
| Opening net book value                  | 127.6          | 45.4         | 296.5                      | 58.2  | 527.7       |
| Additions                               | –              | 32.4         | 72.9                       | 52.9  | 158.2       |
| Transfers                               | –              | –            | 37.0                       | (37.0)  | –           |
| Disposals                               | –              | –            | (1.0)                      | –   | (1.0)       |
| Impairment                              | (34.4)         | –            | –                          | –   | (34.4)      |
| Amortisation charge                     | –              | (5.3)        | (60.0)                     | –   | (65.3)      |
| Exchange difference                     | (0.6)          | –            | (0.3)                      | –   | (0.9)       |
| Closing net book value                  | 92.6           | 72.5         | 345.1                      | 74.1  | 584.3       |
| <b>At 31 March 2012</b>                 |                |              |                            |   |             |
| Cost                                    | 127.0          | 112.4        | 535.4                      | 74.1  | 848.9       |
| Accumulated amortisation and impairment | (34.4)         | (39.9)       | (190.3)                    | –   | (264.6)     |
| Net book value                          | 92.6           | 72.5         | 345.1                      | 74.1  | 584.3       |

Goodwill relates to the following business units

|  | per una<br>£m | Marks and<br>Spencer<br>Marinopoulos<br>B V<br>£m | Marks and<br>Spencer<br>Czech<br>Republic a s<br>£m | Supreme<br>Tradelinks<br>Private<br>Limited<br>£m | Total<br>£m |
|--|---------------|---|---|---|-------------|
| Cost and net book value at 2 April 2011  | 69.5          | 34.4  | 15.5  | 8.2   | 127.6       |
| Impairment                               | –             | (34.4)  | –   | –   | (34.4)      |
| Exchange difference                      | –             | –   | (0.1)   | (0.5)   | (0.6)       |
| Cost and net book value at 31 March 2012 | 69.5          | –   | 15.4  | 7.7   | 92.6        |

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made: per una discount rate 10.6% (last year 9.9%), Marks and Spencer Marinopoulos B V 16.2% (last year 17.7%), Marks and Spencer Czech Republic a s 12.3% (last year 11.9%) and Supreme Tradelinks Private Limited 12.7% (last year 13.3%).

The valuations use cash flows based on detailed financial budgets prepared by management covering a three year period. Cash flows beyond this three year period are extrapolated for Marks and Spencer Czech Republic a s at a growth rate of 1.5% (last year 2.0%) and Supreme Tradelinks Private Limited at a growth rate of 1.5% (last year 2.0%). To stress test, nil growth has been assumed for per una and Marks and Spencer Marinopoulos B V. These rates do not exceed the long-term average growth rate for the Group's retail businesses.

Based on the above assumptions and due to the current economic environment in Greece and neighbouring countries, the Marks and Spencer Marinopoulos B V goodwill has been impaired in full giving rise to a charge of £34.4m. This loss has been recognised within selling and administration expenses in the Income statement. No other goodwill impairment charges have been recognised in 2011/12 (last year £nil).

## Notes to the financial statements continued

### 13 Intangible assets continued

If a zero per cent growth rate is assumed or the discount rate is increased by a pre-tax rate of 2.0%, per una, Marks and Spencer Czech Republic a.s. and Supreme Tradelinks Private Limited goodwill would not be impaired

Brands consist of the per una brand cost of £80.0m and the M&S Mode brands which were purchased on 2 May 2011 for £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business. No brand impairment charge has been recognised in 2011/12.

### 14 Property, plant and equipment

|                                 | Land and buildings<br>£m | Fixtures, fittings and equipment<br>£m | Assets in the course of construction<br>£m | Total<br>£m |
|---------------------------------|--------------------------|--|--|-------------|
| <b>At 3 April 2010</b>          |                          |  |  |             |
| Cost                            | 2,576.4                  | 5,043.9                                | 121.2                                      | 7,741.5     |
| Accumulated depreciation        | (118.7)                  | (2,900.8)                              | –  | (3,019.5)   |
| Net book value                  | 2,457.7                  | 2,143.1                                | 121.2                                      | 4,722.0     |
| <b>Year ended 2 April 2011</b>  |                          |  |  |             |
| Opening net book value          | 2,457.7                  | 2,143.1                                | 121.2                                      | 4,722.0     |
| Additions                       | 23.1                     | 173.1                                  | 168.8                                      | 365.0       |
| Transfers                       | 22.4                     | 66.7                                   | (89.1)                                     | –           |
| Disposals                       | (1.4)                    | (1.3)                                  | –  | (2.7)       |
| Asset write-offs                | –                        | (3.4)                                  | –  | (3.4)       |
| Depreciation charge             | (15.7)                   | (400.8)                                | –  | (416.5)     |
| Exchange difference             | (0.1)                    | (2.1)                                  | –  | (2.2)       |
| Closing net book value          | 2,486.0                  | 1,975.3                                | 200.9                                      | 4,662.2     |
| <b>At 2 April 2011</b>          |                          |  |  |             |
| Cost                            | 2,730.0                  | 5,263.2                                | 200.9                                      | 8,194.1     |
| Accumulated depreciation        | (244.0)                  | (3,287.9)                              | –  | (3,531.9)   |
| Net book value                  | 2,486.0                  | 1,975.3                                | 200.9                                      | 4,662.2     |
| <b>Year ended 31 March 2012</b> |                          |  |  |             |
| Opening net book value          | 2,486.0                  | 1,975.3                                | 200.9                                      | 4,662.2     |
| Additions                       | 17.1                     | 279.5                                  | 282.7                                      | 579.3       |
| Transfers                       | 25.3                     | 127.9                                  | (153.2)                                    | –           |
| Disposals                       | (0.8)                    | (6.8)                                  | –  | (7.6)       |
| Asset write-offs                | (13.0)                   | (10.4)                                 | –  | (23.4)      |
| Depreciation charge             | (16.4)                   | (388.4)                                | –  | (404.8)     |
| Exchange difference             | (9.4)                    | (6.1)                                  | (0.3)                                      | (15.8)      |
| Closing net book value          | 2,488.8                  | 1,971.0                                | 330.1                                      | 4,789.9     |
| <b>At 31 March 2012</b>         |                          |  |  |             |
| Cost                            | 2,759.4                  | 5,612.9                                | 330.1                                      | 8,702.4     |
| Accumulated depreciation        | (270.6)                  | (3,641.9)                              | –  | (3,912.5)   |
| Net book value                  | 2,488.8                  | 1,971.0                                | 330.1                                      | 4,789.9     |

The net book value above includes land and buildings of £43.6m (last year £44.3m) and equipment of £26.4m (last year £31.8m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £6.0m (last year £nil) were financed by new finance leases.

## Notes to the financial statements continued

### 15 Other financial assets

|                                     | 2012<br>£m | 2011<br>£m |
|-------------------------------------|------------|------------|
| <b>Non-current</b>                  |            |            |
| Unlisted investments                | 3 0        | 3 0        |
| Other investments <sup>1</sup>      | 40 2       | 29 8       |
|                                     | 43 2       | 32 8       |
| <b>Current</b>                      |            |            |
| Amounts owed by parent company      | 2,541 7    | 2,591 8    |
| Short-term investments <sup>2</sup> | 254 4      | 209 4      |
| Unlisted investments                | 6 1        | 6 5        |
|                                     | 2,802 2    | 2,807 7    |

1 Other investments are the shares in Marks and Spencer Group plc held for employee share schemes

2 Includes £179 4m (last year £148 9m) and £49 2m (last year £44 2m) of money market deposits held by the Marks and Spencer Scottish Limited Partnership and Marks and Spencer plc respectively. All short term investments are measured using Level 2 valuation techniques

Non-current unlisted investments and other investments in Marks and Spencer Group plc are carried as available-for-sale assets. Other financial assets are measured at fair value with changes in their value taken to the income statement.

### 16 Trade and other receivables

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| <b>Non-current</b>                            |            |            |
| Other receivables                             | 33 8       | 35 2       |
| Prepayments and accrued income                | 236 4      | 240 9      |
|   | 270 2      | 276 1      |
| <b>Current</b>                                |            |            |
| Trade receivables                             | 115 8      | 99 6       |
| Less: Provision for impairment of receivables | (1 2)      | (1 3)      |
| Trade receivables – net                       | 114 6      | 98 3       |
| Other receivables                             | 23 9       | 25 5       |
| Prepayments and accrued income                | 114 5      | 126 5      |
|   | 253 0      | 250 3      |

Trade receivables that were past due but not impaired amounted to £2 5m (last year £2 4m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

### 17 Cash and cash equivalents

Cash and cash equivalents are £196 1m (last year £470 2m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0 36% (last year 0 40%). These deposits have an average maturity of four days (last year nine days).

### 18 Trade and other payables

|                                 | 2012<br>£m | 2011<br>£m |
|---------------------------------|------------|------------|
| <b>Current</b>                  |            |            |
| Trade and other payables        | 988 6      | 919 2      |
| Social security and other taxes | 71 5       | 57 2       |
| Accruals and deferred income    | 389 0      | 371 2      |
|                                 | 1,449 1    | 1,347 6    |
| <b>Non-current</b>              |            |            |
| Other payables <sup>1</sup>     | 280 8      | 262 3      |

1 Includes the fair value of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. of £nil (last year £14 6m) exercisable on 4 April 2013 and the fair value of the put option over the 20% non-controlling interest in the share capital of Marks and Spencer Greece S.A. of £nil exercisable in five or ten years time.

## Notes to the financial statements continued

### 19 Borrowings and other financial liabilities

|  | 2012<br>£m     | 2011<br>£m     |
|--|----------------|----------------|
| <b>Current</b>   |                |                |
| Bank loans and overdrafts <sup>1</sup>                                     | 38.4           | 274.8          |
| 6.375% £308m medium-term notes 2011 <sup>2</sup>                           | –              | 315.1          |
| 5.875% £267m medium-term notes 2012 <sup>2</sup>                           | 280.6          | –              |
| Finance lease liabilities  | 8.7            | 12.4           |
|  | <b>327.7</b>   | <b>602.3</b>   |
| <b>Non-current</b>   |                |                |
| Bank loans   | 0.3            | 14.3           |
| 5.875% £267m medium-term notes 2012 <sup>2</sup>                           | –              | 280.2          |
| 5.625% £400m medium-term notes 2014 <sup>2</sup>                           | 399.9          | 399.7          |
| 6.250% US\$500m medium-term notes 2017 <sup>3</sup>                        | 317.8          | 316.8          |
| 6.125% £400m medium-term notes 2019 <sup>2</sup>                           | 428.5          | 404.7          |
| 6.125% £300m medium-term notes 2021 <sup>2</sup>                           | 301.6          | –              |
| 7.125% US\$300m medium-term notes 2037 <sup>3</sup>                        | 189.9          | 189.3          |
| 6.875% £250m puttable callable reset medium-term notes 2037 <sup>2,4</sup> | 253.3          | 253.2          |
| Finance lease liabilities  | 56.8           | 65.9           |
|  | <b>1,948.1</b> | <b>1,924.1</b> |
| <b>Total</b>   | <b>2,275.8</b> | <b>2,526.4</b> |

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28)

2 These notes are issued under Marks and Spencer plc's £3bn European medium term note programme and all pay interest annually

3 Interest on these bonds is payable semi-annually

4 These notes include an investor put and issuer call option exercisable in December 2012

### Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years (last year six years) and 125 years (last year 125 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

### 20 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 and currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

## Notes to the financial statements continued

### 20 Financial instruments continued

#### Financial risk management

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages.

##### (a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due,

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities

At year end, the Group had a committed syndicated bank revolving credit facility of £1 325bn set to mature on 29 September 2016. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), 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 6bn (last year £1 6bn) was in issuance as at the balance sheet date.

