Marks and Spencer plc financial statements 2016

REGISTERED NUMBER

00214436

MARKS AND SPENCER PLC

STRATEGIC REPORT

Review of the business and future developments

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. The Group employs over 80,000 people and has around 1,300 stores including Simply Food franchised stores. The Group also trades in wholly-owned stores in the Netherlands, Republic of Ireland, France, Czech Republic, Hungary, Hong Kong and China, through partly-owned stores in a number of European countries and India and in franchises within Asia, Europe and the Middle East.

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.

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 53 weeks ended 2 April 2016 (the 'year').

Further information that fulfils the strategic review requirements of the Companies Act 2006 can be found in the following sections of the Marks and Spencer Group plc Annual Report, which does not form part of this report:

Chairman's statement on pages 4 – 5

Chief Executive's review on pages 6-8

Financial review on pages 22-25

Strategic review on pages 10-17

Environmental, Social and Community matters on pages 10-17

Employee information on page 26.

Results

		53 weeks ended 2 April 2016			52 weeks ended 28 March 2015		
	Notes	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	2, 3	**10,555.4**	–	10,555.4	10,311.4	–	10,311.4
Operating profit	2, 3, 5	**784.9**	**(200.8)**	584.1	762.5	(61.2)	701.3
Finance income	5, 6	**21.1**	–	21.1	15.5	–	15.5
Finance costs	6	**(116.4)**	–	(116.4)	(116.8)	–	(116.8)
Profit before tax	4, 5	**689.6**	**(200.8)**	488.8	661.2	(61.2)	600.0
Income tax expense	7	**(118.8)**	**34.4**	(84.4)	(124.8)	6.5	(118.3)
Profit for the year		**570.8**	**(166.4)**	404.4	536.4	(54.7)	481.7
Attributable to:							
Owners of the parent		**573.3**	**(166.4)**	406.9	541.2	(54.7)	486.5
Non-controlling interests		**(2.5)**	–	(2.5)	(4.8)	–	(4.8)
		570.8	**(166.4)**	404.4	536.4	(54.7)	481.7

Group revenue has increased at £10,555.4m compared to £10,311.4m last year (52 weeks). Group underlying operating profit increased by 2.9% to £784.9m.

Underlying net finance costs, were £95.3m compared with £101.3m last year. The average interest rate of borrowings during the year was 5.3% (last year 5.3%). Profit before tax was £488.8m compared with £600.0m last year.

Principal risks and uncertainties and financial risk management

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 27 – 29 and 47 – 48 of the Group's annual report which does not form part of this report, but is still considered up to date in this respect. In addition the directors have taken into consideration the potential impact of the strategic review of all international operations announced by the ultimate parent, Marks and Spencer Group plc as part of its full year results announcement in May 2016. 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 or are available on the website www.marksandspencer.com/thecompany.

Key performance indicators

Information on the Company's key performance indicators can be found on pages 18 – 21 of the Marks and Spencer Group plc Annual Report, which does not form part of this report.

STRATEGIC 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 – 29 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 27 – 29 and 47 – 48 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.

The Strategic Report was approved by the Board on 30 September 2016 and signed on its behalf by

Amanda Mellor
Director

MARKS AND SPENCER PLC

REPORT OF THE DIRECTORS

Profit and dividends

The profit for the financial year, after taxation, amounts to £404.4m (last year £481.7m). The directors have declared dividends as follows:

		2016 £m	2015 £m
Ordinary shares:			
Paid 1st interim dividend	3.9p (last year 3.7p)	**111.1**	**105.5**
Proposed special dividend	2.64p (last year nil)	**75.2**	**-**
Proposed final interim dividend	*6.8p (last year 6.7p)*	**193.8**	**191.0**
Total ordinary dividend	13.34 per share (last year 10.4p)	**380.1**	**296.5**

Share capital

The Company's issued ordinary share capital, as at 2 April 2016 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note C17 to the financial statements.

Significant agreements

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- the £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m; Medium Term Notes issued by the Company on 12 December 2012 to various institutions ('MTN') and under the Group's £3bn euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- the $500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the $300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the Company has a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2021. These facilities contain 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 and;
- the amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement). Where a third-party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Directors

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

Amanda Mellor
Stephen Rowe (appointed 17th July 2015)
Helen Weir
Marc Bolland (resigned on 2nd April 2016)

REPORT OF THE DIRECTORS

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law.

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 2 April 2016 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, email and broadcasts by the Chief Executive and members of the Board at key points in the year to all head office and distribution centre employees and store management. Additionally, many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication are supplemented by our employee publications including 'Your M&S' magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store, distribution centre and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes.

The 20th meeting of the European Works Council ('EWC') (established in 1995) will take place on 8th & 9th November 2016. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes representatives from France, The Netherlands, Czech Republic, Slovakia, Greece, Bulgaria, Slovenia, Romania, Croatia, Hungary, Lithuania, Latvia, Estonia, Poland, the Republic of Ireland and the UK. The EWC has the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This includes the Directors of International and Multi-channel and the Director of Plan A, who all have an impact across the European Community.

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

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,800 employees currently participate in Sharesave, the Company's all employee Save As you Earn Scheme. Full details of all schemes are given on pages 27 - 29 in note 12 to the financial statements.

We have a well-established interactive wellbeing website designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise to help in overcoming issues such as stress, financial challenges, achieving a positive work-life balance and problems with sleeping. Using this service, employees can access our personal support teams, such as counselling, as well as take part in a calendar of wellbeing events and initiatives.

Employees are able to interact with one another, post information about clubs and groups in their area and can gain access to information about corporate projects, which link to their personal health, via our employee social media platform, Yammer.

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

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 90 years old and joined the business at age 80. In April 2016 the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

REPORT OF THE DIRECTORS

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentre Plus. The Marks & Start scheme was introduced into our distribution centre at Castle Donington in 2012/13, where we work with Remploy to support people with disabilities and health conditions into work.

Events after the reporting period

On 25 May 2016 the directors of Marks and Spencer Group plc, the ultimate parent, announced proposals for a significant base rate increase for Qualified Customer Assistants as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017 alongside proposals for a fairer, simpler and more consistent approach to pay and premiums.

In addition, also effective from April 2017, the directors of Marks and Spencer Group plc proposed changes to the UK defined benefit (DB) pension scheme, which has been closed to new members since 2002, to close it to future accrual such that current defined benefit members would be enrolled in the defined contribution savings plan.

Both of these proposals have been subject to consultation with employees which completed on 2 September 2016. As a result these original proposals will be adopted with transition arrangements in place for employees which will result in non-underlying charges for Marks and Spencer plc for the year ending 1 April 2017 in the range of £100m to £150m.

In addition, on 5 September 2016 the Company announced proposals to change the UK office structure which, if accepted, would result in a number of redundancies throughout the UK Head Offices. These proposals are subject to consultation with potential non-underlying charges for year ending 1 April 2017 in the range of £10m - £15m.

On 23rd June 2016, the UK voted to leave the European Union. This has resulted in volatility in currency and bond rates which could have an impact on the Group's trading performance and pension valuation.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries is given in note 20 to the financial statements.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse and logistic operators and providers of services relating to the Company's e-commerce platform.

Groceries Supply Code of Practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and GSCOP, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator.

M&S submitted its report to the Audit Committee on 18 May 2016 covering the period 29 March 2015 to 2 April 2016. In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Four allegations regarding potential breaches of GSCOP were made by suppliers during the relevant period, but all complaints have been withdrawn/resolved.

M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

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

REPORT OF THE DIRECTORS

Total Global M&S Greenhouse gas emissions 2015/16

The disclosures relating to the Group's greenhouse gas emissions are included in the table below. For full details of the calculations and adjustments, as well as performance against 2013/14 baseline, see our 2016 Plan A Report.

	2015/16 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	182	168	+8
Indirect emissions from energy (scope 2)	328	340	-4
Total statutory emissions (scope 1 and 2)	510	508	Level
Transport, energy T&D, waste and travel emissions (scope 3)	56	59	-5
Total gross/ location-based emissions	**566**	**567**	**Level**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**29**	**30**	**-3**
Green tariffs and bio-methane procured	299	302	-1
Remaining market-based emissions	**266**	**265**	**Level**
Carbon offsets	266	265	Level
Total net operational emissions	**0**	**0**	**Level**

Political donations

No political donations were made during the year ended 2 April 2016. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 Group and Company 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 for that year. 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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.

REPORT OF THE DIRECTORS

Corporate governance statement

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- Management of the Group conduct periodic reviews of the Group's risks and mitigation. Each business unit is responsible for identifying, assessing and managing the risks in their respective areas on a half yearly basis. These are then collated to give a consolidated view of the business risk areas;
- Management regularly monitors and considers developments in the accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting;
- The Group's consolidation is subject to various levels of review by the Group finance function; and
- The financial statements are subject to external audit.

Further information about the Group's corporate governance is provided in the Chairman's Governance Overview set out on pages 30 – 31 in the Marks and Spencer Group plc Annual Report, which does not form part of this report.

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 auditor is unaware and that each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Independent auditor

A resolution to reappoint Deloitte LLP as auditor of the Company has been approved by the directors and shareholders at the time of signing these financial statements.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 30 September 2016 and signed on its behalf by

Amanda Mellor
Director
London, 30 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC

We have audited the financial statements of Marks and Spencer PLC for the year ended 2 April 2016 which comprise the Consolidated income statement, the Consolidated and Company statements of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows, and the related notes 1 to 29 and C1 to C22.

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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, 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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the of the group's and of the parent company's affairs as at 2 April 2016 and of the group's profit 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors 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, 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.

Catherine L Newman

Catherine Lucy Newman, FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London

30 September 2016

CONSOLIDATED INCOME STATEMENT

	Notes	53 weeks ended 2 April 2016 Underlying £m	Non-underlying £m	Total £m	52 weeks ended 28 March 2015 Underlying £m	Non-underlying £m	Total £m
Revenue	2	**10,555.4**	**–**	**10,555.4**	10,311.4	–	10,311.4
Operating profit	2, 3, 5	**784.9**	**(200.8)**	**584.1**	762.5	(61.2)	701.3
Finance income	6	**21.1**	**–**	**21.1**	15.5	–	15.5
Finance costs	6	**(116.4)**	**–**	**(116.4)**	(116.8)	–	(116.8)
Profit before tax	4, 5	**689.6**	**(200.8)**	**488.8**	661.2	(61.2)	600.0
Income tax expense	7	**(118.8)**	**34.4**	**(84.4)**	(124.8)	6.5	(118.3)
Profit for the year		**570.8**	**(166.4)**	**404.4**	536.4	(54.7)	481.7
Attributable to:							
Owners of the parent		**573.3**	**(166.4)**	**406.9**	541.2	(54.7)	486.5
Non-controlling interests		**(2.5)**	**–**	**(2.5)**	(4.8)	–	(4.8)
		570.8	**(166.4)**	**404.4**	536.4	(54.7)	481.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Profit for the year		**404.4**	481.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	10	**346.2**	193.7
Tax charge on items that will not be reclassified		**(45.6)**	(40.2)
		300.6	153.5
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences		**7.3**	(7.5)
Fair value movement on available for sale investments		**(14.9)**	(16.8)
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		**(30.1)**	221.2
– reclassified and reported in profit or loss		**(22.1)**	(60.0)
– amount recognised in inventories		**5.9**	(21.6)
Tax credit/(charge) on cash flow hedges and net investment hedges		**6.5**	(21.2)
		(47.4)	94.1
Other comprehensive income for the year, net of tax		**253.2**	247.6
Total comprehensive income for the year		**657.6**	729.3
Attributable to:			
Owners of the parent		**660.1**	734.1
Non-controlling interests		**(2.5)**	(4.8)
		657.6	729.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 2 April 2016 £m**	As at 28 March 2015 £m
Assets			
Non-current assets			
Intangible assets	13	**797.3**	858.2
Property, plant and equipment	14	**5,027.1**	5,031.1
Investment property		**15.5**	15.6
Investment in joint ventures		**6.9**	12.2
Other financial assets	15	**19.6**	23.7
Retirement benefit asset	10	**851.0**	460.7
Trade and other receivables	16	**234.7**	283.3
Derivative financial instruments	20	**74.0**	75.8
Deferred tax assets	22	**–**	1.2
		7,026.1	6,761.8
Current assets			
Inventories		**799.9**	797.8
Other financial assets	15	**2,578.4**	2,441.1
Trade and other receivables	16	**328.0**	321.8
Derivative financial instruments	20	**72.1**	117.9
Current tax assets		**1.6**	–
Cash and cash equivalents	17	**247.6**	205.9
		4,027.5	3,884.5
Total assets		**11,053.7**	10,646.3
Liabilities			
Current liabilities			
Trade and other payables	18	**1,617.7**	1,642.4
Partnership liability to the Marks & Spencer UK Pension Scheme	11	**71.9**	71.9
Borrowings and other financial liabilities	19	**297.5**	279.4
Derivative financial instruments	20	**28.5**	7.7
Provisions	21	**14.0**	46.2
Current tax liabilities		**75.2**	64.0
		2,104.8	2,111.6
Non-current liabilities			
Retirement benefit deficit	10	**26.9**	11.7
Trade and other payables	18	**353.0**	319.7
Partnership liability to the Marks & Spencer UK Pension Scheme	11	**383.8**	441.0
Borrowings and other financial liabilities	19	**1,774.7**	1,745.9
Derivative financial instruments	20	**0.2**	20.0
Provisions	21	**52.0**	32.1
Deferred tax liabilities	22	**339.0**	315.3
		2,929.6	2,885.7
Total liabilities		**5,034.4**	4,997.3
Net assets		**6,019.3**	5,649.0
Equity			
Issued share capital	23	**712.5**	712.5
Share premium account		**386.1**	386.1
Capital redemption reserve		**8.0**	8.0
Hedging reserve		**32.3**	64.3
Retained earnings		**4,882.2**	4,478.9
Total shareholders' equity		**6,021.1**	5,649.8
Non-controlling interests in equity		**(1.8)**	(0.8)
Total equity		**6,019.3**	5,649.0

The financial statements were approved by the Board and authorised for issue on 30 September 2016. The financial statements also comprise the notes on pages 13 to 43.

Helen Weir Chief Finance Officer

Registered number: 00214436

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings[1] £m	Total £m	Non-controlling interest £m	Total £m
As at 30 March 2014	712.5	386.1	8.0	(41.8)	4,127.6	5,192.4	(0.6)	5,191.8
Profit/(loss) for the year	–	–	–	–	486.5	486.5	(4.8)	481.7
Other comprehensive (expense)/income:								
Foreign currency translation	–	–	–	(2.0)	(5.5)	(7.5)	–	(7.5)
Remeasurements of retirement benefit schemes	–	–	–	–	193.7	193.7	–	193.7
Tax charge on items that will not be reclassified	–	–	–	–	(40.2)	(40.2)	–	(40.2)
Fair value movement in equity on available for sale assets	–	–	–	–	(16.8)	(16.8)	–	(16.8)
Cash flow hedges and net investment hedges								
– fair value movements recognised in other comprehensive income	–	–	–	210.9	10.3	221.1	–	221.2
– reclassified and reported in profit or loss[3]	–	–	–	(60.0)	–	(60.0)	–	(60.0)
– amount recognised in inventories	–	–	–	(21.6)	–	(21.6)	–	(21.6)
Tax on cash flow hedges and net investment hedges	–	–	–	(21.2)	–	(21.2)	–	(21.2)
Other comprehensive income	–	–	–	106.1	141.5	247.6	–	247.6
Total comprehensive income/(expense)	–	–	–	106.1	628.0	734.1	(4.8)	729.3
Transactions with owners:								
Dividends	–	–	–	–	(282.2)	(282.2)	–	(282.2)
Transactions with non-controlling shareholders	–	–	–	–	–	–	4.6	4.6
Release of share-based payments	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Deferred tax on share schemes	–	–	–	–	6.6	6.6	–	6.6
As at 28 March 2015	712.5	386.1	8.0	64.3	4,478.9	5,649.8	(0.8)	5,649.0
As at 29 March 2015	712.5	386.1	8.0	64.3	4,478.9	5,649.8	(0.8)	5,649.0
Profit/(loss) for the year	–	–	–	–	**406.9**	**406.9**	**(2.5)**	**404.4**
Total comprehensive (expense)/income:								
Foreign currency translation	–	–	–	**(0.5)**	**7.8**	**7.3**	–	**7.3**
Remeasurements of retirement benefit schemes	–	–	–	–	**346.2**	**346.2**	–	**346.2**
Tax charge on items that will not be reclassified	–	–	–	–	**(45.6)**	**(45.6)**	–	**(45.6)**
Fair value movement in equity for available for sale assets		–	–	–	**(14.9)**	**(14.9)**	–	**(14.9)**
Cash flow hedges and net investment hedges								
– fair value movements recognised in other comprehensive income	–	–	–	**(21.8)**	**(8.3)**	**(30.1)**	–	**(30.1)**
– reclassified and reported in profit or loss[2]	–	–	–	**(22.1)**	–	**(22.1)**	–	**(22.1)**
– amount recognised in inventories[2]	–	–	–	**5.9**	–	**5.9**	–	**5.9**
Tax on cash flow hedges and net investment hedges	–	–	–	**6.5**	–	**6.5**	–	**6.5**
Other comprehensive income/(expense)	–	–	–	**(32.0)**	**692.1**	**660.1**	**(2.5)**	**657.6**
Transactions with owners:								
Dividends	–	–	–	–	**(302.1)**	**(302.1)**	–	**(302.1)**
Transactions with non-controlling shareholders	–	–	–	–	–	–	**1.5**	**1.5**
Credit for share-based payments	–	–	–	–	**17.2**	**17.2**	–	**17.2**
Deferred tax on share schemes	–	–	–	–	**(3.9)**	**(3.9)**	–	**(3.9)**
As at 2 April 2016	**712.5**	**386.1**	**8.0**	**32.3**	**4,882.2**	**6,021.1**	**(1.8)**	**6,019.3**

[1] The 'retained earnings reserve' includes a cumulative £4.8m loss (last year £12.6m loss) in the currency reserve

[2]Amounts 'reclassified and reported in profit or loss' are presented within finance costs offsetting the revaluation of the hedged bonds (last year £4.4m was presented in cost of sales and £55.6m in finance costs). 'Amounts recognised in inventories' include £93.7m included cost of sales for the year and £87.8m (last year £21.6m) that remains in inventory at the balance sheet date.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Cash flows from operating activities			
Cash generated from operations	25	**1,311.3**	1,349.1
Income tax paid		**(99.3)**	(71.1)
Net cash inflow from operating activities		**1,212.0**	1,278.0
Cash flows from investing activities			
Proceeds on property disposals		**30.6**	35.4
Purchase of property, plant and equipment		**(363.3)**	(521.8)
Purchase of intangible assets		**(186.8)**	(178.0)
(Purchase)/reduction of current financial assets		**(7.2)**	6.0
Interest received		**6.8**	9.3
Acquisition of subsidiary	27	**(56.2)**	–
Net cash used in investing activities		**(576.1)**	(649.1)
Cash flows from financing activities			
Interest paid[1]		**(113.5)**	(115.3)
Cash inflow/(outflow) from borrowings		**3.1**	(165.7)
Repayment of syndicated loan notes		**(19.9)**	(10.2)
Movement in parent company loans		**21.0**	42.3
Decrease in obligations under finance leases		**(2.4)**	(4.8)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(56.0)**	(54.4)
Equity dividends paid		**(302.1)**	(282.2)
Purchase of own shares held by employee trust		**(10.9)**	(24.2)
Share buyback in parent company		**(150.7)**	–
Net cash used in financing activities		**(631.4)**	(614.5)
Net cash inflow from activities		**4.5**	14.4
Effects of exchange rate changes		**3.7**	(2.3)
Opening net cash		**187.8**	175.7
Closing net cash	26	**196.0**	187.8

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

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**206.3**	8.2
Net cash inflow from activities		**4.5**	14.4
Increase/(decrease) in current financial assets		**136.9**	(48.3)
Decrease in debt financing		**75.2**	235.1
Exchange and other non-cash movements		**(2.0)**	(3.1)
Movement in net debt		**214.6**	198.1
Closing net debt	26	**420.9**	206.3

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information
The current financial statements are prepared for the 53 week period ended 2 April 2016, whereas the prior financial period was the 52 weeks ended 28 March 2015.

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 29 including the Group's principal risks and uncertainties as set out on pages 27 to 29 of the M&S 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 bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

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

New accounting standards adopted by the Group
There have been no significant changes to accounting under IFRS which have affected the Group's results.

New accounting standards in issue but not yet effective
The following IFRS have been issued but are not yet effective:

- IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is yet to be endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors are substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements;
- IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model based on expected credit losses for recognising provisions; and provides for simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology. It is not yet practicable to quantify the effect of IFRS 9 on the Group. Work on the impact of the new recognition, impairment and general hedge accounting requirements is in its early stages and we expect new processes and changes to the existing IT systems may be required to aid the Group's implementation of the standard; and
- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 with early adoption permitted. It has not yet been endorsed by the EU. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. Based on the Group's preliminary assessment from work performed to date, the Group believes that the adoption of IFRS 15 will not have a material impact on its consolidated results but work is still ongoing to fully quantify its impact.

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

Accounting convention
The financial statements are drawn up on the historical cost basis of accounting, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

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

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

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

Supplier income
In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

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

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

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

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

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

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

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

A. Trade and other payables: The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the right to offset these balances. As such the outstanding supplier income within trade and other payables at year end is immaterial.

B. Trade and other receivables: Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 16 to the financial statements.

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

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

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

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

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements, being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense on an accruals basis.

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

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

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

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

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

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

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

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

Any impairment in value is recognised immediately in the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Other financial assets: Other financial assets consist of investments in debt and equity securities and short-term investments and are classified as either 'available-for-sale' or 'fair value through profit or loss'. Available for sale financial assets are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in the income statement 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 income statement for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

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

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

E. Loan notes: Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

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

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

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

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

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

A. Cash flow hedges: Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability.

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

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

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

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

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

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

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

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

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

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

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

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

A. Impairment of goodwill and brands: The Group is required to test annually or as triggering events occur, whether the goodwill or brands are subject to 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. Determination of the appropriate period of future cashflows is also necessary where it would be inappropriate to assume the asset will continue into perpetuity. 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 notes 5 and 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 14 and 15 for further details.

C. Depreciation of property, plant and equipment and amortisation of computer software: Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 14 and 15 for further details.

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

E. Refunds, gift cards and loyalty scheme accruals: Accruals for sales returns, deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated on the basis of historical returns and redemptions. These are recorded so as to allocate them to the same period as that in which the original revenue is recorded. These balances are reviewed regularly and updated to reflect management's latest best estimates. However, actual returns and redemptions could vary from those estimates.

F. Inventory valuation and provisioning: Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis which requires the estimation of the eventual sales price of goods to customers in the future. Provisions are recognised where the net realisable value is assessed to be lower than cost.

Non-underlying items

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

- Profits and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated;
- One-off pension credits arising on changes to the defined benefit schemes' rules and practices;
- Interest relating to significant and one-off repayments from tax litigation claims;
- Restructuring costs;
- Significant and one-off impairment charges and provisions that distort underlying trading;
- Fair value movement in financial instruments;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Adjustment in income from HSBC in relation to M&S Bank due to a non-recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products; and
- Ex-gratia payment received from HSBC in relation to the mis-selling of financial products.

2 SEGMENTAL INFORMATION

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

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

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

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

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

	53 weeks ended 2 April 2016				52 weeks ended 28 March 2015			
	Management £m	Adjustment [1] £m	Non-underlying Items[2] £m	Statutory £m	Management £m	Adjustment[1] £m	Non-underlying Items[2] £m	Statutory £m
Clothing & Home revenue	3,961.3	–	–	3,961.3	3,987.4	1.0	–	3,988.4
Food revenue	5,509.5	–	–	5,509.5	5,234.7	–	–	5,234.7
UK revenue	9,470.8	–	–	9,470.8	9,222.1	1.0	–	9,223.1
Franchised	329.7	–	–	329.7	341.3	–	–	341.3
Owned	754.9	–	–	754.9	747.0	–	–	747.0
International revenue	1,084.6	–	–	1,084.6	1,088.3	–	–	1,088.3
Group revenue	10,555.4	–	–	10,555.4	10,310.4	1.0	–	10,311.4
Clothing & Home gross profit	2,180.7				2,098.9			
Food gross profit	1,806.2				1,718.5			
UK gross profit	3,986.9	(300.9)	–	3,686.0	3,817.4	(293.4)	–	3,524.0
UK operating costs	(3,320.1)	300.9	(49.1)	(3,068.3)	(3,207.4)	293.4	(15.8)	(2,929.8)
M&S Bank	59.9	–	(50.3)	9.6	60.2	–	(13.8)	46.4
UK operating profit	726.7	–	(99.4)	627.3	670.2	–	(29.6)	640.6
International operating profit/(loss)	58.2	–	(101.4)	(43.2)	92.3	–	(31.6)	60.7
Group operating profit	784.9	–	(200.8)	584.1	762.5	–	(61.2)	701.3
Finance income	21.1	–	–	21.1	15.5	–	–	15.5
Finance costs	(116.4)	–	–	(116.4)	(116.8)	–	–	(116.8)
Profit before tax	689.6	–	(200.8)	488.8	661.2	–	(61.2)	600.0

1. Adjustments to revenue in the prior year relate to refunds recognised in cost of sales for management accounting purposes (£1.3m credit) and an adjustment for agency transactions presented gross in management accounts (£0.3m charge). In the current year these adjustments are reflected in the management number. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £300.9m (last year £293.4m).

2. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5).

Other segmental information

	2016			2015		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	624.9	20.0	644.9	544.4	33.4	577.8
Depreciation and amortisation	531.9	30.9	562.8	490.8	32.0	522.8
Impairment and asset write-offs	60.8	98.8	159.6	36.0	35.3	71.3
Total assets	10,639.6	414.1	11,053.7	10,213.4	432.9	10,646.3
Non-current assets	6,763.0	263.1	7,026.1	6,444.7	317.1	6,761.8

3 EXPENSE ANALYSIS

	2016 Total £m	2015 Total £m
Revenue	**10,555.4**	10,311.4
Cost of sales	**(6,427.0)**	(6,325.9)
Gross profit	**4,128.4**	3,985.5
Selling and administrative expenses	**(3,412.9)**	(3,304.8)
Other operating income	**69.4**	81.8
Underlying operating profit	**784.9**	762.5
Non-underlying items (see note 5)	**(200.8)**	(61.2)
Operating profit	**584.1**	701.3

The selling and administrative expenses excluding non-underlying items are further analysed below:

	2016 Total £m	2015 Total £m
Employee costs[1]	**1,435.7**	1,360.7
Occupancy costs	**723.2**	709.0
Repairs, renewals and maintenance of property	**99.5**	104.9
Depreciation, amortisation and underlying asset impairments and write-offs	**576.8**	550.1
Other costs	**577.7**	580.1
Selling and administrative expenses	**3,412.9**	3,304.8

1. There are an additional £51.0m (last year £45.5m) of employee costs recorded within cost of sales. These costs are included within note 9A.

4 PROFIT BEFORE TAXATION

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

	2016 £m	2015 £m
Net foreign exchange losses/(gains)	**6.9**	(12.7)
Cost of inventories recognised as an expense	**5,778.6**	5,746.2
Depreciation of property, plant, and equipment		
– owned assets	**412.7**	396.8
– under finance leases	**1.4**	3.3
Amortisation of intangible assets	**148.7**	122.7
(Profit)/loss on property disposals	**(0.6)**	2.3
Impairments and write-offs of assets	**159.6**	71.3
Operating lease rentals payable		
– property	**337.1**	318.8
– fixtures, fittings and equipment	**3.5**	2.8

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

	2016 £m	2015 £m
Annual audit of the Company and the consolidated financial statements	**0.7**	0.7
Audit of subsidiary companies	**0.7**	0.6
Audit-related assurance services	**0.2**	0.2
Total audit and audit-related assurance services fees	**1.6**	1.5
Tax compliance services	**–**	0.1
Other services	**0.1**	0.4
Total other services	**0.1**	0.5

5 NON UNDERLYING ITEMS

In order to provide shareholders with a measure of the true underlying performance of the business and to allow a more understandable assessment of its position, the Group makes certain adjustments to the reported profit before tax. These adjustments for non-underlying items are made in accordance with the Group's accounting policy and are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business.

The total non-underlying items reported for the 53 week period ended 2 April 2016 is a net charge of £200.8m. The adjustments made to reported profit before tax to arrive at underlying profit are:

	Notes	**2016 £m**	2015 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision		**(50.3)**	(13.8)
Restructuring credits/(costs)	14,21	**9.2**	(4.6)
UK store review	14,21	**(26.7)**	–
UK one-off impairment costs		**(23.7)**	–
International – store closure costs and impairments	14,21	**(31.6)**	(37.2)
International – impairment of goodwill	13	**(19.1)**	–
International – other impairments	13,14	**(51.7)**	–
Profit/(loss) on property disposal and impairment following a commitment being made to close stores	14,21	**(10.3)**	(6.9)
IAS 39 Fair value movement of embedded derivative	20	**(2.0)**	1.3
Net gain on acquisition of joint venture holding Bradford warehouse	27	**5.4**	–
Adjustment to profit before tax		**(200.8)**	(61.2)

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

Since the year ended 31 December 2012, M&S Bank has recognised, in its audited financial statements, an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability in both the current and prior years. The total charge to date for the deduction in the Group's fee income is £189.4m. The deduction in the period is £50.3m.

On 26 September 2014, the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historical mis-selling charges). This resulted in an ex gratia payment to the Group of £40.0m by HSBC which was recognised as a non-underlying credit in the prior period (net of £0.1m legal fees).

Restructuring credits/(costs)
The £9.2m restructuring credit in the year relates primarily to the Group's ongoing strategy to transition to a single tier distribution network and the closure costs of the legacy logistics sites. The net credit in the year arises due to an updated view of the site closure proposals (which has resulted in the retention of some sites initially announced for closure), an updated view of the estimated costs associated with closure and the successful assignment of a lease that had initially been provided for as onerous.

UK store review
The UK store review relates to a strategic multi-year programme which was announced during the year. As part of this programme, nine UK stores have been closed in the period resulting in charges of £26.7m being incurred. These charges relate to dilapidations and sublet shortfalls, accelerated depreciation of fixtures and fittings, impairments of land and buildings and redundancy costs.

UK one-off impairment costs
As part of the ongoing review of the Clothing & Home business, significant changes in both the trading strategy and the store ranging strategy were made. As a result of these changes, elements of the new buying and merchandising systems will no longer be used and as a result investment in these elements of the system have been written off, resulting in a one-off charge of £23.7m.

International – store closure costs and impairments
The international store impairment tests during the year have identified a number of stores across the portfolio where current and anticipated future performance will not support the carrying value of the stores. As a result, one-off impairment charges of £21.9m have been incurred, primarily in Western Europe and Asia.

Closure costs of £6.5m were incurred on the exit of stores, primarily in the Balkans region. In addition, separately capitalised staffing costs of £3.2m relating to property and store design projects for closed/impaired international stores have been written off during the year.

International – impairment of goodwill
Goodwill arising on business combinations is not amortised but is reviewed for impairment annually, or more frequently if indicators of impairment are identified. The goodwill impairment test involves an assessment of the carrying value relative to the value in use of the CGU (calculated using the three year plans reviewed by the Board). Where the carrying value exceeds the value in use an impairment charge is recognised. During the year indicators of impairment have been identified in respect of both the Czech Group and the Hungarian businesses.

The performance of the Czech Group during the year has been heavily impacted by challenging trading conditions and weakening currencies. These have had a detrimental impact on the business' ability to improve profitability year-on-year. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £15.8m.

The Hungarian retail market has been impacted by challenging trading conditions resulting in a decrease in gross profit and reduced expectations of future growth. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £3.3m.

International – other impairments
The Mode brand was acquired in 2011 giving the Group the right to use the M&S brand in certain European markets. The valuation of this asset is supported by the cash flows of both owned and franchised European businesses. The deterioration in the current year trading performance across several of these markets (most notably Greece, France, the Czech Group and Hungary) and the consequential impact on expected future year cash flows have resulted in the carrying value of the brand no longer being supportable. As a result a full impairment of £32.4m has been recognised in the year.

E-SAP is an enterprise management system used solely by owned businesses in Greece, the Czech Group and Hungary. As highlighted above, the expected future cash flows of these countries have been impacted by challenging trading conditions and weakening currencies. There are no plans to implement E-SAP across other international territories. As a result, the cash flows can no longer support the carrying value of the E-SAP system and an impairment charge of the full £19.3m has been recognised in the year.