The 6 375% £308m bond was repaid in November 2011 and a new 6 125% £300m bond was subsequently issued under the programme in December 2011 maturing in 2021.

The contractual maturity of the Group's non-derivative financial liabilities and derivatives is as follows.

|  | Bank loans and overdrafts<br>£m | Syndicated bank facility<br>£m | Medium-term notes<br>£m | Finance lease liabilities<br>£m | Total<br>£m | Derivative assets<br>£m | Derivative liabilities<br>£m | Total<br>£m |
|--|---------------------------------|--------------------------------|-------------------------|---------------------------------|-------------|-------------------------|------------------------------|-------------|
| <b>Timing of cash flows</b>                |                                 |                                |                         |                                 |             |                         |                              |             |
| Within one year                            | (274 8)                         | –                              | (439 9)                 | (16 0)                          | (730 7)     | 1,389 3                 | (1,418 6)                    | (29 3)      |
| Between one and two years                  | (14 3)                          | –                              | (380 1)                 | (11 7)                          | (406 1)     | 96 5                    | (92 7)                       | 3 8         |
| Between two and five years                 | –                               | –                              | (650 9)                 | (15 8)                          | (666 7)     | 100 7                   | (103 7)                      | (3 0)       |
| More than five years                       | –                               | –                              | (1,992 8)               | (195 8)                         | (2,188 6)   | 830 2                   | (883 4)                      | (53 2)      |
|  | (289 1)                         | –                              | (3,463 7)               | (239 3)                         | (3,992 1)   | 2,416 7                 | (2 498 4)                    | (81 7)      |
| Effect of discounting and foreign exchange | –                               | –                              | 1,304 7                 | 161 0                           | 1,465 7     |                         |                              |             |
| At 2 April 2011                            | (289 1)                         | –                              | (2,159 0)               | (78 3)                          | (2,526 4)   |                         |                              |             |
| <b>Timing of cash flows</b>                |                                 |                                |                         |                                 |             |                         |                              |             |
| Within one year                            | (38 4)                          | –                              | (398 5)                 | (11 8)                          | (448 7)     | 1,540 1                 | (1,529 4)                    | 10 7        |
| Between one and two years                  | (0 3)                           | –                              | (517 1)                 | (8 8)                           | (526 2)     | 163 6                   | (161 9)                      | 1 7         |
| Between two and five years                 | –                               | –                              | (283 8)                 | (9 2)                           | (293 0)     | 110 5                   | (103 3)                      | 7 2         |
| More than five years                       | –                               | –                              | (2,310 9)               | (192 1)                         | (2,503 0)   | 804 6                   | (841 8)                      | (37 2)      |
|  | (38 7)                          | –                              | (3,510 3)               | (221 9)                         | (3,770 9)   | 2,618 8                 | (2,636 4)                    | (17 6)      |
| Effect of discounting and foreign exchange | –                               | –                              | 1,338 7                 | 156 4                           | 1,495 1     |                         |                              |             |
| At 31 March 2012                           | (38 7)                          | –                              | (2,171 6)               | (65 5)                          | (2 275 8)   |                         |                              |             |

This table does not include trade and other payables (see note 18) due to the low associated liquidity risk and the partnership liability to the Marks & Spencer UK Pension Scheme (see note 11).

The present value of finance lease liabilities is as follows.

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Within one year                                   | (8 7)      | (12 4)     |
| Later than one year and not later than five years | (8 7)      | (17 3)     |
| Later than five years                             | (48 1)     | (48 6)     |
| Total   | (65 5)     | (78 3)     |

##### (b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

## Notes to the financial statements continued

### 20 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 <sup>4</sup> |           |          |           |          |          |                      | Total |
|-------------------------------------|--|-----------|----------|-----------|----------|----------|----------------------|-------|
|                                     | AAAm<br>£m                                 | AAA<br>£m | AA<br>£m | AA-<br>£m | A+<br>£m | A-<br>£m | A <sup>2</sup><br>£m |       |
| Short-term investments <sup>1</sup> | 193.1                                      | 17.0      | 54.3     | 19.1      | 79.1     | —        | —                    | 362.6 |
| Derivative assets <sup>2</sup>      | —  | 0.2       | 0.5      | —         | 4.0      | —        | 0.8                  | 5.5   |
| At 2 April 2011                     | 193.1                                      | 17.2      | 54.8     | 19.1      | 83.1     | —        | 0.8                  | 368.1 |

|                                     | Credit rating of counterparty <sup>4</sup> |           |          |           |          |          |                      | Total |
|-------------------------------------|--|-----------|----------|-----------|----------|----------|----------------------|-------|
|                                     | AAAm<br>£m                                 | AAA<br>£m | AA<br>£m | AA-<br>£m | A+<br>£m | A-<br>£m | A <sup>2</sup><br>£m |       |
| Short-term investments <sup>1</sup> | 198.5                                      | —         | 2.0      | 42.8      | 27.1     | 20.0     | —                    | 290.4 |
| Derivative assets <sup>2</sup>      | —  | —         | 1.9      | 9.8       | —        | 18.2     | 7.6                  | 37.5  |
| At 31 March 2012                    | 198.5                                      | —         | 3.9      | 52.6      | 27.1     | 38.2     | 7.6                  | 327.9 |

1 Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks & Spencer plc and M.S. General Insurance LP

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium term notes due 2037 and the embedded derivative within the lease host contract

3 Exposure to a counterparty approved as an exception to treasury policy

4 Standard & Poor's equivalent rating shown as reference to the lowest credit rating of the counterparty from either Standard & Poor's or Moody's

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £115m (last year £98m), other receivables £58m (last year £61m), cash and cash equivalents £196m (last year £470m) and derivatives £111m (last year £40m)

#### (c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,221m (last year £1,062m) with a weighted average maturity date of seven months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 31 March 2012 will be released to the income statement at various dates over the following 15 months (last year 14 months) from the balance sheet date.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €242m (last year €201m) and HK\$291m (last year HK\$192m) of derivatives was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £187m (last year £175m).

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, the liability to the Marks & Spencer UK Pension Scheme and the Marks and Spencer Czech Republic's put option, is set out below.

|                  | 2012             |                     |             | 2011             |                     |             |
|------------------|------------------|---------------------|-------------|------------------|---------------------|-------------|
|                  | Fixed rate<br>£m | Floating rate<br>£m | Total<br>£m | Fixed rate<br>£m | Floating rate<br>£m | Total<br>£m |
| Currency         |                  |                     |             |                  |                     |             |
| Sterling         | 2,030.4          | 205.2               | 2,235.6     | 2,030.1          | 411.8               | 2,441.9     |
| Euro             | 6.8              | 5.1                 | 11.9        | 7.1              | 33.7                | 40.8        |
| Hong Kong dollar | —                | —                   | —           | —                | —                   | —           |
| Other            | —                | 28.3                | 28.3        | —                | 43.7                | 43.7        |
|                  | 2,037.2          | 238.6               | 2,275.8     | 2,037.2          | 489.2               | 2,526.4     |

## Notes to the financial statements continued

### 20 Financial instruments continued

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.8% (last year 5.9%) and the weighted average time for which the rate is fixed is nine years (last year nine years).

#### (d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar, euro and Hong Kong dollar 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 £2,037.2m (last year £2,037.2m) representing the public bond issues and finance leases, amounting to 90% (last year 81%) of the Group's gross borrowings.

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

|                                      | 2012<br>% | 2011<br>% |
|--------------------------------------|-----------|-----------|
| Committed and uncommitted borrowings | 0.5       | –         |
| Medium-term notes                    | 5.8       | 5.9       |
| Finance leases                       | 4.5       | 4.6       |

### Derivative financial instruments

|                                    |   |                       | 2012         |                   | 2011         |                   |
|------------------------------------|---|-----------------------|--------------|-------------------|--------------|-------------------|
|                                    |   |                       | Assets<br>£m | Liabilities<br>£m | Assets<br>£m | Liabilities<br>£m |
| <b>Current</b>                     |   |                       |              |                   |              |                   |
| Options                            | – | held for trading      | 53.6         | (53.6)            | 14.4         | (14.4)            |
| Forward foreign exchange contracts | – | cash flow hedges      | 13.3         | (5.1)             | 2.8          | (29.9)            |
|                                    | – | held for trading      | 0.1          | (1.3)             | 1.2          | (2.4)             |
|                                    | – | net investment hedges | –            | (0.5)             | –            | (2.7)             |
| Interest rate swaps                | – | held for trading      | –            | –                 | –            | (1.3)             |
|                                    |   |                       | 67.0         | (60.5)            | 18.4         | (50.7)            |
| <b>Non-current</b>                 |   |                       |              |                   |              |                   |
| Cross currency swaps               | – | cash flow hedges      | –            | (26.5)            | –            | (37.5)            |
| Forward foreign exchange contracts | – | cash flow hedges      | 0.1          | (0.7)             | 0.7          | –                 |
| Interest rate swaps                | – | fair value hedge      | 24.0         | –                 | 0.8          | –                 |
| Embedded derivative (see note 5)   |   |                       | 20.1         | –                 | 20.3         | –                 |
|                                    |   |                       | 44.2         | (27.2)            | 21.8         | (37.5)            |

The amounts reported as options held for trading in derivatives assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

## Notes to the financial statements continued

### 20 Financial instruments continued

#### Sensitivity analysis

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

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.

The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

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

|  | 2% decrease<br>in interest<br>rates<br>£m | 2% increase<br>in interest<br>rates<br>£m | 20%<br>weakening<br>in sterling<br>£m | 20%<br>strengthening<br>in sterling<br>£m |
|--|---|---|---------------------------------------|---|
| <b>At 2 April 2011</b>                           |   |   |                                       |   |
| Impact on income statement gain/(loss)           | 0.5                                       | 2.2                                       | (2.8)                                 | 2.4                                       |
| Impact on other comprehensive income (loss)/gain | (6.7)                                     | 6.4                                       | 44.3                                  | (29.5)                                    |
| <b>At 31 March 2012</b>                          |   |   |                                       |   |
| Impact on income statement gain                  | 1.5                                       | 0.8                                       | –                                     | –   |
| Impact on other comprehensive income (loss)/gain | (5.3)                                     | 3.0                                       | 70.2                                  | (46.8)                                    |

#### 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 or liabilities,
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgement around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

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

|   | 2012          |               |               |             | 2011          |               |               |             |
|---|---------------|---------------|---------------|-------------|---------------|---------------|---------------|-------------|
|   | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
| <b>Assets measured at fair value</b>                        |               |               |               |             |               |               |               |             |
| Financial assets at fair value through profit and loss      |               |               |               |             |               |               |               |             |
| – Trading derivatives                                       | –             | 53.7          | –             | 53.7        | –             | 15.6          | –             | 15.6        |
| Derivatives used for hedging                                | –             | 37.4          | –             | 37.4        | –             | 4.3           | –             | 4.3         |
| Embedded derivatives (note 5)                               | –             | –             | 20.1          | 20.1        | –             | –             | 20.3          | 20.3        |
| Available-for-sale financial assets                         |               |               |               |             |               |               |               |             |
| – equity securities   | 40.2          | –             | 3.0           | 3.0         | 29.8          | –             | 3.0           | 3.0         |
| <b>Liabilities measured at fair value</b>                   |               |               |               |             |               |               |               |             |
| Financial liabilities at fair value through profit and loss |               |               |               |             |               |               |               |             |
| – Trading derivatives                                       | –             | (54.9)        | –             | (54.9)      | –             | (18.1)        | –             | (18.1)      |
| Derivative used for hedging                                 | –             | (32.8)        | –             | (32.8)      | –             | (70.1)        | –             | (70.1)      |
| Put option over non-controlling interest                    | –             | –             | –             | –           | –             | –             | (14.6)        | (14.6)      |

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

## Notes to the financial statements continued

### 20 Financial instruments continued

The following table presents the changes in Level 3 instruments

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Opening balance                                     | 8.7        | (60.5)     |
| Additions (see note 5)                              | –          | 20.3       |
| Gains and losses recognised in the income statement | 14.4       | 48.9       |
| Closing balance                                     | 23.1       | 8.7        |

The gains recognised in the income statement relate to the valuation of the put option over a non-controlling interest and the valuation of the embedded derivative in a lease contract. A discount unwind on the put option of £1.0m (last year £5.4m) has been recorded within underlying interest charges, with the fair value movement of the put option of £15.6m (last year £54.3m) and the fair value movement of the embedded derivative of £0.2m treated as adjustment to reported profit (see note 5).