Profit/(loss) on property disposal and impairment following a commitment being made to close stores
During the year the Group recognised a net profit of £0.6m on the disposal of stores in Hartlepool, Harlow and Gloucester.

As a result of historic store closures, the Group has a small non-operating portfolio of properties. The strategy is to market the properties for sale (or lease assignment) or to explore sub-let opportunities where a sale or assignment is not achievable. A detailed review of the realisable value of these assets has been performed during the year which has identified a one-off charge of £10.9m.

IAS 39 Fair value movement of embedded derivative
The embedded derivative arose in respect of a lease contract for the Bradford distribution warehouse held within the Lima (Bradford) S.à r.l. joint venture. The lease contained both a rental increase cap and floor resulting in an embedded derivative being recognised in the Statement of Financial Position and fair valued each reporting period. The fair value movement in the derivative during the period until acquisition was £2.0m.

Net gain on acquisition of joint venture holding Bradford warehouse
On 29 February 2016, the Group purchased the remaining 50% of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. In accordance with IFRS 3 'Business Combinations' this acquisition was treated as a stepped acquisition resulting in a one-off fair value gain of £27.1m.

Following the Group's acquisition, the embedded derivative in respect of the lease contract for the warehouse (see note above 'IAS 39 Fair value movement of embedded derivative) has been derecognised from the Statement of Financial Position, resulting in a one-off cost of £21.7m.

Refer to note 27 for more detail on this business combination.

6 FINANCE INCOME/COSTS

	2016 £m	2015 £m
Bank and other interest receivable	**5.8**	5.0
Pension net finance income (see note 10)	**15.3**	10.5
Finance income	**21.1**	15.5
Interest on bank borrowings	**(3.6)**	(3.3)
Interest payable on syndicated bank facility	**(5.5)**	(6.4)
Interest payable on medium-term notes	**(89.9)**	(88.1)
Interest payable on finance leases	**(1.9)**	(2.0)
Unwind of discount on financial instruments	**(0.4)**	(0.6)
Unwind of discount on provisions (see note 21)	**(0.4)**	(0.3)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(14.7)**	(16.1)
Finance costs	**(116.4)**	(116.8)
Net finance costs	**(95.3)**	(101.3)

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7 INCOME TAX EXPENSE

A. Taxation charge

	2016 £m	2015 £m
Current tax		
UK corporation tax on profits for the year at 20% (last year 21%)		
– current year	**111.6**	106.5
– adjustments in respect of prior years	**(5.6)**	(7.5)
UK current tax	**106.0**	99.0
Overseas current taxation		
– current year	**12.4**	12.3
– adjustments in respect of prior years	**(0.5)**	(3.0)
Total current taxation	**117.9**	108.3
Deferred tax		
– origination and reversal of temporary differences	**(28.3)**	5.8
– adjustments in respect of prior years	**2.6**	4.5
– changes in tax rate	**(7.8)**	(0.3)
Total deferred tax (see note 22)	**(33.5)**	10.0
Total income tax expense	**84.4**	118.3

B. Taxation reconciliation

The effective tax rate was 17.3% (last year 19.7%) and is reconciled below:

	2016 £m	2015 £m
Profit before tax	**488.8**	600.0
Notional taxation at standard UK corporation tax rate of 20% (last year 21%)	**97.8**	126.0
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**2.3**	5.3
Other income and expenses that are not taxable or allowable for tax purposes	**(9.6)**	(9.9)
Recalculation of deferred tax balances due to the change in statutory UK tax rates	**(7.8)**	(0.3)
Overseas profits taxed at rates different to those of the UK	**(4.3)**	(7.9)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**3.7**	4.8
Adjustments to current and deferred tax charges in respect of prior periods	**(3.5)**	(6.1)
Adjustments to underlying profit:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**2.6**	–
– international store review charges where no tax relief is available	**15.3**	7.7
– (profits)/losses on property disposals	**(1.5)**	(1.3)
– acquisition of Lima (Bradford) S.à r.l. joint venture	**(5.4)**	–
– recalculation of deferred tax balances due to change in statutory UK tax rates	**–**	0.1
– overseas profits taxed at rates different to those of the UK	**(5.2)**	(0.1)
Total income tax expense	**84.4**	118.3

After excluding non-underlying items the underlying effective tax rate was 17.2% (last year 18.9%).

On 18 November 2015, the Finance Bill received Royal Assent and so the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020 were enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 20%, 19% and 18% based on an expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £7.6m in the income statement and the recognition of a deferred tax credit of £20.9m in other comprehensive income. Also included in the total deferred tax credit above of £7.8m is £0.2m relating to rate changes in Slovakia.

On 16 March 2016, the Chancellor of the Exchequer announced that the planned reduction to 18% from 1 April 2020 would instead be a reduction to 17%. The Finance Bill was not substantively enacted at the year end date therefore the Group has not recognised the one-off impact of remeasuring balances from 18% to 17%. However, if 17% was applied, it is estimated that this would result in a further deferred tax credit of £3.5m in the income statement and the recognition of a further deferred tax credit of £9.6m in other comprehensive income.

C Current tax reconciliation

The current tax reconciliation shows the main adjustments made to the Group's accounting profits in order to arrive at its taxable profits. The reconciling items differ from those in note 7B as the effects of deferred tax timing differences are ignored below.

	2016 £m	2015 £m
Profit before taxation	**488.8**	600.0
Notional taxation at standard UK corporation tax rate of 20% (last year: 21%)	**97.8**	126.0
Disallowable accounting depreciation and other similar items	**85.4**	86.1
Deductible capital allowances	**(71.5)**	(76.9)
Allowable deductions for employee share schemes	**(3.4)**	(10.2)
Allowable deductions for employee pension schemes	**(13.4)**	(15.6)
Overseas profits taxed at rates different to those of the UK	**(4.3)**	(5.7)
Overseas tax losses where there is no immediate relief	**3.7**	4.8
Other income and expenses that are not taxable or allowable	**7.6**	1.9
Adjustments to underlying profit:		
– international store review charges where no tax relief is available	**21.0**	7.7
– (profits)/losses on property disposals	**(0.5)**	0.5
– UK property and investment deductions where no tax relief is available	**7.5**	0.6
– acquisition of Lima (Bradford) S.à r.l. joint venture	**(5.4)**	–
– embedded derivative	**4.7**	(0.3)
– overseas profits taxed at rates different to those of the UK	**(5.2)**	(0.1)
Current year current tax charge	**124.0**	118.8

Represented by:		
UK current year current tax	**111.6**	106.5
Overseas current year current tax	**12.4**	12.3
	124.0	118.8
UK adjustments in respect of prior years	**(5.6)**	(7.5)
Overseas adjustments in respect of prior years	**(0.5)**	(3.0)
Total current taxation (note 7A)	**117.9**	108.3

8 DIVIDENDS

	2016 per share	2015 per share	2016 £m	2015 £m
Dividends on equity ordinary shares				
Proposed final interim dividend	**6.7p**	6.2p	**191.0**	176.7
Paid interim dividend	**3.9p**	3.7p	**111.1**	105.5
	10.6p	9.9p	**302.1**	282.2

In addition, the directors have proposed a special dividend of 2.64p per share amounting to £75.2m and a final interim dividend of 6.8p per share (last year 6.7p per share) amounting to a dividend of £193.8m in respect of the year ended 2 April 2016. In line with the requirement 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 (including executive directors) were:

	2016 Total £m	2015 Total £m
Wages and salaries	**1,278.8**	1,224.3
Social security costs	**80.6**	80.9
Pension costs (see note 10)	**102.0**	85.4
Share-based payments (see note 12)	**16.0**	(1.1)
Employee welfare and other personnel costs	**46.7**	49.7
Capitalised staffing costs	**(37.4)**	(33.0)
Total aggregate remuneration	**1,486.7**	1,406.2

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2016	2015
UK stores		
– management and supervisory categories	**5,696**	5,516
– other	**63,733**	64,182
UK head office		
– management and supervisory categories	**3,191**	3,055
– other	**881**	866
UK operations		
– management and supervisory categories	**257**	225
– other	**1,127**	835
Overseas	**8,063**	8,390
Total average number of employees	**82,948**	83,069

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 58,895 (last year 59,096).

	2016 £000	2015 £000
Highest paid director	**2,039**	2,095
Aggregate emoluments of all other directors	**3,224**	1,960

One director (last year one) accrued retirement benefits under a defined benefit scheme.

Three directors (last year three) exercised share options in relation to the Group's long-term incentive plans.

Four directors (last year four) were awarded options in relation to the Group's long-term incentive plans.

The highest paid director exercised share options during the year (last year exercised share options) and was awarded options in relation to the Group's long-term incentive plans. The highest paid director did not accrue any retirement benefits under a defined benefit scheme.

10 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit arrangement which was closed to new entrants with effect from 1 April 2002) and Your M&S Pension Saving Plan (a defined contribution arrangement which has been open to new members with effect from 1 April 2003).

The defined contribution plan is a pension plan under which the Group pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The defined benefit arrangement operates on a final salary basis and at the year end had 11,176 active members (last year 11,899), 53,589 deferred members (last year 54,314) and 51,047 pensioners (last year 51,114). At the year end, the defined contribution arrangement had 40,712 active members (last year 37,570) and 8,823 deferred members (last year 6,135). The scheme is governed by a trustee board which is independent of the Group.

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

Within the total Group retirement benefit cost of £86.7m (last year £74.9m), £41.0m (last year £33.7m) relates to the UK defined benefit scheme, £40.3m (last year £36.4m) to the UK defined contribution scheme and £5.4m (last year £4.8m) to other retirement benefit schemes.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out at 31 March 2015 and showed a funding surplus of £204m. The valuation is based on the same methodology adopted for the 2012 valuation but incorporates the latest asset values and revised assumptions. The Company and Trustees have agreed to continue with the current strategy to de-risk over the long term, with no change to the agreed additional cash contributions due to be paid into the scheme in respect of benefits already accrued by members. This meant that the Group paid an additional contribution of £28m in March 2016 and will pay a further £28m by 31 March 2017. In addition, it was agreed that ongoing contributions paid into the scheme to cover future benefits earned by members will increase from 23.4% to 34.3% of pensionable salaries.

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

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

In addition, the Group has an obligation to the UK defined benefit scheme via the interest in the Scottish Limited Partnership (refer to note 11), through which the Group is exposed to additional risks. In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the Pension Scheme, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2016 £m	2015 £m
Total market value of assets	**8,515.3**	8,596.5
Present value of scheme liabilities	**(7,682.3)**	(8,135.8)
Net funded pension plan asset	**833.0**	460.7
Unfunded retirement benefits	**(0.9)**	(0.7)
Post-retirement healthcare	**(8.0)**	(11.0)
Net retirement benefit asset	**824.1**	449.0
Analysed in the statement of financial position as:		
Retirement benefit asset	**851.0**	460.7
Retirement benefit deficit	**(26.9)**	(11.7)
Net retirement benefit asset	**824.1**	449.0

The asset recognised for the UK defined benefit scheme is based on the assumption that the full surplus will ultimately be available to the Group as a future refund of surplus.

B. Financial assumptions

The financial assumptions for the UK defined benefit 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:

	2016 %	2015 %
Rate of increase in salaries	**1.00**	1.00
Rate of increase in pensions in payment for service	**1.90-3.00**	1.90-3.00
Discount rate	**3.40**	3.10
Inflation rate	**2.95**	3.10
Long-term healthcare cost increases	**6.95**	7.10

The inflation rate of 2.95% (last year 3.10%) reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 1.95% (last year 2.10%) has been used.

C. Demographic assumptions

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

		2016	2015
Current pensioners (at age 65)	– males	**23.1**	22.7
	– females	**24.6**	24.4
Future pensioners – currently in active status (at age 65)	– males	**23.6**	22.4
	– females	**26.2**	25.1
Future pensioners – currently in deferred status (at age 65)	– males	**24.1**	23.2
	– females	**26.4**	26.0

D. Sensitivity analysis

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

	2016 £m	2015 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(90.0)**	(70.0)
Increase in scheme surplus caused by a decrease in the inflation rate of 0.25%	**20.0**	30.0
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**300.0**	330.0

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

E. Analysis of assets

The investment strategy of the UK defined benefit scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 11), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 90% of interest rate movements and 85% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

	2016 £m	2015 £m
Debt investments		
– government bonds net of repurchase agreements[1]	**4,165.7**	4,180.0
– corporate bonds	**1,058.2**	1,211.0
– asset backed securities and structured debt	**459.0**	363.9
Scottish Limited Partnership interest (see note 11)	**469.5**	531.3
Equity investments – quoted	**1,047.5**	1,131.8
Equity investments – unquoted	**236.7**	178.0
Property	**420.7**	327.1
Derivatives		
– interest and inflation rate swap contracts	**(101.5)**	(127.5)
– foreign exchange contracts and other derivatives	**142.0**	190.9
Hedge and reinsurance funds	**317.9**	313.6
Cash and cash equivalents	**190.5**	306.2
Other	**109.1**	(9.8)
	8,515.3	8,596.5

1. Repurchase agreements were £1,333.0m (last year £805.0m).

The fair values of the above equity and debt investments are determined based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The market value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the Scheme to hedge a proportion of interest rate and inflation risk. The Scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK defined benefit scheme indirectly held 169,509 (last year 199,032) ordinary shares in the Company through its investment in UK Equity Index Funds.

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of retirement benefit plans are as follows:

	2016 £m	2015 £m
Current service cost	**98.0**	82.4
Administration costs	**3.0**	2.0
Past service costs – curtailment charge	**1.0**	1.0
Net interest income	**(15.3)**	(10.5)
Total	**86.7**	74.9

Remeasurement on the net defined benefit surplus:		
– actual return on scheme assets excluding amounts included in net interest income	**156.3**	(1,722.4)
– actuarial gain – experience	**(164.8)**	(33.7)
– actuarial loss – demographic assumptions	**100.8**	83.9
– actuarial (gain)/loss – financial assumptions	**(438.5)**	1,478.5
Components of defined benefit gain recognised in other comprehensive income	**(346.2)**	(193.7)

G. Scheme assets

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

	2016 £m	2015 £m
Fair value of scheme assets at start of year	**8,596.5**	6,729.4
Interest income based on discount rate	**262.4**	293.0
Actual return on scheme assets excluding amounts included in net interest income[1]	**(156.3)**	1,722.4
Employer contributions	**118.4**	143.0
Benefits paid	**(311.7)**	(276.5)
Administration costs	**(3.0)**	(2.0)
Exchange movement	**9.0**	(12.8)
Fair value of scheme assets at end of year	**8,515.3**	8,596.5

1. The actual return on scheme assets was a gain of £106.1m (last year gain of £2,015.4m).

H. Pensions and other post-retirement liabilities
Changes in the present value of retirement benefit obligations are as follows:

	2016 £m	2015 £m
Present value of obligation at start of year	**8,147.5**	6,540.4
Current service cost	**98.0**	82.4
Curtailment charge	**1.0**	1.0
Interest cost	**247.1**	282.5
Benefits paid	**(311.7)**	(276.5)
Actuarial gain – experience	**(164.8)**	(33.7)
Actuarial loss – demographic assumptions	**100.8**	83.9
Actuarial (gain) /loss – financial assumptions	**(438.5)**	1,478.5
Exchange movement	**11.8**	(11.0)
Present value of obligation at end of year	**7,691.2**	8,147.5
Analysed as:		
Present value of pension scheme liabilities	**7,682.3**	8,135.8
Unfunded pension plans	**0.9**	0.7
Post-retirement healthcare	**8.0**	11.0
Present value of obligation at end of year	**7,691.2**	8,147.5

The average duration of the defined benefit obligation at 2 April 2016 is 18 years (last year 18 years).

11 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). As such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the partnership. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

The Partnership liability to the Marks & Spencer UK Pension Scheme of £455.7m (last year £512.9m) is valued at the net present value of the future expected distributions from the Partnership to the Marks & Spencer UK Pension Scheme as limited partner.

During the year to 2 April 2016 an interest charge of £14.7m (last year £16.1m) was recognised in the income statement representing the unwind of the discount included in this obligation.

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 £469.5m (last year £531.3m), refer to note 10E.