#### Fair value of financial instruments

With the exception of the Group's fixed rate bond debt, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £2,171.6m (last year £2,159.0m), the fair value of this debt was £2,121.7m (last year £2,080.1m).

#### Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 26) 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 nine years (last year nine years). During the year Marks and Spencer Group plc maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### 21 Provisions

|                          | 2012<br>£m | 2011<br>£m |
|--------------------------|------------|------------|
| At start of year         | 44.7       | 51.1       |
| Provided in the year     | 7.8        | 10.8       |
| Released in the year     | (3.4)      | (1.7)      |
| Utilised during the year | (16.5)     | (15.4)     |
| Exchange differences     | (0.2)      | (0.1)      |
| At end of year           | 32.4       | 44.7       |
| Analysis of provisions   |            |            |
| Current                  | 8.4        | 22.7       |
| Non-current              | 24.0       | 22.0       |
| Total provisions         | 32.4       | 44.7       |

The provisions primarily comprise one-off strategic programme costs associated with the Focus on the UK plans as well as onerous lease provisions relating to the 2008/09 UK restructuring.

The current element of the provision primarily relates to onerous leases, redundancies and strategic costs.

The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of ten years.

## Notes to the financial statements continued

### 22 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 24% (last year 26%) 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 offsetting balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the year are shown below.

#### Deferred tax (liabilities)/assets

|  | Non-current assets temporary differences<br>£m | Accelerated capital allowances<br>£m | Pension temporary differences<br>£m | Other short-term temporary differences<br>£m | Total UK deferred tax<br>£m | Overseas deferred tax<br>£m | Total<br>£m |
|--|--|--------------------------------------|-------------------------------------|--|-----------------------------|-----------------------------|-------------|
| At 4 April 2010                            | (74.3)   | (123.7)                              | 81.2                                | (3.2)  | (120.0)                     | (5.8)                       | (125.8)     |
| Credited/(charged) to the income statement | 10.5   | 18.9                                 | 3.0                                 | 7.1  | 39.5                        | (3.2)                       | 36.3        |
| (Charged)/credited to equity               | –  | –                                    | (112.0)                             | 6.1  | (105.9)                     | (1.1)                       | (107.0)     |
| At 2 April 2011                            | (63.8)   | (104.8)                              | (27.8)                              | 10.0   | (186.4)                     | (10.1)                      | (196.5)     |
| At 3 April 2011                            | (63.8)   | (104.8)                              | (27.8)                              | 10.0   | (186.4)                     | (10.1)                      | (196.5)     |
| Credited/(charged) to the income statement | 5.6  | 4.2                                  | 4.4                                 | (2.9)  | 11.3                        | (1.5)                       | 9.8         |
| (Charged)/credited to equity               | –  | –                                    | (5.1)                               | (0.6)  | (5.7)                       | (3.3)                       | (9.0)       |
| At 31 March 2012                           | (58.2)   | (100.6)                              | (28.5)                              | 6.5  | (180.8)                     | (14.9)                      | (195.7)     |

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £71.4m (last year £65.0m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £26.8m (last year £16.1m).

In addition, the Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of the continuing litigation no asset has been recognised in respect of these claims.

No deferred tax has been recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures, as no material liability is expected to arise on distribution of these earnings under applicable tax legislation.

### 23 Ordinary share capital

|   | 2012          |       | 2011          |       |
|---|---------------|-------|---------------|-------|
|   | Shares        | £m    | Shares        | £m    |
| Issued and fully paid ordinary shares of 25p each | 2,850,039,477 | 712.5 | 2,850,039,477 | 712.5 |

### 24 Contingencies and commitments

#### A Capital commitments

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Commitments in respect of properties in the course of construction | 71.4       | 90.8       |

In respect of its interest in a joint venture, the Group is committed to incur capital expenditure of £nil (last year £0.5m).

#### B Other material contracts

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

See note 11 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

## Notes to the financial statements continued

### 24 Contingencies and commitments continued

#### C Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Total future minimum rentals payable under non-cancellable operating leases are |            |            |
| Within one year   | 257.8      | 242.6      |
| Later than one year and not later than five years                               | 997.4      | 923.0      |
| Later than five years and not later than ten years                              | 1,029.5    | 990.8      |
| Later than ten years and not later than 15 years                                | 772.7      | 767.4      |
| Later than 15 years and not later than 20 years                                 | 385.1      | 402.9      |
| Later than 20 years and not later than 25 years                                 | 259.3      | 243.1      |
| Later than 25 years   | 1,210.1    | 1,210.3    |
| Total   | 4,911.9    | 4,780.1    |

The total future sublease payments to be received are £63.3m (last year £65.8m)

### 25 Analysis of cash flows given in the statement of cash flows

#### Cash flows from operating activities

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Profit on ordinary activities after taxation       | 489.6      | 598.6      |
| Income tax expense                                 | 168.4      | 182.0      |
| Finance costs                                      | 136.8      | 152.9      |
| Finance income                                     | (48.3)     | (96.6)     |
| Operating profit                                   | 746.5      | 836.9      |
| Increase in inventories                            | (0.1)      | (72.1)     |
| (Increase)/decrease in receivables                 | (17.1)     | 2.9        |
| Payments to acquire leasehold properties           | (1.2)      | (1.4)      |
| Increase in payables                               | 103.4      | 175.2      |
| Non-underlying operating cash outflows             | (22.9)     | (12.3)     |
| Depreciation, amortisation and asset write-offs    | 479.7      | 467.5      |
| Share-based payments                               | 32.5       | 31.7       |
| Pension costs charged against operating profit     | 57.7       | 60.0       |
| Cash contributions to pension schemes              | (89.9)     | (91.2)     |
| Non-underlying operating profit items (see note 5) | 63.5       | (12.0)     |
| Cash generated from operations                     | 1,352.1    | 1,385.2    |

Non-underlying operating cash outflows primarily relate to the utilisation of the provisions for UK restructuring and strategic programme costs.

## Notes to the financial statements continued

### 26 Analysis of net debt

#### A Reconciliation of movement in net debt

|  | At<br>3 April<br>2011<br>£m | Cash flow<br>£m | Exchange and<br>other non-cash<br>movements<br>£m | At<br>31 March<br>2012<br>£m |
|--|-----------------------------|-----------------|---|------------------------------|
| <b>Net cash</b>  |                             |                 |   |                              |
| Bank loans, overdrafts and syndicated bank facility (note 19)            | (289 1)                     | 247 8           | 2 6   | (38 7)                       |
| Less amounts treated as financing (see below)                            | 82 4                        | (41 4)          | (2 6)   | 38 4                         |
|  | (206 7)                     | 206 4           | –   | (0 3)                        |
| Cash and cash equivalents (note 17)                                      | 470 2                       | (272 2)         | (1 9)   | 196 1                        |
| Net cash per statement of cash flows                                     | 263 5                       | (65 8)          | (1 9)   | 195 8                        |
| Current financial assets (see note 15)                                   | 2,807 7                     | (5 3)           | (0 2)   | 2,802 2                      |
| <b>Debt financing</b>  |                             |                 |   |                              |
| Bank loans and overdrafts treated as financing (see above)               | (82 4)                      | 41 4            | 2 6   | (38 4)                       |
| Medium-term notes  | (2,147 7)                   | 12 1            | (2 0)   | (2,137 6)                    |
| Finance lease liabilities (note 19)                                      | (78 3)                      | 13 0            | (0 2)   | (65 5)                       |
| Partnership liability to the Marks & Spencer UK Pension Scheme (note 11) | (71 9)                      | 71 9            | (71 9)  | (71 9)                       |
| Debt financing   | (2,380 3)                   | 138 4           | (71 5)  | (2,313 4)                    |
| <b>Net debt</b>  | (690 9)                     | 67 3            | (73 6)  | 684 6                        |

#### B Reconciliation of net debt to statement of financial position

|  | 2012<br>£m   | 2011<br>£m   |
|--|--------------|--------------|
| <b>Statement of financial position and related notes</b>                 |              |              |
| Cash and cash equivalents  | 196 1        | 470 2        |
| Current financial assets (note 15)                                       | 2,802 2      | 2,807 7      |
| Bank loans and overdrafts (note 19)                                      | (38 7)       | (289 1)      |
| Medium-term notes – net of hedging derivatives                           | (2,181 8)    | (2,194 0)    |
| Finance lease liabilities (note 19)                                      | (65 5)       | (78 3)       |
| Partnership liability to the Marks & Spencer UK Pension Scheme (note 11) | (71 9)       | (71 9)       |
|  | 640 4        | 644 6        |
| Interest payable included within related borrowing                       | 44 2         | 46 3         |
| <b>Total net debt</b>  | <b>684 6</b> | <b>690 9</b> |

### 27 Related party transactions

#### A Parent company and Subsidiaries

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc, of £273 6m (last year £250 8m) and decreased its loan to its parent company by £50 1m (last year decrease of £11 7m)

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.

On 30 March 2012 the Group acquired the remaining 50 per cent shareholding of Marks & Spencer Marinopoulos BV for €1, taking its share in the Balkan states (Greece, Romania, Croatia, Slovenia, Bulgaria, Serbia, and Montenegro) to 100 per cent.

At the same time, the Group sold 20 per cent of the share capital of Marks & Spencer Greece SA ('Greece') to Marinopolous Holding Sarl for €1, leaving the Group's effective share in Greece at 80 per cent. The sale and purchase agreement includes call and put options over this 20 per cent of the share capital of Greece, exercisable in five or ten years time. The fair value of the put option at 31 March 2012 was £nil. On an undiscounted basis this liability has a value of £nil.

Both of these transactions have been accounted for through equity, as the Group already controlled these entities and consolidated them as subsidiaries.

#### B Hedge End joint venture

A loan of £5 0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2012. Interest was charged on the loan at 2 0% until 31 December 2009 and 0 5% thereafter.

## Notes to the financial statements continued

### 27 Related party transactions continued

#### C Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008. At 31 March 2012, £25.4m (last year £25.4m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.5m (last year £4.5m) of rental charges were incurred. There was no outstanding balance at March 2012.

#### D Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 10 and 11.

#### E Key management compensation

|                                  | 2012<br>£m | 2011<br>£m |
|----------------------------------|------------|------------|
| Salaries and short-term benefits | 4.6        | 7.2        |
| Share-based payments             | 3.9        | 5.0        |
| Total                            | 8.5        | 12.2       |

Key management comprises Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration report in the Marks and Spencer Group plc Annual Report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

#### F Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, an executive director of Marks and Spencer Group plc. These transactions amounted to £12.7m during the year (last year £9.3m) with an outstanding trade payable of £1.3m at 31 March 2012 (last year £0.8m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of Marks and Spencer Group plc. These transactions amounted to £1.9m during the year (last year £1.7m) with an outstanding trade payable of £0.5m at 31 March 2012 (last year £0.8m).