12 SHARE-BASED PAYMENTS

This year a charge of £16.0m was recognised for share-based payments (last year credit of £1.1m). Of the total share-based payments charge £9.5m (last year £9.0m) relates to the Save As You Earn Share Option scheme and a charge of £1.1m (last year credit of £15.0m) relates to Performance Share Plans. The remaining charge of £5.4m (last year £4.9m) 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 50 to 71 of the M&S Group PLC annual report which does not form part of this report.

These shares relate to the shares in the parent company, Marks and Spencer Group plc, rather than the Company.

A. Save As You Earn Scheme
Sharesave, the Company's Save As You Earn (SAYE) Scheme, was approved by shareholders of M&S Group PLC at the 2007 AGM. Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC Approved Schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six month period after the completion of the SAYE contract.

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**29,530,523**	**357.6p**	34,423,922	311.6p
Granted	**10,437,215**	**432.0p**	14,389,736	369.0p
Exercised	**(6,645,922)**	**302.6p**	(14,602,805)	256.8p
Forfeited	**(2,967,697)**	**382.5p**	(4,485,417)	371.5p
Expired	**(199,572)**	**317.2p**	(194,913)	302.8p
Outstanding at end of year	**30,154,547**	**393.3p**	29,530,523	357.6p
Exercisable at end of year	**1,936,860**	**315.3p**	1,352,847	268.7p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 443.9p (last year 471.8p).

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

	2016 3-year plan	2015 3-year plan
Grant date	**Nov 15**	Nov 14
Share price at grant date	**520p**	460p
Exercise price	**432p**	369p
Option life in years	**3 years**	3 years
Risk-free rate	**0.9%**	0.9%
Expected volatility	**23.4%**	23.6%
Expected dividend yield	**3.7%**	3.9%
Fair value of option	**96p**	91p

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

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

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted	**2016**	2015	**2016**	2015	Option price
January 2012	**–**	1,335,181	**–**	0.3	258p
January 2013	**1,917,252**	7,499,742	**0.2**	1.3	312p
January 2014	**5,918,608**	6,652,869	**1.2**	2.3	405p
January 2015	**12,334,645**	14,042,731	**2.2**	3.3	369p
January 2016	**9,984,042**	–	**3.2**	–	432p
	30,154,547	29,530,523	**2.3**	2.4	393p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 150 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and re-approved at the 2015 AGM. Under the Plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against a balanced scorecard of financial measures which for 2015/16 included Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Revenue. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 50 to 71 of the Marks and Spencer Group plc Annual Report which does not form part of this report. Awards under this scheme have been made in each year since 2005.

During the year, 5,850,134 shares (last year 7,338,609) were awarded under the Plan. The weighted average fair value of the shares awarded was 533.2p (last year 439.3p). As at 2 April 2016, 15,749,605 shares (last year 18,805,388) were outstanding under the scheme.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 500 of the most senior managers within the Group. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned during the deferred period will also be paid on vesting.

During the year, 1,044,961 shares (last year 20,822) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 548.3p (last year 437.0p). As at 2 April 2016, 2,586,096 shares (last year 2,487,477) were outstanding under the scheme.

D. Restricted Share Plan*

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The Plan operates for senior managers below executive director level. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Group on the relevant vesting date. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 221,681 shares (last year 1,001,076) have been awarded under the Plan. The weighted average fair value of the shares awarded was 454.4p (last year 450.5p). As at 2 April 2016, 1,285,666 shares (last year 1,963,139) were outstanding under the scheme.

* Nil cost options. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

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 to that 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, 160,113 options (last year 121,086) were granted, at a fair value of 95.6p (last year 90.8p). As at 2 April 2016, 312,826 options (last year 288,162) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 4,087,837 (last year 3,912,120) shares with a book value of £20.6m (last year £19.1m) and a market value of £16.6m (last year £20.7m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share schemes. Dividends are waived on all of these plans.

G. ShareBuy

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

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 29 March 2014					
Cost or valuation	129.6	112.4	878.6	118.4	1,239.0
Accumulated amortisation and impairment	(34.4)	(50.5)	(345.7)	–	(430.6)
Net book value	95.2	61.9	532.9	118.4	808.4
Year ended 28 March 2015					
Opening net book value	95.2	61.9	532.9	118.4	808.4
Additions	–	0.1	79.4	98.5	178.0
Transfers	–	–	130.1	(130.1)	–
Disposals	–	–	(1.4)	–	(1.4)
Asset write-offs	–	–	(2.4)	(1.2)	(3.6)
Amortisation charge	–	(5.3)	(117.4)	–	(122.7)
Exchange difference	0.1	–	(0.4)	(0.2)	(0.5)
Closing net book value	95.3	56.7	620.8	85.4	858.2
At 28 March 2015					
Cost or valuation	129.7	112.5	1,087.7	86.6	1,416.5
Accumulated amortisation, impairments and write-offs	(34.4)	(55.8)	(466.9)	(1.2)	(558.3)
Net book value	95.3	56.7	620.8	85.4	858.2
Year ended 2 April 2016					
Opening net book value	**95.3**	**56.7**	**620.8**	**85.4**	**858.2**
Additions	**0.7**	**–**	**92.9**	**93.9**	**187.5**
Transfers	**–**	**–**	**91.2**	**(91.2)**	**–**
Asset impairments	**(19.1)**	**(32.5)**	**(22.1)**	**–**	**(73.7)**
Asset write-offs	**–**	**–**	**(11.9)**	**(14.5)**	**(26.4)**
Amortisation charge	**–**	**(5.3)**	**(143.4)**	**–**	**(148.7)**
Exchange difference	**0.3**	**(0.2)**	**0.2**	**0.1**	**0.4**
Closing net book value	**77.2**	**18.7**	**627.7**	**73.7**	**797.3**
At 2 April 2016					
Cost or valuation	**130.7**	**112.3**	**1,272.0**	**89.4**	**1,604.4**
Accumulated amortisation, impairments and write-offs	**(53.5)**	**(93.6)**	**(644.3)**	**(15.7)**	**(807.1)**
Net book value	**77.2**	**18.7**	**627.7**	**73.7**	**797.3**

Goodwill and indefinite life intangibles relate to the following groups of cash generating units (CGUs):

	per una £m	Czech Group £m	India £m	UK[1] £m	Hungary £m	Total goodwill £m	M&S Mode indefinite life intangible £m	Blue Harbour indefinite life intangible £m
Net book value at 28 March 2015	69.5	15.4	7.1	–	3.3	95.3	32.4	0.1
Additions	–	–	–	0.7	–	0.7	–	–
Exchange difference	–	0.4	(0.1)	–	–	0.3	–	–
Asset impairments	–	(15.8)	–	–	(3.3)	(19.1)	(32.4)	(0.1)
Net book value at 2 April 2016	**69.5**	**–**	**7.0**	**0.7**	**–**	**77.2**	**–**	**–**

1. The goodwill created on acquisition of the Lima (Bradford) S.à r.l. joint venture is supported by the UK retail business.

Acquisition in the year
On 29 February 2016, Marks and Spencer plc acquired the remaining 50% share in the joint venture, Lima (Bradford) S.à r.l. This company owned an automated distribution centre in Bradford that is used by the Group. The acquisition resulted in the recognition of £0.7m of goodwill, as a result of the consideration paid exceeding the fair value of the net assets acquired, attributable to the recognition of a deferred tax liability in relation to the property. On 29 February 2016 the distribution centre was transferred to Marks and Spencer (Bradford) Limited and on 1 March 2016 Lima (Bradford) S.à r.l. was put into liquidation. Refer to note 27 for further disclosures regarding this acquisition.

Impairment testing
Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of CGUs which include the combined retail and wholesale businesses for each location.

Brands include the per una brand cost of £80.0m (net book value £18.7m). The per una brand is a definite life intangible asset amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. At the beginning of the year, the Group also held the M&S Mode brand at a cost of £32.4m. The M&S Mode brand was attributed an indefinite life as it gave the Group the future right to use the 'M&S' brand in certain countries across Europe. Similar to goodwill, the M&S Mode brand is assessed for impairment annually based on its value in use. The M&S Mode brand has been assessed for impairment across those European businesses.

The value in use calculations use cash flows based on budgets prepared by management covering a three-year period. These budgets have regard to historic performance and knowledge of the current market, together with management's views on the future achievable growth and the impact of committed initiatives. The cash flows which derive from the budgets include ongoing capital expenditure required to maintain the store network. Cash flows beyond this three-year period are extrapolated using a long-term growth rate to 10 years or perpetuity.

Other than the detailed budgets, the key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate. The long-term growth rate has been determined with reference to forecast GDP growth for the territories in which these businesses operate. Management believe this is the most appropriate indicator of long-term growth rates that is available. The long-term growth rate used is purely for the impairment testing of goodwill and brands under IAS 36 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. These growth rates do not exceed the long-term average growth rate for the Group's retail businesses. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

In the period the following impairment charges have been recognised (within non-underlying items) by the Group.

- The performance of the Czech Group during the year has been heavily impacted by challenging trading conditions and weakening currencies. These have impacted the business's ability to improve profitability year-on-year. As a result, the future cash flows of the business are no longer considered able to support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £15.8m. This asset was reported within the International segment.
- The Hungarian retail market has been impacted by challenging trading conditions resulting in a decrease in gross profit and reduced expectations of future growth. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £3.3m being recognised in the International segment.
- The Mode brand was acquired in 2011 giving the Group the right to use the M&S brand in European markets. The valuation of this asset is supported by the cash flows of both owned and franchised European businesses. The deterioration in the current year trading performance across several of these markets (most notably Greece, France, the Czech Group and Hungary) and the consequential impact on expected future year cash flows have resulted in the carrying value of the brand no longer being supportable. As a result a full impairment of £32.4m has been recognised in the year, also within the International segment.
- E-SAP is an enterprise management system used solely by the owned businesses in Greece, the Czech Republic and Hungary. As highlighted above, the expected future cash flows of these countries have been impacted by challenging trading conditions and weakening currencies. As a result, the cash flows can no longer support the carrying value of the E-SAP system and an impairment charge of £18.7m has been recognised in the year in intangibles (with an additional £0.6m in fixtures, fittings and equipment).
- As part of the ongoing review of the Clothing & Home business, significant changes in both the trading strategy and the store ranging strategy were made. As a result of these changes, two modules within the new supply chain management system will no longer be used and as a result investment in those modules has been written off, resulting in a one-off charge of £23.7m.

The values attributed to the key assumptions are as follows:

	Long-term growth rate		Pre-tax discount rate	
	2016 %	2015 %	**2016** %	2015 %
per una	**2.0**	2.0	**8.3**	8.6
Czech Group	**3.9**	1.9	**10.5**	10.1
India	**7.3**	6.8	**17.2**	15.4
UK	**1.9**	–	**10.5**	–
Hungary	**3.2**	1.4	**16.1**	11.0

The M&S Mode brand is tested based on the regions operating in the European business which are covered under the brand rights acquired. The discount rates used to calculate value in use range from 12.9% to 30.2% (last year 9.3% to 27.9%). Cash flows beyond the three-year period have been extrapolated at long-term growth rates ranging from 0.0% to 3.5% (last year 1.0% to 4.0%).

Sensitivity analysis
Whilst management believe the assumptions are realistic it is possible that a further impairment would be identified for per una, UK or India if any of the above key assumptions were changed significantly. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. Management have concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amount of goodwill or brands to exceed the value in use.

14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 29 March 2014				
Cost	2,871.7	6,686.8	256.2	9,814.7
Accumulated depreciation, impairments and write-offs	(332.0)	(4,336.8)	(6.0)	(4,674.8)
Net book value	2,539.7	2,350.0	250.2	5,139.9
Year ended 28 March 2015				
Opening net book value	2,539.7	2,350.0	250.2	5,139.9
Additions	19.0	213.0	167.8	399.8
Transfers	14.5	268.4	(282.9)	–
Disposals	(12.5)	(0.2)	–	(12.7)
Asset impairments	(13.3)	(35.4)	–	(48.7)
Asset write-offs	(1.0)	(6.6)	(11.4)	(19.0)
Depreciation charge	(14.8)	(385.1)	(0.2)	(400.1)
Exchange difference	(16.3)	(10.0)	(1.8)	(28.1)
Closing net book value	2,515.3	2,394.1	121.7	5,031.1
At 28 March 2015				
Cost	2,855.1	7,066.4	133.3	10,054.8
Accumulated depreciation, impairments and write-offs	(339.8)	(4,672.3)	(11.6)	(5,023.7)
Net book value	2,515.3	2,394.1	121.7	5,031.1
Year ended 2 April 2016				
Opening net book value	**2,515.3**	**2,394.1**	**121.7**	**5,031.1**
Additions	**115.2**	**204.6**	**138.3**	**458.1**
Transfers	**1.7**	**186.8**	**(188.5)**	**–**
Disposals	**(5.0)**	**(0.6)**	**–**	**(5.6)**
Asset impairments	**(30.4)**	**(24.3)**	**(1.9)**	**(56.6)**
Asset write-offs	**–**	**(2.9)**	**–**	**(2.9)**
Depreciation charge	**(13.3)**	**(400.8)**	**–**	**(414.1)**
Exchange difference	**11.4**	**5.9**	**(0.2)**	**17.1**
Closing net book value	**2,594.9**	**2,362.8**	**69.4**	**5,027.1**
At 2 April 2016				
Cost	**2,981.6**	**7,476.3**	**82.9**	**10,540.8**
Accumulated depreciation, impairments and write-offs	**(386.7)**	**(5,113.5)**	**(13.5)**	**(5,513.7)**
Net book value	**2,594.9**	**2,362.8**	**69.4**	**5,027.1**

The net book value above includes land and buildings of £42.6m (last year £42.7m) and equipment of £0.2m (last year £1.1m) where the Group is a lessee under a finance lease.

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

15 OTHER FINANCIAL ASSETS

	2016 £m	2015 £m
Non-current		
Unlisted investments	**3.0**	3.0
Other Investments[1]	**16.6**	20.7
	19.6	23.7
Current		
Amounts owed by parent company	**2,559.3**	2,429.5
Short-term investments[2]	**19.1**	11.6
	2,578.4	2,441.1

1. Other Investments are shares in Marks and Spencer Group Plc held for employee share scheme

2. Includes £3.6m (last year £1.2m) of money market deposits held by Marks and Spencer plc in an escrow account.

Non-current unlisted investments are carried as available-for-sale assets.

16 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Non-current		
Other receivables	**12.9**	56.8
Prepayments and accrued income	**221.8**	226.5
	234.7	283.3
Current		
Trade receivables	**123.4**	128.6
Less: provision for impairment of receivables	**(0.7)**	(4.9)
Trade receivables – net	**122.7**	123.7
Other receivables	**50.4**	53.3
Prepayments and accrued income	**154.9**	144.8
	328.0	321.8

Trade and other receivables that were past due but not impaired amounted to £19.6m (last year £18.5m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £19.4m (last year £13.5m) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £247.6m (last year £205.9m). The carrying amount of these assets approximates to their fair value.

The effective interest rate on short-term bank deposits is 0.51% (last year 0.48%). These deposits have an average maturity of 48 days (last year 42 days).

18 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Current		
Trade and other payables	**1,021.9**	967.6
Social security and other taxes	**49.8**	57.7
Accruals and deferred income	**546.0**	617.1
	1,617.7	1,642.4
Non-current		
Other payables	**353.0**	319.7

19 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2016 £m	2015 £m
Current		
Bank loans and overdrafts[1]	**297.1**	278.9
Finance lease liabilities	**0.4**	0.5
	297.5	279.4
Non-current		
Bank loans	**0.2**	0.1
6.250% US$500m medium-term notes 2017[3]	**356.5**	341.9
6.125% £400m medium-term notes 2019[2]	**427.7**	428.8
6.125% £300m medium-term notes 2021[2]	**303.3**	302.5
4.75% £400m medium-term notes 2025[2]	**425.7**	420.2
7.125% US$300m medium-term notes 2037[3]	**213.1**	204.3
Finance lease liabilities	**48.2**	48.1
	1,774.7	1,745.9
Total	**2,072.2**	2,025.3

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.

Finance leases
The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain properties and equipment under finance leases. The average lease term for equipment is five years (last year six years) and 123 years (last year 124 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 swaps, cross currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign currency risks arising from the Group's operations and financing.

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

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

(a) Liquidity & funding risk
The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due:

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

During the financial year, the Group renegotiated its committed syndicated bank revolving credit facility. The new facility of £1.1bn is set to mature on 15 April 2021. 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 £100m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £205m (last year £225m) was drawn under the committed facilities and £30m (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 £1.1bn (last year £1.1bn) was in issuance as at the balance sheet date.