### 28 Events after the reporting period

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation. This change will not have any impact on the cash flows of the Group.

From 21 May 2012 this will result in a prospective change in the Group's accounting treatment. The change will reflect the derecognition of the related equity instrument and recognition of a financial liability. The liability will initially be measured at fair value, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument and the fair value of the liability will be recognised in equity, in accordance with IAS 32.

As a result of the change, the Group's reported net debt will include this liability, which at the end of financial year 2012/13 will have a value of £537m and the Group's interest charge will increase to reflect the unwinding of the discount on the liability which, in financial year 2012/13, will be a charge of £17m. Similarly the impact on the Group's net assets will be to reduce them by £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

In March 2009, conscious of the Group's obligations to the Pension Trustee and the Partnership (which is a partnership between the Group and the Pension Trustee which holds a number of properties from which the Group trades and on which the Group pays rent to the Partnership), we amended the terms of the Partnership to reflect a discretionary right agreed between the Group and the Trustee. This right is such that in the circumstances when no ordinary dividend or other distribution is made to Marks and Spencer Group plc ordinary shareholders, the annual distribution of £71.9m from the Partnership to the Pension Trustee would not be obliged to be made. The impact of this change was to reclassify £572m from debt to equity in March 2009, and to reduce the Group's interest charge by £33m in the financial year 2009/10. The Audit Committee and the Board has consistently received accounting and legal advice supporting this accounting treatment. There was no impact on the Group's ultimate obligation to the Pension Trustee and no impact on cash flows.

Following the publication of the 2009 Marks and Spencer Group plc Annual Report and Accounts, in February 2010 the Financial Reporting Review Panel (FRRP) wrote to the company in relation to the change in accounting treatment of the obligation to the Pension Trustee. In the dialogue that followed, and has continued until the present time, the FRRP expressed a concern that in the circumstances of the Group's pension arrangement this discretion was not sufficient to support classification of the Partnership interest as a component of equity.

In the interest of bringing discussions with the FRRP to a close and given that Marks and Spencer Group plc has a stated dividend policy and the Board continues to expect that future dividend payments and resulting Partnership distributions will be made, the Group has decided that it will reflect the obligation as a liability, and in order to achieve this will indefinitely waive its discretionary right. As before, there is no change in the Group's ultimate obligation to the Pension Trustee. The FRRP has confirmed that this change, with the consequent accounting treatment, effective from 21 May 2012, will bring its discussions with the Group to a close.

## Company statement of comprehensive income

|  | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>(restated)<br>£m |
|--|-------|---------------------------------------|--|
| <b>Profit for the year</b>                                 |       | <b>514.5</b>                          | <b>299.3</b>                                       |
| <b>Other comprehensive income</b>                          |       |                                       |  |
| Actuarial (losses)/gains on retirement benefit schemes     |       | (128.4)                               | 264.1  |
| Tax on retirement benefit schemes                          |       | 33.5                                  | (71.8)   |
| Fair value movement on available-for-sale assets           |       | (2.8)                                 | (9.3)  |
| Cash flow and net investment hedges                        |       |                                       |  |
| – fair value movements in equity                           |       | 24.3                                  | (27.7)   |
| – reclassified and reported in net profit                  |       | (16.9)                                | 26.8   |
| – amount recognised in inventories                         |       | 12.0                                  | 3.6  |
| Tax on cash flow hedges and net investment hedges          |       | (4.6)                                 | 1.3  |
| Other comprehensive (loss)/income for the year, net of tax |       | (82.9)                                | 187.0  |
| <b>Total comprehensive income for the year</b>             |       | <b>431.6</b>                          | <b>486.3</b>                                       |

The profit attributable to shareholders of the Company for the year is £514.5m (last year £299.3m)

# Company statement of financial position

|  | Notes | As at<br>31 March 2012<br>£m | As at<br>2 April 2011<br>(restated)<br>£m |
|--|-------|------------------------------|---|
| <b>Assets</b>                              |       |                              |   |
| <b>Non-current assets</b>                  |       |                              |   |
| Intangible assets                          | C6    | 416 5                        | 351 8                                     |
| Property, plant and equipment              | C7    | 3,015 4                      | 2,843 3                                   |
| Investments in group undertakings          | C8    | 1,262 4                      | 1,269 1                                   |
| Investment in joint ventures               |       | 10 5                         | 10 5                                      |
| Other financial assets                     | C9    | 43 2                         | 32 8                                      |
| Retirement benefit asset                   | C3    | 465 2                        | 478 4                                     |
| Trade and other receivables                | C10   | 144 5                        | 148 1                                     |
| Derivative financial instruments           | C14   | 44 2                         | 21 8                                      |
|  |       | 5,401 9                      | 5,155 8                                   |
| <b>Current assets</b>                      |       |                              |   |
| Inventories                                |       | 611 7                        | 616 0                                     |
| Other financial assets                     | C9    | 49 2                         | 44 2                                      |
| Trade and other receivables                | C10   | 3,295 2                      | 3,281 0                                   |
| Derivative financial instruments           | C14   | 68 4                         | 32 4                                      |
| Cash and cash equivalents                  |       | 119 8                        | 221 5                                     |
|  |       | 4,144 3                      | 4,195 1                                   |
| <b>Total assets</b>                        |       | 9,546 2                      | 9,350 9                                   |
| <b>Liabilities</b>                         |       |                              |   |
| <b>Current liabilities</b>                 |       |                              |   |
| Trade and other payables                   | C12   | 2,819 4                      | 2,658 9                                   |
| Borrowings and other financial liabilities | C13   | 294 6                        | 539 3                                     |
| Derivative financial instruments           | C14   | 70 3                         | 51 5                                      |
| Provisions                                 | C15   | 5 1                          | 22 1                                      |
| Current tax liabilities                    |       | 48 0                         | 68 3                                      |
|  |       | 3 237 4                      | 3,340 1                                   |
| <b>Non-current liabilities</b>             |       |                              |   |
| Retirement benefit deficit                 | C3    | 12 6                         | 13 5                                      |
| Trade and other payables                   | C12   | 388 3                        | 330 3                                     |
| Borrowings and other financial liabilities | C13   | 1,941 1                      | 1,902 7                                   |
| Derivative financial instruments           | C14   | 27 2                         | 37 5                                      |
| Provisions                                 | C15   | 20 0                         | 17 7                                      |
| Deferred tax liabilities                   | C16   | 167 4                        | 151 6                                     |
|  |       | 2 556 6                      | 2,453 3                                   |
| <b>Total liabilities</b>                   |       | 5 794 0                      | 5,793 4                                   |
| <b>Net assets</b>                          |       | 3,752 2                      | 3 557 5                                   |
| <b>Equity</b>                              |       |                              |   |
| Issued share capital                       | C17   | 712 5                        | 712 5                                     |
| Share premium account                      |       | 386 1                        | 386 1                                     |
| Capital redemption reserve                 |       | 8 0                          | 8 0                                       |
| Hedging reserve                            |       | 12 1                         | (2 7)                                     |
| Retained earnings                          |       | 2,633 5                      | 2,453 6                                   |
| <b>Total shareholders' equity</b>          |       | 3,752 2                      | 3,557 5                                   |

The financial statements were approved by the Board and authorised for issue on 5 September 2012  
The financial statements also comprise the notes on pages 44 to 60

Alan Stewart Chief Finance Officer



Registered number

00214436

# Company statement of changes in shareholders' equity

|   | Ordinar<br>y share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Capital<br>redemptio<br>n reserve<br>£m | Hedging<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>£m |
|---|-------------------------------------|-----------------------------------|---|--------------------------|----------------------------|-------------|
| At 4 April 2010                                     | 712 5                               | 386 1                             | 8 0                                     | (6 7)                    | 2,190 5                    | 3,290 4     |
| Profit for the year                                 | -                                   | -                                 | -                                       | -                        | 299 3                      | 299 3       |
| Other comprehensive income                          |                                     |                                   |   |                          |                            |             |
| Actuarial gains on retirement benefit schemes       | -                                   | -                                 | -                                       | -                        | 264 1                      | 264 1       |
| Tax on retirement benefit schemes                   | -                                   | -                                 | -                                       | -                        | (71 8)                     | (71 8)      |
| Fair value movement in equity on available-for-sale | -                                   | -                                 | -                                       | -                        | (9 3)                      | (9 3)       |
| Cash flow and net investment hedges                 |                                     |                                   |   |                          |                            |             |
| - fair value movements                              | -                                   | -                                 | -                                       | (27 7)                   | -                          | (27 7)      |
| - reclassified and reported in net profit           | -                                   | -                                 | -                                       | 26 8                     | -                          | 26 8        |
| - amount recognised in inventories                  | -                                   | -                                 | -                                       | 3 6                      | -                          | 3 6         |
| Tax on cash flow hedges and net investment hedges   | -                                   | -                                 | -                                       | 1 3                      | -                          | 1 3         |
| Other comprehensive income                          | -                                   | -                                 | -                                       | 4 0                      | 183 0                      | 187 0       |
| Total comprehensive income                          | -                                   | -                                 | -                                       | 4 0                      | 482 3                      | 486 3       |
| Transactions with owners                            |                                     |                                   |   |                          |                            |             |
| Dividends   | -                                   | -                                 | -                                       | -                        | (250 8)                    | (250 8)     |
| Credit for share-based payments                     | -                                   | -                                 | -                                       | -                        | 31 5                       | 31 5        |
| Deferred tax on share schemes                       | -                                   | -                                 | -                                       | -                        | 0 1                        | 0 1         |
| At 2 April 2011 (restated)                          | 712 5                               | 386 1                             | 8 0                                     | (2 7)                    | 2,453 6                    | 3 557 5     |
| At 3 April 2011 (restated)                          | 712 5                               | 386 1                             | 8 0                                     | (2 7)                    | 2,453 6                    | 3,557 5     |
| Profit for the year                                 | -                                   | -                                 | -                                       | -                        | 514 5                      | 514 5       |
| Other comprehensive income                          |                                     |                                   |   |                          |                            |             |
| Actuarial losses on retirement benefit schemes      | -                                   | -                                 | -                                       | -                        | (128 4)                    | (128 4)     |
| Tax on retirement benefit schemes                   | -                                   | -                                 | -                                       | -                        | 33 5                       | 33 5        |
| Fair value movement in equity on available-for-sale | -                                   | -                                 | -                                       | -                        | (2 8)                      | (2 8)       |
| Cash flow and net investment hedges                 |                                     |                                   |   |                          |                            |             |
| - fair value movements                              | -                                   | -                                 | -                                       | 24 3                     | -                          | 24 3        |
| - reclassified and reported in net profit           | -                                   | -                                 | -                                       | (16 9)                   | -                          | (16 9)      |
| - amount recognised in inventories                  | -                                   | -                                 | -                                       | 12 0                     | -                          | 12 0        |
| Tax on cash flow hedges and net                     | -                                   | -                                 | -                                       | (4 6)                    | -                          | (4 6)       |
| Other comprehensive income                          | -                                   | -                                 | -                                       | 14 8                     | (97 7)                     | (82 9)      |
| Total comprehensive income                          | -                                   | -                                 | -                                       | 14 8                     | 416 8                      | 431 6       |
| Transactions with owners                            |                                     |                                   |   |                          |                            |             |
| Dividends   | -                                   | -                                 | -                                       | -                        | (273 6)                    | (273 6)     |
| Credit for share-based payments                     | -                                   | -                                 | -                                       | -                        | 32 4                       | 32 4        |
| Deferred tax on share schemes                       | -                                   | -                                 | -                                       | -                        | 4 3                        | 4 3         |
| At 31 March 2012                                    | 712 5                               | 386 1                             | 8 0                                     | 12 1                     | 2,633 5                    | 3,752 2     |

## Company statement of cash flows

|   | Notes | 52 weeks ended<br>31 March 2012<br>£m | 52 weeks ended<br>2 April 2011<br>£m |
|---|-------|---------------------------------------|--------------------------------------|
| <b>Consolidated statement of cash flows</b>                     |       |                                       |                                      |
| <b>Cash flows from operating activities</b>                     |       |                                       |                                      |
| Cash generated from operations                                  | C19   | 1,292.1                               | 1,111.4                              |
| Income tax paid   |       | (136.9)                               | (175.7)                              |
| <b>Net cash generated from operating activities</b>             |       | <b>1,155.2</b>                        | <b>935.7</b>                         |
| <b>Cash flows from investing activities</b>                     |       |                                       |                                      |
| Purchase of property, plant and equipment                       |       | (530.5)                               | (301.7)                              |
| Proceeds from sale of property, plant and equipment             |       | -                                     | 3.4                                  |
| Purchase of intangible assets                                   |       | (125.2)                               | (125.4)                              |
| Purchase of current financial assets                            |       | (5.0)                                 | (44.2)                               |
| Interest received   |       | 0.9                                   | 0.6                                  |
| <b>Net cash used in investing activities</b>                    |       | <b>(659.8)</b>                        | <b>(467.3)</b>                       |
| <b>Cash flows from financing activities</b>                     |       |                                       |                                      |
| Interest paid   |       | (129.1)                               | (134.7)                              |
| Repayment of syndicated bank facility                           |       | -                                     | (217.5)                              |
| Issue of medium-term notes                                      |       | 295.5                                 | -                                    |
| Redemption of medium-term notes                                 |       | (307.6)                               | -                                    |
| Monetisation of derivative assets                               |       | -                                     | 32.8                                 |
| Decrease in obligations under finance leases                    |       | (12.7)                                | (15.3)                               |
| Movement in intercompany loans treated as financing             |       | 50.1                                  | 218.8                                |
| Equity dividends paid   |       | (273.6)                               | (250.8)                              |
| Net purchase of shares in parent company held in employee trust |       | (13.2)                                | (12.0)                               |
| <b>Net cash used in financing activities</b>                    |       | <b>(390.6)</b>                        | <b>(378.7)</b>                       |
| <b>Net cash inflow from activities</b>                          |       | <b>104.8</b>                          | <b>89.7</b>                          |
| Opening net cash  |       | 14.7                                  | (75.0)                               |
| <b>Closing net cash</b>   | C11   | <b>119.5</b>                          | <b>14.7</b>                          |

## Company notes to the financial statements

### C1 Accounting policies

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment

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 Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 20 of the Group financial statements

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement

### Restatement of 2011 financial information

The balance sheet as at 2 April 2011 has been restated in respect of an adjustment to deferred tax on retirement benefits schemes, resulting in a reclassification of £80.3m between retained earnings and deferred tax liabilities. This adjustment has no impact on the income statement for the year ended 2 April 2011

### C2 Dividends

|                                     | 2012<br>per share | 2011<br>per share | 2012<br>£m | 2011<br>£m |
|-------------------------------------|-------------------|-------------------|------------|------------|
| Dividends on equity ordinary shares |                   |                   |            |            |
| Paid final dividend                 | 6.1p              | 5.3p              | 173.9      | 151.0      |
| Paid interim dividend               | 3.5p              | 3.5p              | 99.7       | 99.8       |
|                                     | 9.6p              | 8.8p              | 273.6      | 250.8      |

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2012 of 10.8p per share amounting to a dividend of £173.9m

### C3 Retirement benefits

The Company provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 14,000 active members (last year 15,000), 56,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 9,000 active members (last year 9,000) and some 2,000 deferred members (last year 2,000).

Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total retirement benefit cost of £12.4m (last year £0.5m income), £6.5m income (last year £15.1m income) relates to the UK defined benefit section, £18.2m (last year £13.8m costs) to the UK defined contribution section and £0.7m (last year £0.8m costs) to other retirement benefit schemes.

### A Pensions and other post-retirement liabilities

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Total market value of assets                       | 6,503.2    | 5,641.4    |
| Present value of scheme liabilities                | (6,038.0)  | (5,163.0)  |
| Net funded pension plan asset                      | 465.2      | 478.4      |
| Unfunded retirement benefits                       | (0.1)      | (0.3)      |
| Post-retirement healthcare                         | (12.5)     | (13.2)     |
| Net retirement benefit asset                       | 452.6      | 464.9      |
| Analysed in the statement of financial position as |            |            |
| Retirement benefit asset                           | 465.2      | 478.4      |
| Retirement benefit deficit                         | (12.6)     | (13.5)     |
|  | 452.6      | 464.9      |

## Company notes to the financial statements continued

### C3 Retirement benefits continued

#### B Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2009 and showed a deficit of £1.3bn. A funding plan of £800m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

|   | 2012<br>% | 2011<br>% |
|---|-----------|-----------|
| Rate of increase in salaries                        | 1.0       | 1.0       |
| Rate of increase in pensions in payment for service | 2.3-3.1   | 2.4-3.4   |
| Discount rate                                       | 4.6       | 5.5       |
| Inflation rate                                      | 3.1       | 3.4       |
| Long-term healthcare cost increases                 | 7.1       | 7.4       |

The inflation rate of 3.1% reflects the Retail Price Index (RPI) rate. In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.1% (last year 2.7%) has been used. Last year, the change from RPI to CPI for deferred revaluation was included in the results, resulting in a gain of approximately £170m, taken as an actuarial gain on the obligation.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c £110m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c £75m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c £65m.

#### C Demographic assumptions

Apart from cash commutation and post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2009. The allowance for cash commutation reflects actual scheme experience. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2009 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the SAPS tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

|                                | 2012<br>years | 2011<br>years |
|--------------------------------|---------------|---------------|
| Current pensioners (at age 65) |               |               |
| – males                        | 22.1          | 22.0          |
| – females                      | 23.4          | 23.4          |
| Future pensioners (at age 65)  |               |               |
| – males                        | 23.2          | 23.2          |
| – females                      | 24.3          | 24.3          |

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c £200m.

#### D Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

|   | 2012<br>£m | 2011<br>£m | 2012<br>% | 2011<br>% |
|---|------------|------------|-----------|-----------|
| Scottish Limited Partnership interest (see note C4) | 1,048.0    | 963.5      | 16        | 17        |
| UK equities   | 232.6      | 303.3      | 4         | 5         |
| Overseas equities                                   | 731.9      | 792.6      | 11        | 14        |
| Government bonds                                    | 1,750.9    | 1,446.9    | 27        | 26        |
| Corporate bonds                                     | 1,455.7    | 1,531.4    | 22        | 27        |
| Swaps <sup>1</sup>                                  | 275.9      | (48.2)     | 4         | (1)       |
| Cash and other                                      | 1,008.2    | 651.9      | 16        | 12        |
| Total market value of assets                        | 6,503.2    | 5,641.4    | 100       | 100       |

<sup>1</sup> The swaps hedge interest and inflation rate exposures within the schemes' liabilities.

## Company notes to the financial statements continued

### C3 Retirement benefits continued

The expected long-term rates of return are

|   | 2012<br>% | 2011<br>% |
|---|-----------|-----------|
| Scottish Limited Partnership interest (see note C4) | 3.5       | 4.6       |
| UK equities   | 7.8       | 8.4       |
| Overseas equities                                   | 7.8       | 8.4       |
| Government bonds                                    | 3.3       | 4.3       |
| Corporate bonds                                     | 4.9       | 5.8       |
| Swaps   | 3.3       | 4.1       |
| Cash and other                                      | 3.3       | 4.1       |
| Overall expected return                             | 4.9       | 5.8       |

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 107,216 (last year 122,362) ordinary shares in Marks and Spencer Group plc through its investment in an Aquila Life UK Equity Index Fund.

### E Analysis of amount charged against profits

|                                | 2012<br>£m | 2011<br>£m |
|--------------------------------|------------|------------|
| Operating cost                 |            |            |
| Current service cost           | 54.1       | 51.8       |
| Curtailment charge             | 1.0        | 1.0        |
|                                | 55.1       | 52.8       |
| Finance cost                   |            |            |
| Expected return on plan assets | (321.4)    | (335.1)    |
| Interest on scheme liabilities | 278.7      | 281.8      |
| Net finance income             | (42.7)     | (53.3)     |
| Total                          | 12.4       | (0.5)      |

### F Scheme assets

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

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Fair value of scheme assets at start of year  | 5,641.4    | 4,887.9    |
| Expected return on scheme assets <sup>1</sup> | 321.4      | 335.1      |
| Employer contributions                        | 128.4      | 553.3      |
| Contributions from scheme members             | -          | 0.2        |
| Benefits paid                                 | (229.4)    | (252.3)    |
| Actuarial gain                                | 641.4      | 117.2      |
| Fair value of scheme assets at end of year    | 6,503.2    | 5,641.4    |

<sup>1</sup> The actual return on scheme assets was £944.4m (last year return of £452.3m)

Future contributions to the UK scheme will be made at the rate of 17.9% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c £35m to the UK defined benefit scheme for the year ended 30 March 2013. In addition to this, a further £32m (last year £35m) of cash contributions were made in March 2012 per the funding plan agreed in May 2010.

## Company notes to the financial statements continued

### C3 Retirement benefits continued

#### G Retirement benefit obligations

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

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Present value of obligation at start of year | 5,176.5    | 5,240.9    |
| Current service cost                         | 54.1       | 51.8       |
| Curtailment charge                           | 1.0        | 1.0        |
| Interest cost                                | 278.7      | 281.8      |
| Contributions from scheme members            | -          | 0.2        |
| Benefits paid                                | (229.6)    | (252.3)    |
| Actuarial loss/(gain)                        | 769.9      | (146.9)    |
| Present value of obligation at end of year   | 6,050.6    | 5,176.5    |
| Analysed as                                  |            |            |
| Present value of pension scheme liabilities  | 6,038.0    | 5,163.0    |
| Unfunded pension plans                       | 0.1        | 0.3        |
| Post-retirement healthcare                   | 12.5       | 13.2       |
| Present value of obligation at end of year   | 6,050.6    | 5,176.5    |

#### H Cumulative actuarial gains and losses recognised in equity

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Loss at start of year                               | (1,244.8)  | (1,508.9)  |
| Net actuarial (losses)/gains recognised in the year | (128.5)    | 264.1      |
| Loss at end of year                                 | (1,373.3)  | (1,244.8)  |

#### I History of experience gains and losses

|   | 2012<br>£m | 2011<br>£m | 2010<br>£m | 2009<br>£m |
|---|------------|------------|------------|------------|
| Experience adjustments arising on scheme assets               | 641.4      | 117.2      | 856.2      | (1,254.7)  |
| Experience (losses)/gains arising on scheme liabilities       | (86.3)     | (11.2)     | 30.0       | 81.0       |
| Changes in assumptions underlying the present value of scheme | (683.5)    | 158.1      | (1,142.2)  | 264.1      |
| Actuarial (losses)/gains recognised in equity                 | (128.4)    | 264.1      | (256.0)    | (909.6)    |
| Fair value of scheme assets                                   | 6,503.2    | 5,641.4    | 4,887.9    | 3,931.6    |
| Present value of scheme liabilities                           | (6,038.0)  | (5,163.0)  | (5,224.9)  | (4,065.2)  |
| Pension scheme asset/(deficit)                                | 465.2      | 478.4      | (337.0)    | (133.6)    |

### C4 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

The Company is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which have been leased back to the Company at market rates

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £1,048.0m (last year £963.5m). For further details see note C3. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

As general partner, the Company has a right of pre-emption in respect of a transfer by the Pension Scheme of its limited partnership interest to another party. This allows the general partner to direct that, instead of transferring the limited partnership interest to such a party, the general partner can instead nominate the transferee.