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 18) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the Marks & Spencer UK pension £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(54.0)	(224.9)	(97.2)	(2.5)	(71.9)	(450.5)	2,214.0	(2,092.4)	121.6
Between one and two years	(0.1)	–	(97.2)	(2.4)	(71.9)	(171.6)	238.3	(224.5)	13.8
Between two and five years	–	–	(985.2)	(7.2)	(215.6)	(1,208.0)	414.0	(390.0)	24.0
More than five years	–	–	(1,310.3)	(180.5)	(215.6)	(1,706.4)	459.6	(440.8)	18.8
	(54.1)	(224.9)	(2,489.9)	(192.6)	(575.0)	(3,536.5)	3,325.9	(3,147.7)	178.2
Effect of discounting	–	–	792.2	144.0	62.1	998.3			
At 28 March 2015	(54.1)	(224.9)	(1,697.7)	(48.6)	(512.9)	(2,538.2)			
Timing of cash flows									
Within one year	**(92.2)**	**(205.1)**	**(98.6)**	**(2.4)**	**(71.9)**	**(470.2)**	**2,020.2**	**(1,965.5)**	**54.7**
Between one and two years	**–**	**–**	**(448.1)**	**(2.6)**	**(71.9)**	**(522.6)**	**562.7**	**(526.0)**	**36.7**
Between two and five years	**–**	**–**	**(605.9)**	**(7.1)**	**(215.6)**	**(828.6)**	**61.4**	**(41.2)**	**20.2**
More than five years	**–**	**–**	**(1,329.3)**	**(176.9)**	**(143.7)**	**(1,649.9)**	**465.6**	**(427.0)**	**38.6**
	(92.2)	**(205.1)**	**(2,481.9)**	**(189.0)**	**(503.1)**	**(3,471.3)**	**3,109.9**	**(2,959.7)**	**150.2**
Effect of discounting	**–**	**–**	**755.6**	**140.4**	**47.4**	**943.4**			
At 2 April 2016	**(92.2)**	**(205.1)**	**(1,726.3)**	**(48.6)**	**(455.7)**	**(2,527.9)**			

1. Derivative assets and derivative liabilities amounts represent the fair value as at the balance sheet date of the foreign exchange forward contracts and the forecast interest payments on the swap contracts together with the final exchange of notional at the end of the contracts. Such cash flows were translated into GBP using spot rates as of balance sheet date for the cross currency interest rate swaps.

The present value of finance lease liabilities is as follows:

	2016 £m	2015 £m
Within one year	**(0.4)**	(0.5)
Later than one year and not later than five years	**(1.6)**	(1.0)
Later than five years	**(46.6)**	(47.1)
Total	**(48.6)**	(48.6)

(b) Counterparty risk

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

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (A-)/Moody's (A3) (BBB+ for committed lending banks). In the event of a rating by one agency being different to the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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

	Credit rating of counterparty[3]								
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	–	–	–	3.5	39.9	57.4	–	–	100.8
Derivative assets[2]	–	–	–	21.5	21.8	52.1	46.9	–	142.3
At 28 March 2015	–	–	–	25.0	61.7	109.5	46.9	–	243.1

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

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks & Spencer General Insurance. Excludes cash at hand and in transit £98.4m (last year £105.1m).

2. Excludes the embedded derivative within the lease host contract.

3. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

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 £114m (last year £129m), other receivables £63m (last year £110m), cash and cash equivalents £248m (last year £206m) and derivatives £146m (last year £194m).

(c) Foreign currency risk

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

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

As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,640m (last year £1,591m) with a weighted average maturity date of five months (last year seven months). The Group designates the foreign exchange forwards in a cash flow hedge against variability in foreign currency cash flows arising from the recognition of inventory and the subsequent settlement of the related trade payable.

Gains and losses in equity on forward foreign exchange contracts as at 2 April 2016 will be released to the income statement at various dates over the following 15 months (last year 16 months) from the balance sheet date.

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

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €nil (last year €144m) of currency debt and HK$1,245m (last year HK$1,398m) of derivatives were hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £289m (last year £412m).

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

	2016			2015		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,343.7**	**716.7**	**2,060.4**	1,315.4	568.2	1,883.6
Euro	**6.2**	**0.8**	**7.0**	5.8	105.6	111.4
Other	**0.1**	**4.7**	**4.8**	–	30.3	30.3
	1,350.0	**722.2**	**2,072.2**	1,321.2	704.1	2,025.3

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.3% (last year 5.3%) and the weighted average time for which the rate is fixed is seven years (last year eight years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,349.9m (last year £1,321.1m) representing the public bond issues and finance leases, amounting to 65% (last year 66%) of the Group's gross borrowings.

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

	2016 %	2015 %
Committed and uncommitted borrowings	**1.0**	0.9
Medium term notes	**5.3**	5.3
Finance leases	**4.1**	4.1

Derivative financial instruments

		2016		2015	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	– cash flow hedges	**69.7**	**(26.7)**	114.8	(7.2)
	– held for trading	**1.6**	**(1.8)**	3.1	(0.4)
	– net investment hedges	**0.8**	**–**	–	(0.1)
		72.1	**(28.5)**	117.9	(7.7)
Non-current					
Cross currency swaps	– cash flow hedges	**27.3**	**–**	6.3	(19.9)
Forward foreign exchange contracts	– cash flow hedges	**5.4**	**(0.2)**	7.3	(0.1)
Interest rate swaps	– fair value hedge	**41.3**	**–**	38.5	–
Embedded derivative (see notes 5 and 27)		**–**	**–**	23.7	–
		74.0	**(0.2)**	75.8	(20.0)

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a loss of £0.2m (last year £0.3m gain) as the loss on the hedged items was £3.0m (last year £33.5m loss) and the gain on the hedging instruments was a loss of £2.8m (last year £33.8m gain). The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Sensitivity analysis

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2015				
Impact on income statement: gain/(loss)	9.2	(12.5)	–	–
Impact on other comprehensive income: (loss)/gain	(15.2)	8.1	169.8	(113.2)
At 2 April 2016				
Impact on income statement: gain/(loss)	**9.2**	**(11.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(0.8)**	**1.0**	**136.0**	**(90.7)**

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 2 April 2016					
Trade and other receivables	**31.6**	**(29.5)**	**2.1**	**–**	**2.1**
Derivative financial assets	**146.1**	**–**	**146.1**	**(28.7)**	**117.4**
Cash and cash equivalents	**39.3**	**(39.3)**	**–**	**–**	**–**
	217.0	**(68.8)**	**148.2**	**(28.7)**	**119.5**
Trade and other payables	**(259.3)**	**29.5**	**(229.8)**	**–**	**(229.8)**
Derivative financial liabilities	**(28.7)**	**–**	**(28.7)**	**28.7**	**–**
Bank loans and overdrafts	**(90.8)**	**39.3**	**(51.5)**	**–**	**(51.5)**
	(378.8)	**68.8**	**(310.0)**	**28.7**	**(281.3)**

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2015					
Trade and other receivables	37.0	(37.0)	–	–	–
Derivative financial assets	170.0	–	170.0	(27.7)	142.3
Cash and cash equivalents	45.0	(42.1)	2.9	–	2.9
	252.0	(79.1)	172.9	(27.7)	145.2
Trade and other payables	(295.0)	37.0	(258.0)	–	(258.0)
Derivative financial liabilities	(27.7)	–	(27.7)	27.7	–
Bank loans and overdrafts	(60.3)	42.1	(18.2)	–	(18.2)
	(383.0)	79.1	(303.9)	27.7	(276.2)

The gross financial assets and liabilities set off in the Statement of Financial Position primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the Statement of Financial Position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's Level 2 financial instruments include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; 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. At 28 March 2015 the fair value of the embedded derivative was calculated using an option valuation model based on the present value of a 35 year lease with annual lease payments increasing by Retail Price Index (RPI), capped and floored at 1.5% and 2.5% respectively and then discounted back to the valuation date. The valuation was sensitive to changes in RPI. As a result of the acquisition of Lima (Bradford) S.à r.l. in the period, the host contract that contained the embedded derivative is now held between Group companies. As such, the Group no longer holds any third party Level 3 assets or liabilities.

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

	2016				2015			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– Trading derivatives	–	**1.4**	–	**1.4**	–	3.1	–	3.1
Derivatives used for hedging	–	**144.7**	–	**144.7**	–	166.9	–	166.9
Embedded derivatives (see note 5)	–	–	–	–	–	–	23.7	23.7
Short-term investments	–	**19.1**	–	**19.1**	–	11.6	–	11.6
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– Trading derivatives	–	**(1.8)**	–	**(1.8)**	–	(0.4)	–	(0.4)
Derivatives used for hedging	–	**(26.9)**	–	**(26.9)**	–	(27.3)	–	(27.3)

There were no transfers between Level 1 and Level 2 fair value measurements. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table represents the changes in Level 3 instruments:

	2016 £m	2015 £m
Opening balance	**23.7**	22.4
Fair value (loss)/gain recognised in the income statement	**(2.0)**	1.3
Derecognition	**(21.7)**	–
Closing balance	**–**	23.7

During the year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the host lease contract is now between subsidiaries of the Group (see note 27).

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract up until the acquisition date. The fair value movement of the embedded derivative of £2.0m loss (last year £1.3m gain) and subsequent derecognition of the asset (£21.7m) is treated as an adjustment to reported profit (see note 5).

Fair value of financial instruments
With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,726.4m (last year £1,697.7m), the fair value of this debt was £1,868.3m (last year £1,883.6m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (Level 3 equivalent) is £455.7m (last year £512.9m) and the fair value of this liability is £445.3m (last year £501.3m).

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

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

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

21 PROVISIONS

	Property £m	Restructuring £m	Other £m	2016 £m	2015 £m
At 28 March 2015	**42.9**	**27.9**	**7.5**	**78.3**	76.2
Provided in the year	**29.0**	**7.4**	**3.6**	**40.0**	33.7
Released in the year	**(9.9)**	**(15.6)**	**(6.0)**	**(31.5)**	(19.3)
Utilised during the year	**(10.3)**	**(10.0)**	**(1.3)**	**(21.6)**	(32.8)
Exchange differences	**0.3**	**0.1**	**–**	**0.4**	(2.0)
Discount rate unwind	**0.4**	**–**	**–**	**0.4**	0.3
Reclassification from trade and other payables	**–**	**–**	**–**	**–**	22.2
At 2 April 2016	**52.4**	**9.8**	**3.8**	**66.0**	78.3
Analysed as:					
Current				**14.0**	46.2
Non-current				**52.0**	32.1

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK and Western Europe. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions relate to the estimated costs of several strategic programmes, the current restructure of the logistics network and the closure of the Balkans operations (see note 5). These provisions are expected to be utilised within five years.

22 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 20%, 19% and 18% as applicable (last year 20%) 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 assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 30 March 2014	(49.3)	(99.9)	(97.3)	14.9	(231.6)	(11.0)	(242.6)
Credited/(charged) to income statement	2.3	(6.1)	(2.3)	(4.3)	(10.4)	0.4	(10.0)
(Charged)/credited to equity/other comprehensive income	–	–	(55.2)	(13.7)	(68.9)	7.4	(61.5)
At 28 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
At 29 March 2015	**(47.0)**	**(106.0)**	**(154.8)**	**(3.1)**	**(310.9)**	**(3.2)**	**(314.1)**
Credited/(charged) to the income statement	**6.4**	**25.9**	**0.7**	**3.0**	**36.0**	**(2.5)**	**33.5**
(Charged)/credited to equity/other comprehensive income	**–**	**–**	**(51.4)**	**(1.8)**	**(53.2)**	**2.4**	**(50.8)**
Other balance sheet movement	**(7.6)**	**–**	**–**	**–**	**(7.6)**	**–**	**(7.6)**
At 2 April 2016	**(48.2)**	**(80.1)**	**(205.5)**	**(1.9)**	**(335.7)**	**(3.3)**	**(339.0)**

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

Other balance sheet movements, categorised as land and building temporary differences, relate to recognition of a deferred tax liability on the acquisition of the remaining 50% stake in the Lima (Bradford) S.à r.l joint venture.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a tax value of £49.9m (last year £48.4m). Due to uncertainty over their future use, no benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £22.3m (last year £43.5m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £5.4m (last year £4.4m) however this has not been recognised on the basis the distribution can be controlled by the Group.

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23 ORDINARY SHARE CAPITAL

	2016		2015	
	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

	2016 £m	2015 £m
Commitments in respect of properties in the course of construction	**129.2**	102.9
Software capital commitments	**17.1**	25.5
	146.3	128.4

B. Other material contracts

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

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

C. Commitments under operating leases

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

	2016 £m	2015 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**311.3**	291.6
– Later than one year and not later than five years	**1,108.4**	1,074.1
– *Later than five years and not later than ten years*	**1,099.4**	1,091.0
– Later than ten years and not later than 15 years	**542.8**	549.3
– Later than 15 years and not later than 20 years	**351.9**	348.8
– Later than 20 years and not later than 25 years	**225.8**	242.2
– Later than 25 years	**970.3**	1,074.3
Total	**4,609.9**	4,671.3

The total non-cancellable future sublease payments to be received are £36.1m (last year £41.2m).

25 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENTS OF CASH FLOWS

Cash flows from operating activities

	2016 £m	2015 £m
Profit on ordinary activities after taxation	**404.4**	481.7
Income tax expense	**84.4**	118.3
Finance costs	**116.4**	116.8
Finance income	**(21.1)**	(15.5)
Operating profit	**584.1**	701.3
(Increase)/decrease in inventories	**(22.5)**	45.7
Decrease/(increase) in receivables	**3.3**	(13.0)
Increase in payables	**32.4**	87.6
Non-underlying operating cash (outflows)/inflows	**(12.9)**	28.6
Depreciation, amortisation and underlying asset impairments and write-offs	**576.8**	550.1
Share-based payments	**16.0**	(1.1)
Pension costs charged against operating profit	**102.0**	85.4
Cash contributions to pension schemes	**(118.4)**	(143.0)
Non-underlying non-cash items	**(50.3)**	(53.7)
Non-underlying operating profit items	**200.8**	61.2
Cash generated from operations	**1,311.3**	1,349.1

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26 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 29 March 2015 £m	Cash flow £m	Exchange and other non-cash movements £m	At 2 April 2016 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 19)	(279.0)	(16.7)	(1.6)	**(297.3)**
Less: amounts treated as financing (see below)	260.9	(16.8)	1.6	**245.7**
	(18.1)	(33.5)	–	**(51.6)**
Cash and cash equivalents (see note 17)	205.9	38.0	3.7	**247.6**
Net cash per statement of cash flows	187.8	4.5	3.7	**196.0**
Current financial assets (see note 15)	2,441.1	136.9	0.3	**2,578.3**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(260.9)	16.8	(1.6)	**(245.7)**
Medium-term notes (see note 19)	(1,611.8)	–	(2.0)	**(1,613.8)**
Finance lease liabilities (see note 19)	(48.6)	2.4	(2.4)	**(48.6)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(501.3)	56.0	–	**(445.3)**
Debt financing	(2,422.6)	75.2	(6.0)	**(2,353.4)**
Net debt	206.3	216.6	(2.0)	**420.9**

B. Reconciliation of net cash to statement of financial position

	2016 £m	2015 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17)	**247.6**	205.9
Current financial assets (see note 15)	**2,578.3**	2,441.1
Bank loans and overdrafts (see note 19)	**(297.3)**	(279.0)
Medium-term notes – net of hedging derivatives	**(1,656.1)**	(1,652.0)
Finance lease liabilities (see note 19)	**(48.6)**	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 11 and 20)	**(455.7)**	(512.9)
	368.2	154.5
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**52.7**	51.8
Total net debt	**420.9**	206.3

27 BUSINESS COMBINATIONS

On 29 February 2016, Marks and Spencer plc purchased the remaining 50% share in joint venture Lima (Bradford) S.a.r.l. This company owned an automated distribution centre in Bradford used by the group. The distribution centre was transferred to another group company on the same day and on 1 March 2016 Lima (Bradford) S.a.r.l was put into liquidation.

This purchase has been accounted for as a stepped acquisition under IFRS 3 'Business Combinations.' The deemed disposal of the original 50% share of the joint venture resulted in the recognition of a £27.1m gain in the period, which has been recognised as a non-underlying credit in the consolidated income statement as disclosed in note 5. The gain arose as a result of the requirement to fair value the initial 50% share held by Marks and Spencer plc.