## Company notes to the financial statements continued

### C5 Share-based payments

Disclosures for the Company are not provided here as the impact on the income statement, and the assets and liabilities of the Company are not materially dissimilar to that of note 12 in the Company's consolidated financial statements

### C6 Intangible assets

|                                 | Computer<br>software<br>£m | Computer<br>software under<br>development<br>£m | Total<br>£m |
|---------------------------------|----------------------------|---|-------------|
| <b>At 3 April 2010</b>          |                            |   |             |
| Cost or valuation               | 235.1                      | 120.0   | 355.1       |
| Accumulated amortisation        | (83.8)                     | -   | (83.8)      |
| Net book value                  | 151.3                      | 120.0   | 271.3       |
| <b>Year ended 2 April 2011</b>  |                            |   |             |
| Opening net book value          | 151.3                      | 120.0   | 271.3       |
| Additions                       | 82.5                       | 43.1  | 125.6       |
| – Transfers                     | 104.9                      | (104.9)   | -           |
| – Disposals                     | (0.3)                      | -   | (0.3)       |
| – Amortisation charge           | (44.8)                     | -   | (44.8)      |
| Closing net book value          | 293.6                      | 58.2  | 351.8       |
| <b>At 2 April 2011</b>          |                            |   |             |
| Cost or valuation               | 422.2                      | 58.2  | 480.4       |
| Accumulated amortisation        | (128.6)                    | -   | (128.6)     |
| Net book value                  | 293.6                      | 58.2  | 351.8       |
| <b>Year ended 31 March 2012</b> |                            |   |             |
| Opening net book value          | 293.6                      | 58.2  | 351.8       |
| Additions                       | 72.4                       | 52.6  | 125.0       |
| Transfers                       | 36.9                       | (36.9)  | -           |
| Disposals                       | (1.0)                      | -   | (1.0)       |
| Amortisation charge             | (59.3)                     | -   | (59.3)      |
| Closing net book value          | 342.6                      | 73.9  | 416.5       |
| <b>At 31 March 2012</b>         |                            |   |             |
| Cost                            | 530.5                      | 73.9  | 604.4       |
| Accumulated amortisation        | (187.9)                    | -   | (187.9)     |
| Net book value                  | 342.6                      | 73.9  | 416.5       |

## Company notes to the financial statements continued

### C7 Property, plant and equipment

|                                 | Land and<br>buildings<br>£m | Fixtures fittings<br>and equipment<br>£m | Assets in the<br>course of<br>construction<br>£m | Total<br>£m |
|---------------------------------|-----------------------------|--|--|-------------|
| <b>At 3 April 2010</b>          |                             |  |  |             |
| Cost                            | 919.4                       | 4,598.3                                  | 118.9  | 5,636.6     |
| Accumulated depreciation        | (78.3)                      | (2,679.2)                                | –  | (2,757.5)   |
| Net book value                  | 841.1                       | 1,919.1                                  | 118.9  | 2,879.1     |
| <b>Year ended 2 April 2011</b>  |                             |  |  |             |
| Opening net book value          | 841.1                       | 1,919.1                                  | 118.9  | 2,879.1     |
| Additions                       | 15.6                        | 165.0                                    | 157.0  | 337.4       |
| Transfers                       | 18.5                        | 61.1                                     | (79.6)   | –           |
| Disposals                       | (0.1)                       | (0.2)                                    | –  | (0.3)       |
| Asset write-offs                | –                           | (3.4)                                    | –  | (3.4)       |
| Depreciation charge             | (6.2)                       | (363.5)                                  | –  | (369.7)     |
| Closing net book value          | 868.9                       | 1,778.1                                  | 196.3  | 2,843.3     |
| <b>At 2 April 2011</b>          |                             |  |  |             |
| Cost                            | 952.4                       | 4,811.6                                  | 196.3  | 5,960.3     |
| Accumulated depreciation        | (83.5)                      | (3,033.5)                                | –  | (3,117.0)   |
| Net book value                  | 868.9                       | 1,778.1                                  | 196.3  | 2,843.3     |
| <b>Year ended 31 March 2012</b> |                             |  |  |             |
| Opening net book value          | 868.9                       | 1,778.1                                  | 196.3  | 2,843.3     |
| Additions                       | 15.5                        | 269.4                                    | 260.7  | 545.6       |
| Transfers                       | 26.5                        | 109.2                                    | (135.7)  | –           |
| Disposals                       | (0.8)                       | (6.8)                                    | –  | (7.6)       |
| Asset write-offs                | –                           | (7.1)                                    | –  | (7.1)       |
| Depreciation charge             | (6.4)                       | (352.4)                                  | –  | (358.8)     |
| Closing net book value          | 903.7                       | 1,790.4                                  | 321.3  | 3,015.4     |
| <b>At 31 March 2012</b>         |                             |  |  |             |
| Cost                            | 992.6                       | 5,143.0                                  | 321.3  | 6,456.9     |
| Accumulated depreciation        | (88.9)                      | (3,352.6)                                | –  | (3,441.5)   |
| Net book value                  | 903.7                       | 1,790.4                                  | 321.3  | 3,015.4     |

The net book value above includes land and buildings of £37.6m (last year £37.8m) and equipment of £20.7m (last year £31.8m) where the Company is a lessee under a finance lease

Additions to property, plant and equipment during the year amounting to £nil (last year £nil) were financed by new finance leases

## Company notes to the financial statements continued

### C8 Investments

#### A Investments in Group undertakings

|                                 | Shares in Group<br>undertakings<br>£m | Loans to Group<br>undertakings<br>£m | Total<br>£m    |
|---------------------------------|---------------------------------------|--------------------------------------|----------------|
| <b>At 3 April 2010</b>          |                                       |                                      |                |
| Cost or valuation               | 1,739.0                               | 0.5                                  | 1,739.5        |
| Provision for impairment        | (162.6)                               | –                                    | (162.6)        |
| <b>Net book value</b>           | <b>1,576.4</b>                        | <b>0.5</b>                           | <b>1,576.9</b> |
| <b>Year ended 2 April 2011</b>  |                                       |                                      |                |
| Opening net book value          | 1,576.4                               | 0.5                                  | 1,576.9        |
| Disposals                       | (299.6)                               | –                                    | (299.6)        |
| Provision for impairment        | (8.2)                                 | –                                    | (8.2)          |
| <b>Closing net book value</b>   | <b>1,268.6</b>                        | <b>0.5</b>                           | <b>1,269.1</b> |
| <b>At 2 April 2011</b>          |                                       |                                      |                |
| Cost or valuation               | 1,439.4                               | 0.5                                  | 1,439.9        |
| Provision for impairment        | (170.8)                               | –                                    | (170.8)        |
| <b>Net book value</b>           | <b>1,268.6</b>                        | <b>0.5</b>                           | <b>1,269.1</b> |
| <b>Year ended 31 March 2012</b> |                                       |                                      |                |
| Opening net book value          | 1,268.6                               | 0.5                                  | 1,269.1        |
| Provision for impairment        | (6.7)                                 | –                                    | (6.7)          |
| <b>Closing net book value</b>   | <b>1,261.9</b>                        | <b>0.5</b>                           | <b>1,262.4</b> |
| <b>At 31 March 2012</b>         |                                       |                                      |                |
| Cost                            | 1,439.4                               | 0.5                                  | 1,439.9        |
| Provision for impairment        | (177.5)                               | –                                    | (177.5)        |
| <b>Net book value</b>           | <b>1,261.9</b>                        | <b>0.5</b>                           | <b>1,262.4</b> |

The disposal during the prior year related to the additional interest in Marks and Spencer Scottish Limited Partnership which was transferred to the Marks and Spencer UK Pension Scheme as part of the funding plan announced in May 2010. The provision for impairment during the year relates to the impairment of the investment in Simply Food (Property Ventures) Limited (prior year provision relates to the impairment of the investment in Marks and Spencer 2005 (Oxford Store) Limited).

#### B Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

|  | Principal activity  | Country of incorporation and operation | Proportion of voting rights and shares held by |              |
|--|---------------------|--|--|--------------|
|  |                     |  | Company  | A subsidiary |
| Marks and Spencer International Holdings Limited | Holding company     | Great Britain                          | 100%   | –            |
| Marks and Spencer (Nederland) BV                 | Holding company     | The Netherlands                        | –  | 100%         |
| Marks and Spencer Marinopoulos BV                | Holding company     | The Netherlands                        | –  | 50%          |
| Marks and Spencer Czech Republic a.s.            | Retailing           | Czech Republic                         | –  | 51%          |
| Marks and Spencer (Ireland) Limited <sup>1</sup> | Retailing           | Republic of Ireland                    | –  | 100%         |
| Marks and Spencer (Asia Pacific) Limited         | Retailing           | Hong Kong                              | –  | 100%         |
| Marks and Spencer Simply Foods Limited           | Retailing           | Great Britain                          | 100%   | –            |
| Marks and Spencer Marinopoulos Greece SA         | Retailing           | Greece                                 | –  | 80%          |
| M S General Insurance L.P.                       | Financial services  | Guernsey                               | –  | 100%         |
| Marks and Spencer Guernsey Investments LLP       | Financial services  | Guernsey                               | –  | 100%         |
| Marks and Spencer Investments Limited            | Finance             | Great Britain                          | –  | 100%         |
| St Michael Finance plc                           | Finance             | Great Britain                          | 100%   | –            |
| per una Group Limited                            | Procurement         | Great Britain                          | 100%   | –            |
| Marks and Spencer Scottish Limited Partnership   | Property investment | Great Britain                          | – <sup>2</sup>                                 | –            |

<sup>1</sup> Pursuant to the provisions of Section 17 Companies (Amendment) Act 1986 Marks and Spencer plc has irrevocably guaranteed the liabilities of Marks and Spencer (Ireland) Limited and as a result Marks and Spencer (Ireland) Limited has been exempt from the filing provisions of Section 7 Companies (Amendment) Act 1986.

<sup>2</sup> Marks and Spencer plc is the general partner.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

## Company notes to the financial statements continued

### C9 Other financial assets

|                                | 2012<br>£m | 2011<br>£m |
|--------------------------------|------------|------------|
| <b>Non-current</b>             |            |            |
| Unlisted investments           | 3 0        | 3 0        |
| Other investments <sup>1</sup> | 40 2       | 29 8       |
|                                | 43 2       | 32 8       |
| <b>Current</b>                 |            |            |
| Other investments <sup>2</sup> | 49 2       | 44 2       |

1 Non-current other investments are £40 2m (last year £29 8m) shares in Marks and Spencer Group plc held for employee share schemes

2 Current other investments are £49 2m (last year £44 2m) of money market deposits held by the Company

Non-current unlisted investments and other investments (shares in Marks and Spencer Group plc) are carried as available-for-sale assets. All other financial assets are measured at fair value with changes in their value taken to the income statement.

### C10 Trade and other receivables

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| <b>Non-current</b>                            |            |            |
| Other receivables                             | 1 1        | 2 8        |
| Prepayments and accrued income                | 143 4      | 145 3      |
|   | 144 5      | 148 1      |
| <b>Current</b>                                |            |            |
| Trade receivables                             | 114 9      | 97 1       |
| Less: Provision for impairment of receivables | (1 9)      | (2 0)      |
| Trade receivables – net                       | 113 0      | 95 1       |
| Other receivables                             | 8 4        | 11 6       |
| Prepayments and accrued income                | 103 0      | 108 6      |
| Amounts owed by parent company                | 2,541 7    | 2,591 8    |
| Amounts owed by subsidiary companies          | 529 1      | 473 9      |
|   | 3,295 2    | 3,281 0    |

Trade receivables that were past due but not impaired amounted to £2 5m (last year £2 4m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 31 March 2012, £452 3m (last year £352 6m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £7 5m (last year £10 8m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,618 5m (last year £2,713 1m) of intercompany receivables are interest-free.

### C11 Cash and cash equivalents

Cash and cash equivalents are £119 5m (last year £14 7m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0 37% (last year 0 40%). These deposits have an average maturity of four days (last year five days).

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Cash at bank and in hand                       | 119 8      | 221 5      |
| Bank loans and overdrafts                      | (5 3)      | (211 8)    |
| Bank loans and overdrafts treated as financing | 5 0        | 5 0        |
|  | 119 5      | 14 7       |

## Company notes to the financial statements continued

### C12 Trade and other payables

|                                 | 2012<br>£m | 2011<br>£m |
|---------------------------------|------------|------------|
| <b>Current</b>                  |            |            |
| Trade and other payables        | 929.7      | 870.0      |
| Social security and other taxes | 66.8       | 53.7       |
| Accruals and deferred income    | 329.6      | 304.1      |
| Amounts owed to subsidiaries    | 1,493.3    | 1,431.1    |
|                                 | 2,819.4    | 2,658.9    |
| <b>Non-current</b>              |            |            |
| Other payables                  | 388.3      | 330.3      |

As at 31 March 2012, £1,264.5m (last year £973.3m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £14.5m (last year £13.2m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £228.8m (last year £457.8m) of intercompany payables are interest-free.

Cost of inventories recognised as an expense during the year is £5,783.1m (last year £5,502.3m).

### C13 Borrowings and other financial liabilities

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| <b>Current</b>   |            |            |
| Bank loans and overdrafts <sup>1</sup>                                     | 5.3        | 211.8      |
| 6.375% £308m medium-term notes 2011 <sup>2</sup>                           |            | 315.1      |
| 5.875% £267m medium-term notes 2012 <sup>2</sup>                           | 280.6      |            |
| Finance lease liabilities  | 8.7        | 12.4       |
|  | 294.6      | 539.3      |
| <b>Non-current</b>   |            |            |
| 5.875% £267m medium-term notes 2012 <sup>2</sup>                           | –          | 280.2      |
| 5.625% £400m medium-term notes 2014 <sup>2</sup>                           | 399.9      | 399.7      |
| 6.250% US\$500m medium-term notes 2017 <sup>3</sup>                        | 317.8      | 316.8      |
| 6.125% £400m medium-term notes 2019 <sup>2</sup>                           | 428.5      | 404.7      |
| 6.125% £300m medium-term notes 2021 <sup>2</sup>                           | 301.6      | –          |
| 7.125% US\$300m medium-term notes 2037 <sup>3</sup>                        | 189.9      | 189.3      |
| 6.875% £250m puttable callable reset medium-term notes 2037 <sup>2,4</sup> | 253.3      | 253.2      |
| Finance lease liabilities  | 50.1       | 58.8       |
|  | 1,941.1    | 1,902.7    |
| <b>Total</b>   | 2,235.7    | 2,442.0    |

- 1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note C20).
- 2 These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
- 3 Interest on these bonds is payable semi-annually.
- 4 These notes include an investor put and issuer call option exercisable in December 2012.

### Finance leases

The minimum lease payments under finance leases fall due as shown in the table on page 54. It is the Company's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years (last year six years) and 125 years (last year 125 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Company's obligations under finance leases are secured by the lessors' charges over the leased assets.

## Company notes to the financial statements continued

### C14 Financial instruments

#### Treasury policy and financial risk management

Marks and Spencer plc is the main treasury entity of the group and as a result the treasury function is managed through this company. The term Company and Group are therefore interchangeable in the risk analysis below. The Company 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 Company'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 Company's operations.

Group treasury also enters into derivative transactions, principally interest rate and currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Company'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.

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages.

#### (a) Liquidity/funding risk

The risk that the Company could be unable to settle or meet its obligations at a reasonable price as they fall due.

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Company had a committed syndicated bank revolving credit facility of £1 325bn set to mature on 29 September 2016. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Company also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), 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 Company has a euro medium-term note programme of £3bn, of which £1 6bn (last year £1 6bn) was in issuance as at the balance sheet date.

The 6 375% £308m bond was repaid in November 2011 and a new 6 125% £300m bond was subsequently issued under the programme in December 2011 maturing in 2021.

The contractual maturity of the Company's non-derivative financial liabilities and derivatives is as follows.

|  | Bank loans and overdrafts<br>£m | Syndicated bank facility<br>£m | Medium-term notes<br>£m | Finance lease liabilities<br>£m | Total<br>£m | Derivative assets<br>£m | Derivative liabilities<br>£m | Total<br>£m |
|--|---------------------------------|--------------------------------|-------------------------|---------------------------------|-------------|-------------------------|------------------------------|-------------|
| <b>Timing of cash flows</b>                |                                 |                                |                         |                                 |             |                         |                              |             |
| Within one year                            | (211 8)                         | –                              | (439 9)                 | (15 5)                          | (667 2)     | 1,874 8                 | (1,892 6)                    | (17 8)      |
| Between one and two years                  | –                               | –                              | (380 1)                 | (11 1)                          | (391 2)     | 100 3                   | (96 5)                       | 3 8         |
| Between two and five years                 | –                               | –                              | (650 9)                 | (14 1)                          | (665 0)     | 100 7                   | (103 7)                      | (3 0)       |
| More than five years                       | –                               | –                              | (1,992 8)               | (166 5)                         | (2,159 3)   | 830 2                   | (883 4)                      | (53 2)      |
|  | (211 8)                         | –                              | (3,463 7)               | (207 2)                         | (3,882 7)   | 2,906 0                 | (2,976 2)                    | (70 2)      |
| Effect of discounting and foreign exchange | –                               | –                              | 1,304 7                 | 136 0                           | 1,440 7     |                         |                              |             |
| At 2 April 2011                            | (211 8)                         | –                              | (2,159 0)               | (71 2)                          | (2,442 0)   |                         |                              |             |
| <b>Timing of cash flows</b>                |                                 |                                |                         |                                 |             |                         |                              |             |
| Within one year                            | (5 3)                           | –                              | (398 5)                 | (11 2)                          | (415 0)     | 2,083 7                 | (2,082 8)                    | 0 9         |
| Between one and two years                  | –                               | –                              | (517 1)                 | (8 3)                           | (525 4)     | 186 1                   | (184 6)                      | 1 5         |
| Between two and five years                 | –                               | –                              | (283 8)                 | (7 6)                           | (291 4)     | 110 5                   | (103 3)                      | 7 2         |
| More than five years                       | –                               | –                              | (2,310 9)               | (164 7)                         | (2,475 6)   | 804 6                   | (841 8)                      | (37 2)      |
|  | (5 3)                           | –                              | (3,510 3)               | (191 8)                         | (3,707 4)   | 3,184 9                 | (3,212 5)                    | (27 6)      |
| Effect of discounting and foreign exchange | –                               | –                              | 1,338 7                 | 133 0                           | 1,471 7     |                         |                              |             |
| At 31 March 2012                           | (5 3)                           | –                              | (2,171 6)               | (58 8)                          | (2,235 7)   |                         |                              |             |

This table does not include trade and other payables (see note C12) due to the low associated liquidity risk.

## Company notes to the financial statements continued

### C14 Financial instruments continued

The present value of finance lease liabilities is as follows

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Within one year                                   | (8 6)      | (12 4)     |
| Later than one year and not later than five years | (8 5)      | (17 0)     |
| Later than five years                             | (41 7)     | (41 8)     |
| Total   | (58 8)     | (71 2)     |

#### (b) Counterparty risk

Counterparty risk exists where the Company can suffer financial loss through default or non-performance by financial institutions

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

The table below analyses the Company's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit

|                                     | Credit rating of counterparty <sup>4</sup> |           |          |           |          |          |                      |       |
|-------------------------------------|--|-----------|----------|-----------|----------|----------|----------------------|-------|
|                                     | AAA<br>£m                                  | AAA<br>£m | AA<br>£m | AA-<br>£m | A+<br>£m | A-<br>£m | A <sup>3</sup><br>£m | Total |
| Short-term investments <sup>1</sup> | 44 2                                       | 17 0      | 42 3     | —         | 55 9     | —        | —                    | 159 4 |
| Derivative assets <sup>2</sup>      | —  | 0 2       | 0 5      | —         | 3 9      | —        | 0 8                  | 5 4   |
| At 2 April 2011                     | 44 2                                       | 17 2      | 42 8     | —         | 59 8     | —        | 0 8                  | 164 8 |

|                                     | AAA<br>£m | AAA<br>£m | AA<br>£m | AA-<br>£m | A+<br>£m | A-<br>£m | A <sup>3</sup><br>£m | Total |
|-------------------------------------|-----------|-----------|----------|-----------|----------|----------|----------------------|-------|
| Short-term investments <sup>1</sup> | 49 1      | -         | -        | 1 9       | 11 7     | 5 0      | -                    | 67 7  |
| Derivative assets <sup>2</sup>      | -         | -         | 1 9      | 9 8       | -        | 18 2     | 7 6                  | 37 5  |
| At 31 March 2012                    | 49 1      | -         | 1 9      | 11 7      | 11 7     | 23 2     | 7 6                  | 105 2 |

1 Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks & Spencer plc and M S General Insurance LP

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037 and the embedded derivative within the lease host contract

3 Exposure to a counterparty approved as an exception to treasury policy

4 Standard & Poor's equivalent rating shown as reference to the lowest credit rating of the counterparty from either Standard & Poor's or Moody's

The Company has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £113m (last year £95m), other receivables £10m (last year £14m), cash and cash equivalents £120m (last year £222m) and derivatives £113m (last year £54m)

#### (c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out longer than 18 months, with Board approval. The Company is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Company's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,572m (last year £1,350m) with a weighted average maturity date of six months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 31 March 2012 will be released to the income statement at various dates over the following 15 months (last year 14 months) from the balance sheet date.

The Company uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €242m (last year €201m) and HK\$291m (last year HK\$192m) of derivatives were hedging overseas net assets.

The Company also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £187m (last year £175m).

## Notes to the financial statements continued

### C14 Financial instruments continued

After taking into account the hedging derivatives entered into by the Company, the currency and interest rate exposure of the Company's financial liabilities excluding short-term payables and the Marks and Spencer Czech Republic a s put option, is set out below

|          | 2012             |                     |             | 2011             |                     |             |
|----------|------------------|---------------------|-------------|------------------|---------------------|-------------|
|          | Fixed rate<br>£m | Floating rate<br>£m | Total<br>£m | Fixed rate<br>£m | Floating rate<br>£m | Total<br>£m |
| Currency |                  |                     |             |                  |                     |             |
| Sterling | 2,030.4          | 205.2               | 2,235.6     | 2,030.2          | 411.8               | 2,442.0     |
|          | 2,030.4          | 205.2               | 2,235.6     | 2,030.2          | 411.8               | 2,442.0     |

The floating rate sterling borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.8% (last year 5.9%) and the weighted average time for which the rate is fixed is nine years (last year nine years).

#### (d) Interest rate risk

The Company is exposed to interest rate risk in relation to sterling, US dollar, euro and Hong Kong dollar 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 £2,030.4m (last year £2,030.2m) representing the public bond issues and finance leases, amounting to 91% (last year 83%) of the Group's gross borrowings.