A summary of how the gain arose is detailed below:

	2016 £m
Fair value of previously owned 50% interest	56.2
Repayment of intercompany loan	(24.0)
Deemed proceeds received by Marks and Spencer plc for the existing 50% interest	32.2
Carrying value of the investment in the joint venture	(5.1)
Gain arising on acquisition	27.1

The acquisition resulted in the recognition of goodwill, as shown below:

	2016 £m
Property, plant and equipment	112.6
Other net liabilities	(57.1)
Total identifiable assets	**55.5**
Cash paid	56.2
Gain arising on acquisition	**0.7**

This acquisition resulted in the recognition of £0.7m of goodwill, as a result of the consideration paid exceeding the fair value of the net assets acquired, attributable to the recognition of a deferred tax liability in relation to the property. The goodwill is not expected to be deductible for income tax purposes.

The purchase of this entity resulted in the distribution centre being fully owned by the Group. Therefore the embedded derivative previously recognised by the Group in relation to the lease agreement for the distribution centre has been eliminated. The derecognition of this embedded derivative resulted in the recognition of a £21.7m loss in the consolidated income statement. This has been recognised as a non-underlying item, as disclosed in notes 5 and 20.

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture
A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2015. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture
A loan facility was provided to the joint venture on 11 August 2008, on which interest was charged at 2.7% above 3-month LIBOR. On 29 February 2016, Marks and Spencer plc purchased the remaining 50% share in the joint venture Lima (Bradford) S.à r.l. At this date £24.0m was drawn down on the loan facility and this was fully repaid on acquisition. In addition, the Group had entered into a rental agreement with the joint venture and £4.5m (last year £4.9m) of rental charges were incurred up to the date of acquisition. Refer to note 27 for further disclosures regarding this acquisition.

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

	2016 £m	2015 £m
Salaries and short-term benefits	**5.0**	3.8
Termination payments	**0.1**	-
Share-based payments	**0.6**	(0.5)
Total	**5.7**	3.3

Key management comprises Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration Report within 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 Martha Lane Fox's partner. Martha served as a non-executive director of the Group up to 2 April 2016. These transactions amounted to £2.6m during the year (last year £2.5m) with an outstanding trade payable of £0.2m at 2 April 2016 (last year £0.2m).

G. Transactions with parent company

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £302.1m (last year £282.2m) and has increased its loan to its parent company by £133.1m (last year decrease of £38.6m). The outstanding balance was £2,566.3m (last year £2,433.2m) and was non-interest bearing. There were no other related party transaction

29 SUBSEQUENT EVENTS

On 25 May 2016 the directors of Marks and Spencer Group plc, the ultimate parent, announced proposals for a significant base rate increase for Qualified Customer Assistants as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017 alongside proposals for a fairer, simpler and more consistent approach to pay and premiums.

In addition, also effective from April 2017, the directors of Marks and Spencer Group plc proposed changes to the UK defined benefit (DB) pension scheme, which has been closed to new members since 2002, to close it to future accrual such that current defined benefit members would be enrolled in the defined contribution savings plan.

Both of these proposals have been subject to consultation with employees which completed on 2 September 2016. As a result these original proposals will be adopted with transition arrangements in place for employees which will result in non-underlying charges for Marks and Spencer plc for the year ending 1 April 2017 in the range of £100m to £150m.

In addition, on 5 September 2016 the Company announced proposals to change the UK office structure which, if accepted, would result in a number of redundancies throughout the UK Head Offices. These proposals are subject to consultation with potential non-underlying charges for year ending 1 April 2017 in the range of £10m - £15m.

On 23rd June 2016, the UK voted to leave the European Union. This has resulted in volatility in currency and bond rates which could have an impact on the Group's trading performance and pension valuation.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Profit for the year	**330.4**	236.6
Other comprehensive income/(expense):		
Items that will not be classified to profit or loss		
Remeasurements of retirement benefit schemes	**309.3**	276.2
Tax charge on retirement benefit schemes	**(38.2)**	(55.4)
	271.1	220.8
Items that may be reclassified subsequently to profit or loss		
Fair value movement on available-for-sale assets	**(14.9)**	(16.8)
Cash flow		
– fair value movements in other comprehensive income	**12.7**	196.0
– reclassified and reported in net profit	**(22.2)**	(84.1)
– amount recognised in inventories	**3.4**	8.3
Tax credit/(charge) on cash flow hedges	**1.3**	(24.0)
	(19.7)	79.4
Other comprehensive income/(expense) for the year, net of tax	**251.4**	300.2
Total comprehensive income for the year	**581.8**	536.8

The profit attributable to shareholders of the Company for the year is £330.4m (last year £236.6m).

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2016 £m	As at 28 March 2015 £m
Assets			
Non-current assets			
Intangible assets	C6	**698.5**	702.5
Property, plant and equipment	C7	**3,218.0**	3,319.6
Investments in group undertakings	C8	**1,097.6**	1,080.7
Investment in joint ventures		**5.9**	4.7
Other financial assets	C9	**19.6**	23.7
Retirement benefit asset	C3	**1,329.4**	962.9
Trade and other receivables	C10	**103.7**	106.3
Derivative financial instruments	C14	**95.3**	76.2
		6,568.0	6,276.6
Current assets			
Inventories		**721.6**	732.1
Other financial assets	C9	**3.6**	1.2
Trade and other receivables	C10	**3,460.2**	3,094.0
Derivative financial instruments	C14	**101.8**	128.2
Cash and cash equivalents	C11	**83.4**	94.3
		4,370.6	4,049.8
Total assets		**10,938.6**	10,326.4
Liabilities			
Current liabilities			
Trade and other payables	C12	**3,342.2**	3,145.7
Borrowings and other financial liabilities	C13	**291.8**	248.6
Derivative financial instruments	C14	**37.0**	35.3
Provisions	C15	**8.1**	41.5
Current tax liabilities		**51.7**	34.0
		3,730.8	3,505.1
Non-current liabilities			
Retirement benefit deficit	C3	**8.0**	11.0
Trade and other payables	C12	**528.5**	490.0
Borrowings and other financial liabilities	C13	**1,768.4**	1,740.0
Derivative financial instruments	C14	**0.2**	21.5
Provisions	C15	**47.7**	23.8
Deferred tax liabilities	C16	**354.2**	327.1
		2,707.0	2,613.4
Total liabilities		**6,437.8**	6,118.5
Net assets		**4,500.8**	4,207.9
Equity			
Issued share capital	C17	**712.5**	712.5
Share premium account		**386.1**	386.1
Capital redemption reserve		**8.0**	8.0
Hedging reserve		**46.6**	51.4
Retained earnings		**3,347.6**	3,049.9
Total equity		**4,500.8**	4,207.9

The financial statements were approved by the Board and authorised for issue on 30th September 2016. The financial statements also comprise the notes on pages 48 to 66.

Helen Weir, Director

Registered number:

00214436

MARKS AND SPENCER PLC

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 29 March 2014	712.5	386.1	8.0	(44.8)	2,886.1	3,947.9
At 30 March 2014	712.5	386.1	8.0	(44.8)	2,886.1	3,947.9
Profit for the year	–	–	–	–	236.6	236.6
Other comprehensive income:						
Remeasurements of retirement benefit schemes	–	–	–	–	276.2	276.2
Tax charge on retirement benefit schemes	–	–	–	–	(55.4)	(55.4)
Fair value movement in equity on available-for-sale assets	–	–	–	–	(16.8)	(16.8)
Cash flow						
– fair value movements in other comprehensive income	–	–	–	196.0	–	196.0
– reclassified and reported in net profit	–	–	–	(84.1)	–	(84.1)
– amount recognised in inventories	–	–	–	8.3	–	8.3
Tax on cash flow hedges	–	–	–	(24.0)	–	(24.0)
Other comprehensive income	–	–	–	96.2	204.0	300.2
Total comprehensive income	–	–	–	96.2	440.6	536.8
Transactions with owners:						
Dividends	–	–	–	–	(282.2)	(282.2)
Release for share-based payments	–	–	–	–	(1.2)	(1.2)
Deferred tax on share schemes	–	–	–	–	6.6	6.6
At 28 March 2015	712.5	386.1	8.0	51.4	3,049.9	4,207.9
At 29 March 2015	**712.5**	**386.1**	**8.0**	**51.4**	**3,049.9**	**4,207.9**
Profit for the year					**330.4**	**330.4**
Other comprehensive income:						
Remeasurements of retirement benefit schemes	–	–	–	–	**309.3**	**309.3**
Tax charge on retirement benefit schemes	–	–	–	–	**(38.2)**	**(38.2)**
Fair value movement in equity on available-for-sale assets	–	–	–	–	**(14.9)**	**(14.9)**
Cash flow						
– fair value movements in other comprehensive income	–	–	–	**12.7**	–	**12.7**
– reclassified and reported in net profit	–	–	–	**(22.2)**	–	**(22.2)**
– amount recognised in inventories	–	–	–	**3.4**	–	**3.4**
Tax on cash flow hedges	–	–	–	**1.3**	–	**1.3**
Other comprehensive income	–	–	–	**(4.8)**	**256.2**	**251.4**
Total comprehensive income	–	–	–	**(4.8)**	**586.6**	**581.8**
Transactions with owners:						
Dividends	–	–	–	–	**(302.1)**	**(302.1)**
Release for share-based payments	–	–	–	–	**17.1**	**17.1**
Deferred tax on share schemes	–	–	–	–	**(3.9)**	**(3.9)**
At 2 April 2016	**712.5**	**386.1**	**8.0**	**46.6**	**3,347.6**	**4,500.8**

COMPANY STATEMENT OF CASH FLOWS

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Cash flows from operating activities			
Cash generated from operations	C19	**1,100.7**	1,239.1
Income tax paid		**(90.4)**	(66.6)
Net cash inflow from operating activities		**1,010.3**	1,172.5
Cash flows from investing activities			
Purchase of property, plant and equipment		**(343.3)**	(489.4)
Proceeds from sale of property, plant and equipment		**5.6**	–
Purchase of intangible assets		**(186.4)**	(176.7)
Reduction of non-current financial assets		**0.7**	5.8
(Purchase)/sale of current financial assets		**(2.4)**	0.6
Interest received		**0.1**	5.4
Acquisition of subsidiary		**(56.2)**	–
Net cash used in investing activities		**(581.9)**	(654.3)
Cash flows from financing activities			
Interest paid		**(94.5)**	(95.7)
Cash inflow/(outflow) from borrowings		**30.0**	(171.1)
(Repayment) of syndicated bank facility		**(19.9)**	(10.2)
Movement in intercompany loans treated as financing		**(73.2)**	25.3
Decrease in obligations under finance leases		**(2.0)**	(4.6)
Equity dividends paid		**(302.1)**	(282.2)
Purchase of shares in ultimate parent company held in employee trust		**(10.9)**	(24.2)
Net cash used in financing activities		**(472.6)**	(562.7)
Net cash outflow from activities		**(44.2)**	(44.5)
Opening net cash		**76.0**	120.5
Closing net cash	C11	**31.8**	76.0

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 loans are non-interest bearing and repayable on demand.

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

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement. The profit for the year was £330.4m (2015: £236.6m).

C2 Dividends

	2016 per share	2015 per share	2016 £m	2015 £m
Dividends on equity ordinary shares				
Paid final interim dividend	**6.7p**	6.2p	**191.0**	176.7
Paid interim dividend	**3.9p**	3.7p	**111.1**	105.5
	10.6p	9.9p	**302.1**	282.2

In addition, the directors have proposed a special dividend of 2.64p per share amounting to £75.2m and a final interim dividend of 6.8p per share (last year 6.7p per share) amounting to a dividend of £193.8m in respect of the year ended 2 April 2016. In line with the requirement of IAS 10 'Events after the reporting period,' this dividend has not been recognised within these results.

C3 Retirement benefits

The Company provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a *defined benefit arrangement which was closed to new entrants with effect from 1 April 2002*) and Your M&S Pension Saving Plan (a defined contribution arrangement which has been open to new members with effect from 1 April 2003).

The defined contribution plan is a pension plan under which the Company pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The Company has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Company and the member, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The defined benefit arrangement operates on a final salary basis and at the year end had some 11,176 active members (last year 11,899), 53,589 deferred members (last year 54,314) and 51,047 pensioners (last year 51,114). The scheme is governed by a Trustee board which is independent of the company. At the year end, the defined contribution arrangement had 40,712 active members (last year 37,570) and 8,823 deferred members (last year 6,135). This scheme is governed by a master trustee.

Within the total company retirement benefit cost of £50.0m (last year £43.9m), £12.6m (last year £9.9m) relates to the UK defined benefit scheme, £37.1m (last year £33.5m) to the UK defined contribution scheme and £0.3m (last year £0.5m) to other retirement benefit schemes.

The most recent actuarial valuation of the Marks and Spencer Pension Scheme was carried out at 31 March 2015 and revealed a funding surplus of £204m. The valuation is based on the same methodology adopted for the 2012 valuation but incorporates the latest asset values and revised assumptions. The Company and Trustees have agreed to continue with the current strategy to de-risk over the long term, with no change to the agreed additional cash contributions due to be paid into the scheme in respect of benefits already accrued by members. This meant that the company paid a contribution of £28m in March 2016 and will pay a further £28m by 31 March 2017. In addition, it was agreed that ongoing contributions paid into the scheme to cover future benefits earned by members will increase from 23.4% to 34.3% of pensionable salaries.

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

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

In addition, the Company has an obligation to the UK defined benefit scheme via the interest in the Scottish Limited Partnership (refer to note C4), through which the Company is exposed to additional risks. In particular, under the legal terms of the Partnership, a default by the Company on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments, or an increase in the collateral to be provided by the Company.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 Retirement benefits continued

A. Pensions and other post-retirement liabilities

	2016 £m	2015 £m
Total market value of assets	**8,902.1**	8,983.6
Present value of scheme liabilities	**(7,572.7)**	(8,020.7)
Net funded pension plan asset	**1,329.4**	962.9
Post-retirement healthcare	**(8.0)**	(11.0)
Net retirement benefit asset	**1,321.4**	951.9
Analysed in the statement of financial position as:		
Retirement benefit asset	**1,329.4**	962.9
Retirement benefit deficit	**(8.0)**	(11.0)
	1,321.4	951.9

The asset recognised for the UK Defined Benefit Scheme is based on the assumption that the full surplus will ultimately be available to the Company as a future refund of surplus.

B. Financial assumptions

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

	2016 %	2015 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**1.9-3.0**	1.9 – 3.0
Discount rate	**3.40**	3.10
Inflation rate	**2.95**	3.1
Long-term healthcare cost increases	**6.95**	7.1

The inflation rate of 2.95% (last year 3.10%) reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 1.95% (last year 2.10%) has been used.

C. Demographic assumptions

Apart from post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2015. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2016	2015
Current pensioners (at age 65)	– males	**23.1**	22.7
	– females	**24.6**	24.4
Future pensioners (at age 65)	– males	**23.6**	22.4
	– females	**26.2**	25.1
Deferred pensioners (at age 65)	– males	**24.1**	23.2
	– females	**26.4**	26.0

D. Analysis of assets

The investment strategy of the UK defined benefit pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note C4), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 90% of interest rate movements and 85% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 Retirement benefits continued

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

	2016 £m	2015 £m
Debt investments		
– Government	**4,137.1**	4,153.3
– Corporate Bonds	**1,058.2**	1,210.9
– Asset backed securities and structured debt	**459.0**	363.9
Scottish Limited Partnership interest (see note C4)	**948.0**	1,005.0
Equity investments – quoted	**1,002.3**	1,075.6
Equity investments – unquoted	**236.7**	178.0
Property	**420.7**	324.0
Derivatives		
– Interest and inflation rate swap contracts	**(101.5)**	(127.5)
– Foreign exchange contracts and other derivatives	**142.0**	190.9
Hedge and reinsurance funds	**317.9**	313.6
Cash and cash equivalents	**188.7**	306.2
Other	**93.0**	(10.3)
	8,902.1	8,983.6

The fair values of the above equity and debt investments are determined based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The market value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the Scheme to hedge a proportion of interest rate and inflation risk. The Scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK scheme indirectly held 169,509 (last year 199,032) ordinary shares in the parent Company through its investment in UK Equity Index Funds.