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

|                                      | 2012<br>% | 2011<br>% |
|--------------------------------------|-----------|-----------|
| Committed and uncommitted borrowings | 0.5       | 0.5       |
| Medium-term notes                    | 5.8       | 5.9       |
| Finance leases                       | 4.5       | 4.6       |

### Derivative financial instruments

|                                    |                               | 2012         |                   | 2011         |                   |
|------------------------------------|-------------------------------|--------------|-------------------|--------------|-------------------|
|                                    |                               | Assets<br>£m | Liabilities<br>£m | Assets<br>£m | Liabilities<br>£m |
| <b>Current</b>                     |                               |              |                   |              |                   |
| Options                            | – held for trading            | 53.6         | (53.6)            | 14.4         | (14.4)            |
| Forward foreign exchange contracts | – cash flow hedges            | 13.3         | (5.1)             | 2.8          | (29.9)            |
|                                    | – cash flow hedges with group | 1.4          | (9.8)             | 14.0         | (0.8)             |
|                                    | – held for trading            | 0.1          | (1.3)             | 1.2          | (2.4)             |
|                                    | – net investment hedges       | –            | (0.5)             | –            | (2.7)             |
| Interest rate swaps                | – held for trading            | –            | –                 | –            | (1.3)             |
|                                    |                               | 68.4         | (70.3)            | 32.4         | (51.5)            |
| <b>Non-current</b>                 |                               |              |                   |              |                   |
| Cross currency swaps               | – cash flow hedges            | –            | (26.5)            | –            | (37.5)            |
| Forward foreign exchange contracts | – cash flow hedges            | 0.1          | (0.7)             | 0.7          | –                 |
| Interest rate swaps                | – fair value hedge            | 24.0         | –                 | 0.8          | –                 |
| Embedded derivative                |                               | 20.1         | –                 | 20.3         | –                 |
|                                    |                               | 44.2         | (27.2)            | 21.8         | (37.5)            |

The amounts reported as options held for trading in derivatives assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. The Company holds a number of interest rate swaps to re-designate its sterling fixed rate debt to floating debt. These are reported as fair value hedges. The Company also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

## Notes to the financial statements continued

### C14 Financial instruments continued

#### Sensitivity analysis

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

The impact in the income statement due to changes in interest rates reflects the effect on the Company's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Company's cross currency swaps.

The impact from foreign exchange movements reflects the change in the fair value of the Company's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

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

|  | 2% decrease<br>in interest<br>rates<br>£m | 2% increase<br>in interest<br>rates<br>£m | 20%<br>weakening<br>in sterling<br>£m | 20%<br>strengthening<br>in sterling<br>£m |
|--|---|---|---------------------------------------|---|
| <b>At 2 April 2011</b>                           |   |   |                                       |   |
| Impact on income statement gain/(loss)           | 8.4                                       | (11.1)                                    | –                                     | –   |
| Impact on other comprehensive income (loss)/gain | (6.3)                                     | 6.3                                       | 143.4                                 | (95.6)                                    |
| <b>At 31 March 2012</b>                          |   |   |                                       |   |
| Impact on income statement gain/(loss)           | 4.0                                       | (13.3)                                    | –                                     | –   |
| Impact on other comprehensive income (loss)/gain | (6.0)                                     | 3.0                                       | 175.3                                 | (116.8)                                   |

#### 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 or liabilities,
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgment around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

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

|   | 2012          |               |               |             | 2011          |               |               |             |
|---|---------------|---------------|---------------|-------------|---------------|---------------|---------------|-------------|
|   | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
| <b>Assets measured at fair value</b>                        |               |               |               |             |               |               |               |             |
| Financial assets at fair value through profit and loss      |               |               |               |             |               |               |               |             |
| – Trading derivatives                                       | –             | 53.7          | –             | 53.7        | –             | 15.6          | –             | 15.6        |
| Derivatives used for hedging                                | –             | 38.8          | –             | 38.8        | –             | 18.3          | –             | 18.3        |
| Embedded derivatives  | –             | –             | 20.1          | 20.1        | –             | –             | 20.3          | 20.3        |
| Available-for-sale financial assets                         |               |               |               |             |               |               |               |             |
| – equity securities   | 40.2          | –             | 3.0           | 43.2        | 29.8          | –             | 3.0           | 32.8        |
| <b>Liabilities measured at fair value</b>                   |               |               |               |             |               |               |               |             |
| Financial liabilities at fair value through profit and loss |               |               |               |             |               |               |               |             |
| – Trading derivatives                                       | –             | (54.9)        | –             | (54.9)      | –             | (18.1)        | –             | (18.1)      |
| Derivative used for hedging                                 | –             | (42.6)        | –             | (42.6)      | –             | (70.9)        | –             | (70.9)      |

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

## Notes to the financial statements continued

### C14 Financial instruments continued

The following table presents the changes in Level 3 instruments

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Opening balance                                     | 23 3       | 3 0        |
| Additions   | -          | 20 3       |
| Gains and losses recognised in the income statement | (0 2)      | -          |
| Closing balance                                     | 23 1       | 23 3       |

#### Fair value of financial instruments

With the exception of the Company's fixed rate bond debt, 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 Company's fixed rate bond debt was £2,171 6m (last year £2,159 0m), the fair value of this debt was £2,121 7m (last year £2,080 1m)

#### Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 27 of the Marks and Spencer Group plc Annual Report) 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 nine years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

### C15 Provisions

|                          | 2012<br>£m | 2011<br>£m |
|--------------------------|------------|------------|
| At start of year         | 39 8       | 45 6       |
| Provided in the year     | 4 6        | 10 8       |
| Released in the year     | (3 1)      | (1 7)      |
| Utilised during the year | (16 2)     | (14 9)     |
| At end of year           | 25 1       | 39 8       |
| Analysis of provisions   |            |            |
| Current                  | 5 1        | 22 1       |
| Non-current              | 20 0       | 17 7       |
| Total provisions         | 25 1       | 39 8       |

The provisions primarily comprise one-off strategic programme costs associated with the Focus on the UK plans as well as onerous lease provisions relating to the 2008/09 UK restructuring

The current element of the provision primarily relates to onerous leases, redundancies and strategic costs

The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of ten years

## Notes to the financial statements continued

### C16 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 24% (last year 26%)

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

#### Deferred tax (liabilities)/assets

|  | Non-current<br>assets<br>temporary<br>differences<br>£m | Accelerated<br>capital<br>allowances<br>£m | Pension<br>temporary<br>differences<br>£m | Other<br>short term<br>temporary<br>differences<br>£m | Total<br>UK<br>deferred<br>tax<br>£m |
|--|---|--|---|---|--------------------------------------|
| At 4 April 2010                            | (70 0)  | (99 0)                                     | 81 2                                      | 18 1  | (69 7)                               |
| Credited/(charged) to the income statement | 8 8   | 18 2                                       | (1 2)                                     | 3 2   | 29 0                                 |
| (Charged)/credited to equity               | –   | –  | (109 6)                                   | (1 3)   | (110 9)                              |
| At 2 April 2011 (restated)                 | (61 2)  | (80 8)                                     | (29 6)                                    | 20 0  | (151 6)                              |
| At 3 April 2011 (restated)                 | (61 2)  | (80 8)                                     | (29 6)                                    | 20 0  | (151 6)                              |
| Credited/(charged) to the income statement | 7 3   | 2 3  | –   | (6 9)   | 2 7                                  |
| (Charged)/credited to equity               | –   | –  | (19 0)                                    | 0 5   | (18 5)                               |
| At 31 March 2012                           | (53 9)  | (78 5)                                     | (48 6)                                    | 13 6  | (167 4)                              |

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £71 4m (last year £65 0m)

### C17 Ordinary share capital

|   | 2012          |       | 2011          |       |
|---|---------------|-------|---------------|-------|
|   | Shares        | £m    | Shares        | £m    |
| Issued and fully paid ordinary shares of 25p each | 2,850,039,477 | 712 5 | 2,850,039 477 | 712 5 |

### C18 Contingencies and commitments

#### A Capital commitments

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Commitments in respect of properties in the course of construction | 65 5       | 87 7       |

#### B Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Company has a commitment to purchase property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf

See note C4 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme

#### C Commitments under operating leases

The Company leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights

|  | 2012<br>£m | 2011<br>£m |
|--|------------|------------|
| Total future minimum rentals payable under non-cancellable operating leases are as follows |            |            |
| Within one year  | 184 6      | 180 0      |
| Later than one year and not later than five years  | 761 8      | 718 5      |
| Later than five years and not later than ten years   | 902 2      | 858 3      |
| Later than ten years and not later than 15 years   | 708 1      | 694 2      |
| Later than 15 years and not later than 20 years  | 358 7      | 367 6      |
| Later than 20 years and not later than 25 years  | 244 0      | 225 4      |
| Later than 25 years  | 1,105 3    | 1,097 0    |
| Total  | 4,264 7    | 4,141 0    |

The total future sublease payments to be received are £53 1m (last year £53 8m)

## Notes to the financial statements continued

### C19 Analysis of cash flows given in the statement of cash flows

#### Cash flows from operating activities

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Profit on ordinary activities after taxation    | 514.5      | 299.3      |
| Income tax expense                              | 124.0      | 158.4      |
| Finance costs                                   | 143.4      | 155.5      |
| Finance income                                  | (51.8)     | (64.7)     |
| Operating profit                                | 730.1      | 548.5      |
| Increase in inventories                         | 4.3        | (136.8)    |
| (Increase)/decrease in receivables              | (47.7)     | 5.2        |
| Payments to acquire leasehold properties        | (1.2)      | (1.4)      |
| Increase in payables                            | 181.6      | 293.5      |
| Non-underlying operating cash outflows          | (21.2)     | (12.2)     |
| Depreciation, amortisation and asset write-offs | 421.3      | 414.5      |
| Share-based payments                            | 32.5       | 31.5       |
| Pension costs charged against operating profit  | 55.1       | 52.8       |
| Cash contributions to pension schemes           | (85.0)     | (85.0)     |
| Provision for impairment                        | 6.7        | 8.2        |
| Non-underlying operating profit items           | 15.6       | (7.4)      |
| Cash generated from operations                  | 1,292.1    | 1,111.4    |

Non-underlying operating cash outflows primarily relate to the utilisation of the provisions for UK restructuring and strategic programme costs

### C20 Related party transactions

#### A Marks and Spencer Group plc

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £273.6m (last year £250.8m) and has decreased its loan to its parent company by £50.1m (last year decrease of £11.7m). The outstanding balance was £2,541.7m (last year £2,591.8m).

Transactions between the Company and its subsidiaries, which are related parties, are summarised below

|                   | 2012<br>Transactions<br>£m | 2011<br>Transactions<br>£m |
|-------------------|----------------------------|----------------------------|
| Trading sales     | (316.2)                    | (314.7)                    |
| Trading purchases | 228.8                      | 723.7                      |
| Rental expense    | (126.9)                    | (120.2)                    |
| Rent receivable   | 16.1                       | 13.4                       |
| Interest          | (7.0)                      | (3.2)                      |

#### B Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2012. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

#### C Lima (Bradford) joint venture

The Company has entered into a rental agreement with the joint venture and £4.5m (last year £4.5m) of rental charges were incurred. There was no outstanding balance at March 2012.

#### D Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes C3 and C4.

#### E Key management compensation

Payments and benefits relating to key management are set out on page 39.

### C21 Ultimate parent company

The immediate and ultimate parent undertaking and controlling party is Marks and Spencer Group plc.

Marks and Spencer Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2012. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

## C22 Events after the reporting period

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On 21 May 2012 the Company as the general partner of the Scottish Limited Partnership (the Partnership) changed the terms of the partnership to waive the limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with the pension trustee in 2009, the time of the last triennial valuation. This change will not have any impact on the accounting within the Company.