E. Analysis of amount charged against profits

Amounts recognised in comprehensive income in respect of defined benefit plans are as follows:

	2016 £m	2015 £m
Current service cost	**(90.1)**	(75.2)
Administration costs	**(3.0)**	(2.0)
Past service costs – curtailment charge	**(1.0)**	(1.0)
Net interest income	**44.1**	34.3
Total	**(50.0)**	(43.9)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**176.0**	(1,763.7)
Actuarial gain – experience	**(164.8)**	(33.4)
Actuarial loss – demographic assumptions	**100.8**	83.9
Actuarial gain / (loss) – financial assumptions	**(421.3)**	1,437.0
Components of defined benefit gain recognised in other comprehensive income	**(309.3)**	(276.2)
Total	**(359.3)**	(320.1)

F. Scheme assets

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

	2016 £m	2015 £m
Fair value of scheme assets at start of year	**8,983.6**	**7,039.1**
Interest income based on discount rate	**289.4**	**316.8**
Actual return on scheme assets excluding amounts included in net interest income[1]	**(176.0)**	**1,763.7**
Employer contributions	**110.2**	**135.5**
Benefits paid	**(302.1)**	**(269.5)**
Administration costs	**(3.0)**	**(2.0)**
Fair value of scheme assets at end of year	**8,902.1**	**8,983.6**

1. The actual return on scheme assets was a gain of £2,015m (last year loss of £28m).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 Retirement benefits continued

G. Pensions and other post-retirement liabilities

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

	2015 £m	2014 £m
Present value of obligation at start of year	**8,031.7**	6,455.0
Current service cost	**90.1**	75.2
Curtailment charge	**1.0**	1.0
Interest cost	**245.3**	282.5
Benefits paid	**(302.1)**	(269.5)
Actuarial (gain) – experience	**(164.8)**	(33.4)
Actuarial loss – demographic assumptions	**100.8**	83.9
Actuarial (gain)/loss– financial assumptions	**(421.3)**	1,437.0
Present value of obligation at end of year	**7,580.7**	8,031.7
Analysed as:		
Present value of pension scheme liabilities	**7,572.7**	8,020.7
Post-retirement healthcare	**8.0**	11.0
Present value of obligation at end of year	**7,580.7**	8,031.7

The average duration of the defined benefit obligation at 2 April 2016 is 18 years (last year 18 years).

H. Sensitivity analysis

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

	2016 £m	2015 £m
Decrease in scheme surplus caused by an decrease in the discount rate of 0.25%	**(90.0)**	(70.0)
Increase in scheme surplus caused by an decrease in the inflation rate of 0.25%	**20.0**	30.0
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**300.0**	330.0

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

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 £1.6bn (last year £1.6bn) 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 £469.5m (last year £531.3m). 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.

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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C6 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
At 29 March 2014			
Cost	868.5	118.2	986.7
Accumulated amortisation	(340.5)	–	(340.5)
Net book value	528.0	118.2	646.2
Year ended 28 March 2015			
Opening net book value	528.0	118.2	646.2
Additions	79.4	97.3	176.7
Transfers	130.1	(130.1)	–
Disposals	(1.4)	–	(1.4)
Asset write-offs and impairments	(2.4)	(1.2)	(3.6)
Amortisation charge	(115.4)	–	(115.4)
Closing net book value	618.3	84.2	702.5
At 28 March 2015			
Cost	1,074.2	84.2	1,158.4
Accumulated amortisation	(455.9)	–	(455.9)
Net book value	618.3	84.2	702.5
Year ended 2 April 2016			
Opening net book value	**618.3**	**84.2**	**702.5**
Additions	**92.6**	**93.8**	**186.4**
Transfers	**88.3**	**(88.3)**	**–**
Disposals	**–**	**–**	**–**
Asset write-offs and impairments	**(33.4)**	**(14.5)**	**(47.9)**
Amortisation charge	**(142.5)**	**–**	**(142.5)**
Closing net book value	**623.3**	**75.2**	**698.5**
At 2 April 2016			
Cost	**1,221.7**	**75.2**	**1,296.9**
Accumulated amortisation	**(598.4)**	**–**	**(598.4)**
Net book value	**623.3**	**75.2**	**698.5**

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C7 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 29 March 2014				
Cost	1,037.7	6,164.4	208.0	7,410.1
Accumulated depreciation	(100.8)	(3,973.6)	–	(4,074.4)
Net book value	936.9	2,190.8	208.0	3,335.7
Year ended 28 March 2015				
Opening net book value	936.9	2,190.8	208.0	3,335.7
Additions	19.1	200.1	148.7	367.9
Transfers	13.0	224.8	(237.8)	–
Asset write-offs	–	(8.2)	(11.3)	(19.5)
Asset impairments	(4.3)	–	–	(4.3)
Depreciation charge	(9.0)	(351.2)	–	(360.2)
Closing net book value	955.7	2,256.3	107.6	3,319.6
At 28 March 2015				
Cost	1,067.9	6,555.1	107.6	7,730.6
Accumulated depreciation	(112.2)	(4,298.8)	–	(4,411.0)
Net book value	955.7	2,256.3	107.6	3,319.6
Year ended 2 April 2016				
Opening net book value	**955.7**	**2,256.3**	**107.6**	**3,319.6**
Additions	**2.3**	**191.1**	**132.5**	**325.9**
Transfers	**0.3**	**171.9**	**(172.2)**	**–**
Disposals	**(5.0)**	**(0.6)**	**–**	**(5.6)**
Asset write-offs	**–**	**(4.8)**	**–**	**(4.8)**
Asset impairments	**(7.7)**	**(31.0)**	**(1.8)**	**(40.5)**
Depreciation charge	**(9.4)**	**(367.2)**	**–**	**(376.6)**
Closing net book value	**936.2**	**2,215.7**	**66.1**	**3,218.0**
At 2 April 2016				
Cost	**1,057.8**	**6,886.5**	**66.1**	**8,010.4**
Accumulated depreciation	**(121.6)**	**(4,670.8)**	**–**	**(4,792.4)**
Net book value	**936.2**	**2,215.7**	**66.1**	**3,218.0**

The net book value above includes land and buildings of £36.3m (last year £36.9m) and equipment of £0.2m (last year £1.1m) 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 undertakings £m	Loans to Group undertakings £m	Total £m
At 29 March 2014			
Cost	1,325.2	0.5	1,325.7
Provision for impairment	(242.2)	–	(242.2)
Net book value	1,083.0	0.5	1,083.5
Year ended 28 March 2015			
Opening net book value	1,083.0	0.5	1,083.5
Additions	–	–	–
Disposals	–	–	–
Provision for impairment	(2.8)	–	(2.8)
Closing net book value	1,080.2	0.5	1,080.7
At 28 March 2015			
Cost	1,325.2	0.5	1,325.7
Provision for impairment	(245.0)	–	(245.0)
Net book value	1,080.2	0.5	1,080.7
Year ended 2 April 2016			
Opening net book value	**1,080.2**	**0.5**	**1,080.7**
Additions	**63.8**	–	**63.8**
Disposals	**(0.1)**	–	**(0.1)**
Provision for impairment	**(46.8)**	–	**(46.8)**
Closing net book value	**1,097.1**	**0.5**	**1,097.6**
At 2 April 2016			
Cost	**1,388.9**	**0.5**	**1,389.4**
Provision for impairment	**(291.8)**	–	**(291.8)**
Net book value	**1,097.1**	**0.5**	**1,097.6**

The investment in the company Per Una was impaired during the year as a final dividend was paid to Marks and Spencer PLC before the company was liquidated.

B. Subsidiary undertakings

The Company's subsidiary undertakings are set out below.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Amethyst Leasing (Holdings) Limited	Property investment	United Kingdom	100%	–
Amethyst Leasing (Properties) Limited	Property investment	United Kingdom	–	100%
Andis SARL	Dormant	France	–	100%
Aprell Limited	Holding company	Republic of Ireland	100%	–
Busyexport Limited	Property investment	United Kingdom	100%	–
Hedge End Park Limited	Property investment	United Kingdom	50%	–
Ignazia Limited	Holding company	Guernsey	–	100%
Lima (Bradford) Sarl (in liquidation)	Distribution	Luxembourg	100%	–
M&S (Spain) S.L.	Holding company	Spain	–	100%
M&S Limited	Dormant	United Kingdom	100%	–
M&S Poland sp ZO.O	Retailing	Poland	–	100%
M&S Services S.R.O	Distribution	Czech Republic	–	100%
M.S. Insurance L.P	Financial services	Guernsey	–	100%
Manford (Textiles) Limited	Dormant	United Kingdom	100%	–
Marks & Spencer (Italia) S.r.l.	Dormant	Italy	100%	–
Marks & Spencer (Portugal) Lda.	Dormant	Portugal	–	100%
Marks & Spencer Canada Incorporated	Dormant	Canada	–	100%
Marks and Spencer Company Archive CIC	Archive facilities	United Kingdom	–[1]	–
Marks & Spencer Holdings Canada Incorporated	Dormant	Canada	–	100%
Marks & Spencer Inc.	Dormant	Canada	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 Investments continued

B. Subsidiary undertakings continued

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks & Spencer Outlet Limited	Staffing	United Kingdom	100%	–
Marks & Spencer Services Inc.	Dormant	USA	100%	–
Marks & Spencer Simply Foods Limited	Retailing	United Kingdom	100%	–
Marks & Spencer Ventures Finance LLC	Dormant	USA	–	100%
Marks and Sparks Limited	Dormant	United Kingdom	100%	–
Marks and Spencer (Alderney) Limited	Dormant	Guernsey	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing and sourcing	Hong Kong	–	100%
Marks and Spencer (Australia) Pty Limited	Dormant	Australia	100%	–
Marks and Spencer (Belgium) SPRL	Retailing	Guernsey	–	100%
Marks and Spencer (Bradford) Limited	Property Investment	United Kingdom	–	100%
Marks and Spencer (Hong Kong) Investments Limited	Holding company	Hong Kong	–	100%
Marks and Spencer (Hungary) Kft	Retailing	Hungary	–	100%
Marks and Spencer (India) pvt Limited	Sourcing and wholesaling	India	–	100%
Marks and Spencer (Ireland) Limited[3]	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Israel) Limited	Dormant	Israel	83.3%	–
Marks and Spencer (Jersey) Limited	Dormant	Jersey	–	100%
Marks and Spencer (Nederland) B.V.	Holding company	The Netherlands	–	100%
Marks and Spencer (Northern Ireland) Limited	Non-trading	United Kingdom	100%	–
Marks and Spencer (Property Investments) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer (Property Ventures) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer (Shanghai) Limited	Sourcing	China	–	100%
Marks and Spencer (Shanghai) Limited Dongguan Branch	Sourcing	China	–	–[2]
Marks and Spencer (Singapore) Investments Pte. Ltd	Holding company	Singapore	–	100%
Marks and Spencer (Thailand) Limited	Dormant	Thailand	99.7%	–
Marks and Spencer 2005 (Brooklands Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Chester Satellite Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Chester Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Hedge End Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kensington Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Parman House Kingston Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Pudsey Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Warrington Gemini Store) Limited	Property investment	United Kingdom	100%	–
Marks and Spencer Chester Limited	Property investment	United Kingdom	–	100%
Marks and Spencer Clothing Textile Trading L.L.C	Sourcing and wholesaling	Turkey	–	100%
Marks and Spencer (Commercial Shanghai) Limited	Retailing	China	–	100%
Marks and Spencer Czech Republic a.s	Retailing	Czech Republic	–	100%
Marks and Spencer Guernsey Investments LLP	Financial services	United Kingdom	–	–[4]
Marks and Spencer Hungary Limited	Holding company	United Kingdom	–	100%
Marks and Spencer International Holdings Limited	Holding company	United Kingdom	100%	–
Marks and Spencer Investments	Financial services	United Kingdom	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 Investments continued

B. Subsidiary undertakings continued

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer BV	Holding company	The Netherlands	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	80%
Marks and Spencer GmbH	Dormant	Austria	–	100%
Marks and Spencer Croatia DOO (in liquidation)	Retailing	Croatia	–	100%
Marks and Spencer Ljubljana LLC (in liquidation)	Retailing	Slovenia	–	100%
Marks and Spencer Romania SA	Retailing	Romania	–	100%
Marks and Spencer Bulgaria EOOD (in liquidation)	Retailing	Bulgaria	–	100%
Marks and Spencer DOO Beograd (in liquidation)	Retailing	Serbia	–	100%
Marks and Spencer Montenegro DOO Podgorica (in liquidation)	Retailing	Montenegro	–	100%
Marks and Spencer plc Bangladesh Liaison Office	Sourcing	Bangladesh	–[2]	–
Marks and Spencer plc Sri Lanka Liaison Office	Sourcing	Sri Lanka	–[2]	–
Marks and Spencer plc Singapore Branch	Dormant	Singapore	–[2]	–
Marks and Spencer Property Developments Limited	Dormant	United Kingdom	–	100%
Marks and Spencer Property Holdings Limited	Property investment	United Kingdom	100%	–
Marks and Spencer Property Ventures Limited	Property investment	United Kingdom	–	100%
Marks and Spencer Reliance India Pvt Ltd	Retailing	India	–	51%
Marks and Spencer Scottish Limited Partnership	Property investment	United Kingdom	–[5]	–
Marks and Spencer Shared Services Limited	Support services	United Kingdom	–	100%
Marks and Spencer Stores B.V.	Dormant	The Netherlands	–	100%
Marks and Spencer SA (PTY) Limited	Dormant	South Africa	–	100%
M&S Nederland (Retail) BV	Retailing	The Netherlands	–	100%
M&S Mode International BV	Trademarks	The Netherlands	–	100%
MSF Latvia SIA	Retailing	Latvia	–	100%
MSF Slovakia S.R.O.	Retailing	Slovakia	–	100%
Marks and Spencer France Limited	Retailing	United Kingdom	100%	–
Marks and Spencer France Limited French Branch	Retailing	France	–[2]	–
Minterton Services Limited	Trademarks	United Kingdom	100%	–
Ou MSF Estonia	Retailing	Estonia	–	100%
Per Una Italia SRL (in liquidation)	Dormant	Italy	–	100%
Ruby Properties (Cumbernauld) Limited	Property investment	United Kingdom	100%	–
Ruby Properties (Enfield) Limited	Property investment	United Kingdom	100%	–
Ruby Properties (Hardwick) Limited	Property investment	United Kingdom	100%	–
Ruby Properties (Long Eaton) Limited	Property investment	United Kingdom	100%	–
Ruby Properties (Thorncliffe) Limited	Property investment	United Kingdom	100%	–
Ruby Properties (Tunbridge) Limited	Property investment	United Kingdom	100%	–
Simply Food (Property Investments)	Property investment	United Kingdom	–	100%
Simply Food (Property Ventures) Limited	Property investment	United Kingdom	100%	–
St. Michael (Textiles) Limited	Dormant	United Kingdom	–	100%
St Michael Finance plc	Financial services	United Kingdom	100%	–
Supreme Tradelinks Private Limited	Holding company	India	–	100%
Teranis Limited	Holding company	United Kingdom	–	100%
UAB MSF Lithuania	Retailing	Lithuania	–	100%

1. The company is a Community Interest Company, not established or conducted for private gain. It is limited by guarantee of its members and does not have any share capital.
2. Branches and representative offices are not registered companies but distinct entities extending from a registered company.
3. 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.
4. The designated members of the LLP are Teranis Limited, Ignazia Limited, Aprell Limited and Marks and Spencer (Ireland) Limited.
5. Marks and Spencer plc is the general partner.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 Other financial assets

	2016 £m	2015 £m
Non-current		
Unlisted investments	**3.0**	3.0
Other investments[1]	**16.6**	20.7
	19.6	23.7
Current		
Other investments	**3.6**	1.2

1. Non-current other investments are £16.6m (last year £20.7m) shares in Marks and Spencer Group plc held for employee share schemes.

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

C10 Trade and other receivables

	2016 £m	2015 £m
Non-current		
Prepayments and accrued income	**103.7**	106.3
	103.7	106.3
Current		
Trade receivables	**112.5**	126.2
Less: Provision for impairment of receivables	**(6.7)**	(3.4)
Trade receivables – net	**105.8**	122.8
Other receivables	**11.5**	10.9
Prepayments and accrued income	**139.5**	135.2
Amounts owed by parent company	**2,566.3**	2,433.2
Amounts owed by subsidiary companies	**637.1**	391.9
	3,460.2	3,094.0

Trade receivables that were past due but not impaired amounted to £9.3m (last year £1.0m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 2 April 2016, £674.5m (last year £343.3m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £9.7m (last year £9.4m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,652.3m (last year £2,481.8m) of intercompany receivables are interest-free.

C11 Cash and cash equivalents

Cash and cash equivalents are £31.8m (last year £76.0m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.03% (last year is 0.03%). These deposits have an average maturity of three days (last year two days).

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

	2016 £m	2015 £m
Cash at bank and in hand	**83.4**	94.3
Bank loans and overdrafts	**(291.6)**	(248.2)
Syndicated bank facility	**205.0**	224.9
Bank loans and overdrafts treated as financing	**35.0**	5.0
	31.8	76.0

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C12 Trade and other payables

	2016 £m	2015 £m
Current		
Trade and other payables	**1,061.5**	1,033.1
Social security and other taxes	**34.8**	55.0
Accruals and deferred income	**423.5**	464.0
Amounts owed to subsidiaries	**1,822.4**	1,593.6
	3,342.2	3,145.7
Non-current		
Other payables	**528.5**	490.0

As at 2 April 2016, £1,347.6m (last year £989.0m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £9.7m (last year £7.1m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £549.1m (last year £604.6m) of intercompany payables are interest-free.

C13 Borrowings and other financial liabilities

	2016 £m	2015 £m
Current		
Bank loans and overdrafts[1]	**291.6**	248.2
Finance lease liabilities	**0.2**	0.4
	291.8	248.6
Non-current		
6.250% US$500m medium-term notes 2017[3]	**356.5**	341.9
6.125% £400m medium-term notes 2019[2]	**427.7**	428.8
6.125% £300m medium-term notes 2021[2]	**303.3**	302.5
4.75% £400m medium-terms notes 2025[2]	**425.7**	420.2
7.125% US$300m medium-term notes 2037[3]	**213.1**	204.3
Finance lease liabilities	**42.1**	42.3
	1,768.4	1,740.0
Total	**2,060.2**	1,988.6

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.

Finance leases

The minimum lease payments under finance leases fall due as shown on the following page. 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 five years) and 123 years (last year 124 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

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.

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 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.

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 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 £1.1bn set to mature on 15 April 2021. These facilities contain 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 £100m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £205m (last year £225m) was drawn under the committed facilities and £30m (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 £1.1bn (last year £1.1bn) was in issuance as at the balance sheet date

The contractual maturity of the Company's non-derivative financial liabilities (excluding trade and other payables (see note C12)) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(23.3)	(224.9)	(97.2)	(2.1)	(347.5)	3,031.0	(2,929.4)	101.6
Between one and two years	–	–	(97.2)	(1.9)	(99.1)	238.3	(224.5)	13.8
Between two and five years	–	–	(985.2)	(5.9)	(991.1)	414.0	(390.0)	24.0
More than five years	–	–	(1,310.3)	(159.3)	(1,469.6)	459.6	(440.8)	18.8
	(23.3)	(224.9)	(2,489.9)	(169.2)	(2,907.3)	4,142.9	(3,984.7)	158.2
Effect of discounting and foreign exchange	–	–	792.2	126.5	918.7			
At 28 March 2015	(23.3)	(224.9)	(1,697.7)	(42.7)	(1,988.6)			
Timing of cash flows								
Within one year	**(86.6)**	**(205.0)**	**(98.6)**	**(2.0)**	**(392.2)**	**2,550.6**	**(2,475.8)**	**74.8**
Between one and two years			**(448.1)**	**(1.9)**	**(450.0)**	**562.6**	**(526.0)**	**36.6**
Between two and five years			**(605.9)**	**(5.8)**	**(611.7)**	**61.4**	**(41.2)**	**20.2**
More than five years			**(1,329.3)**	**(157.4)**	**(1,486.7)**	**465.6**	**(427.0)**	**38.6**
	(86.6)	**(205.0)**	**(2,481.9)**	**(167.1)**	**(2,940.6)**	**3640.2**	**(3,470.0)**	**170.3**
Effect of discounting and foreign exchange			**755.6**	**124.8**	**880.4**			
At 2 April 2016	**(86.6)**	**(205.0)**	**(1,726.3)**	**(42.3)**	**(2,060.2)**			

The present value of finance lease liabilities is as follows:

	2016 £m	2015 £m
Within one year	**(0.2)**	(0.4)
Later than one year and not later than five years	**(0.8)**	(0.9)
Later than five years	**(41.3)**	(41.4)
Total	**(42.3)**	(42.7)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 Financial instruments continued

(b) Counterparty risk

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

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (A-)/Moody's (A3). Credit ratings quoted on the following page are in line with Standard & Poor's equivalent. In the event of a downgrade by one rating agency and not the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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[3]							
	AAAm £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	–	–	2.0	1.0	7.2	–	–	10.2
Derivative assets[2]	–	–	23.7	21.8	50.3	47.0	–	142.8
At 28 March 2015	–	–	25.7	22.8	57.5	47.0	–	153.0

	AAAm £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	–	–	**3.5**	**4.9**	**2.5**	–	–	**10.9**
Derivative assets[2]	–	–	**42.6**	**33.7**	**23.4**	–	**18.2**	**117.9**
At 2 April 2016	–	–	**46.1**	**38.6**	**25.9**	–	**18.2**	**128.8**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks & Spencer plc and Marks & Spencer General Insurance LP
2. Excludes the embedded derivative within the lease host contract
3. Standard & Poors equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poors, Moodys or Fitch where applicable. Excludes all intercompany derivatives executed on behalf of group companies by Marks and Spencer PLC as none of the entities have credit ratings

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 £126m), other receivables £12m (last year £11m), cash and cash equivalents £84m (last year £94m) and derivatives £197m (last year £200m).

(c) Foreign currency risk

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

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

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.

Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans and balance sheet translation exposures 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 (last year £nil) impact on the income statement.

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £2,918m (last year £3,006m) with a weighted average maturity date of five months (last year five months).

Gains and losses in equity on forward foreign exchange contracts as at 2 April 2016 will be released to the income statement at various dates over the following 14 months (last year 16 months) from the balance sheet date.

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, is set out below:

	2016 Fixed rate £m	2016 Floating rate £m	2016 Total £m	2015 Fixed rate £m	2015 Floating rate £m	2015 Total £m
Currency						
Sterling	**1,343.6**	**716.6**	**2,060.2**	1,315.3	568.4	1,883.7
Euro	**–**	**–**	**–**	–	104.9	104.9
	1,343.6	**716.6**	**2,060.2**	1,315.3	673.3	1,988.6

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.3% (last year 5.3%) and the weighted average time for which the rate is fixed is seven years (last year eight years).

(d) Interest rate risk

The Company is exposed to interest rate risk in relation to sterling, US dollar, and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,343.6m (last year £1,321.3m) representing the public bond issues and finance leases, amounting to 65% (last year 65%) of the Group's gross borrowings.

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

	2016 %	2015 %
Committed and uncommitted borrowings	**1.0**	0.9
Medium-term notes	**5.3**	5.3
Finance leases	**4.1**	4.2

Derivative financial instruments

		2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Current					
Forward foreign exchange contracts	– cash flow hedges	**71.4**	**(4.8)**	90.5	–
	– held for trading	**30.4**	**(32.2)**	37.7	(35.3)
		101.8	**(37.0)**	128.2	(35.3)
Non-current					
Cross currency swaps	– cash flow hedges	**27.3**	**–**	6.3	(19.9)
Forward foreign exchange contracts	– cash flow hedges	**5.4**	**(0.2)**	6.1	–
	– held for trading	**–**	**–**	1.6	(1.6)
Interest rate swaps	– fair value hedge	**41.3**	**–**	38.5	–
Embedded derivative		**21.3**	**–**	23.7	–
		95.3	**(0.2)**	76.2	(21.5)

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £0.2m (last year £0.3m) as the loss on the hedged items was £3.0m (last year £33.5m loss) and the gain on the hedging instruments was £2.8m (last year £33.8m gain).The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

COMPANY 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 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 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 in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2015				
Impact on income statement: gain/(loss)	5.6	(11.7)	–	–
Impact on other comprehensive income: (loss)/gain	(16.2)	8.2	292.1	(194.8)
At 2 April 2016				
Impact on income statement: gain/(loss)	**9.8**	**(13.2)**	–	–
Impact on other comprehensive income: (loss)/gain	**(1.7)**	**0.8**	**190.0**	**(126.6)**

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 2 April 2016					
Trade and other receivables	31.6	(29.5)	2.1	–	2.1
Derivative financial assets	175.8	–	175.8	(36.2)	139.6
Cash and cash equivalents	39.3	(39.3)	–	–	–
	246.7	(68.8)	177.9	(36.2)	141.7
Trade and other payables	(259.3)	29.5	(229.8)	–	(229.8)
Derivative financial liabilities	(36.2)	–	(36.2)	36.2	–
Bank loans and overdrafts	(90.8)	39.3	(51.5)	–	(51.5)
	(386.3)	68.8	(317.5)	36.2	(281.3)

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2015					
Trade and other receivables	37.0	(37.0)	–	–	–
Derivative financial assets	167.4	–	167.4	(24.7)	142.7
Cash and cash equivalents	45.0	(42.1)	2.9	–	2.9
	249.4	(79.1)	170.3	(24.7)	145.6
Trade and other payables	(295.0)	37.0	(258.0)	–	(258.0)
Derivative financial liabilities	(24.7)	–	(24.7)	24.7	–
Bank loans and overdrafts	(60.3)	42.1	(18.2)	–	(18.2)
	(380.0)	79.1	(300.9)	24.7	(276.2)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 Financial instruments continued

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the Statement of Financial Position but could be settled net in certain circumstances principally relate to derivative transactions under International Swaps and Derivatives Association (ISDA) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Company's level 2 financial instruments include OTC derivatives; 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:

				2016				2015
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
– trading derivatives	–	**30.4**	–	**30.4**	–	39.3	–	39.3
Derivatives used for hedging	–	**145.4**	–	**145.4**	–	141.4	–	141.4
Embedded derivatives	–	–	**21.3**	**21.3**	–	–	23.7	23.7
Available-for-sale financial assets	–	–	–	–				
– equity securities	–	–	–	–	20.8	–	–	20.8
Short term investments	–	**3.6**	–	**3.6**	–	1.2	–	1.2
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss	–	–	–	–				
– Trading derivatives	–	**(32.2)**	–	**(32.2)**	–	(36.9)	–	(36.9)
Derivative used for hedging	–	**(5.0)**	–	**(5.0)**	–	(19.9)	–	(19.9)

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 reporting period. In addition to the above, the Company has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table presents the changes in Level 3 instruments:

	2016 £m	2015 £m
Opening balance	**23.7**	22.4
(Losses)/gains recognised in the income statement	**(2.4)**	1.3
Closing balance	**21.3**	23.7

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 (level 1 equivalent) was £1,726.4m (last year £1,697.7m), the fair value of this debt was £1,868.3m (last year £1,894.4m).

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 28 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 eight years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 Provisions

	Property £m	Restructuring £m	Other £m	2016 Total £m	2015 Total £m
At start of year	**35.7**	**22.3**	**7.3**	**65.3**	43.6
Provided in the year	**28.7**	**3.2**	**3.0**	**34.9**	27.1
Released in the year	**(8.7)**	**(14.6)**	**(6.0)**	**(29.3)**	(7.9)
Utilised during the year	**(8.2)**	**(5.8)**	**(1.1)**	**(15.1)**	(19.7)
Reclassification from trade and other payables	**-**	**-**	**-**	**-**	22.2
At end of year	**47.5**	**5.1**	**3.2**	**55.8**	65.3
Analysed as:					
Current				**8.1**	41.5
Non-current				**47.7**	23.8

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK. These provisions are expected to be utilised over the period to the end of each specific lease. Restructuring provisions relate to the estimated costs of several strategic programmes and the current restructure of the logistics network. These provisions are expected to be utilised within seven years.

C16 *Deferred tax*

Deferred tax is provided under the balance sheet liability method, measured on the tax rates that are expected to apply in the period of reversal.

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

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m
At 30 March 2014	(47.3)	(91.2)	(116.8)	28.9	(226.4)
Credited/(charged) to the income statement	2.3	(1.4)	(11.7)	(10.6)	(21.4)
Charged to equity	–	–	(61.8)	(17.5)	(79.3)
At 28 March 2015	(45.0)	(92.6)	(190.3)	0.8	(327.1)
At 28 March 2015	**(45.0)**	**(92.6)**	**(190.3)**	**0.8**	**(327.1)**
Credited/(charged) to the income statement	**6.2**	**19.9**	**(3.4)**	**(3.0)**	**19.7**
Charged to equity			**(44.1)**	**(2.6)**	**(46.7)**
At 2 April 2016	**(38.8)**	**(72.7)**	**(237.8)**	**(4.8)**	**(354.2)**

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

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

On 16th March 2016, the Chancellor of the Exchequer announced that the planned reduction to 18% from 1st April 2020 would instead be a reduction to 17%. The finance bill was not substantially enacted at year end date therefore the group has not recognised the on-off impact from re-measuring balances from 18% to 17%. However, if 17% was applied, it is estimated that this would result in a further deferred tax credit of £1.8m in the income statement and the recognition of a further deferred tax credit of £13.2m in other comprehensive income.

C17 Ordinary share capital

	2016 Shares	2016 £m	2015 Shares	2015 £m
Issued and fully paid ordinary shares of 25p each	**2,850,039,477**	**712.5**	2,850,039,477	712.5

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C18 Contingencies and commitments

A. Capital commitments

	2016 £m	2015 £m
Commitments in respect of properties in the course of construction	**114.5**	96.8
Commitments in respect of computer software under development	**17.1**	25.5
	131.6	122.3

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.

	2016 £m	2015 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**195.0**	187.2
Later than one year and not later than five years	**740.8**	725.9
Later than five years and not later than ten years	**818.0**	824.1
Later than ten years and not later than 15 years	**428.4**	440.0
Later than 15 years and not later than 20 years	**319.5**	307.7
Later than 20 years and not later than 25 years	**215.9**	230.7
Later than 25 years	**891.4**	993.5
Total	**3,609.0**	3,709.1

The total future sublease payments to be received are £33.6m (last year £33.0m).

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

Cash flows from operating activities

	2016 £m	2015 £m
Profit on ordinary activities after taxation	**330.4**	236.6
Income tax expense	**68.4**	88.7
Finance costs	**107.9**	107.7
Finance income	**(53.0)**	(43.8)
Operating profit	**453.7**	389.2
Decrease in inventories	**10.5**	41.5
Decrease in receivables	**9.3**	31.1
Increase in payables	**43.6**	336.5
Non-underlying operating cash (outflows)/inflows	**(8.6)**	42.3
Non-underlying operating non-cash items	**(50.3)**	(53.8)
Depreciation, amortisation and asset write-offs	**541.5**	496.4
Share-based payments	**15.9**	(1.2)
Pension costs charged against operating profit	**94.1**	78.2
Cash contributions to pension schemes	**(110.1)**	(135.5)
Non-underlying operating profit items	**101.1**	14.4
Cash generated from operations	**1,100.7**	1,239.1

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 £302.1m (last year £282.2m) and has increased its loan to its parent company by £133.1m (last year decrease of £38.6m). The outstanding balance was £2,566.3m (last year £2,433.2m) and was non-interest bearing.

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

	2016 Transactions £m	2015 Transactions £m
Trading sales	**(368.3)**	(361.4)
Trading purchases	**0.4**	1.9
Rental expense	**(133.9)**	(132.1)
Rent receivable	**24.0**	23.1
Interest	**0.8**	(0.9)

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 2014. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. 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.

D. Key management compensation
Payments and benefits relating to key management are set out on page 58 of Group annual report 2016.

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 2 April 2016. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

C22 Subsequent events

On 25 May 2016 the directors of Marks and Spencer Group plc, the ultimate parent, announced proposals for a significant base rate increase for Qualified Customer Assistants as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017 alongside proposals for a fairer, simpler and more consistent approach to pay and premiums.

In addition, also effective from April 2017, the directors of Marks and Spencer Group plc proposed changes to the UK defined benefit (DB) pension scheme, which has been closed to new members since 2002, to close it to future accrual such that current defined benefit members would be enrolled in the defined contribution savings plan.

Both of these proposals have been subject to consultation with employees which completed on 2 September 2016. As a result these original proposals will be adopted with transition arrangements in place for employees which will result in non-underlying charges for Marks and Spencer plc for the year ending 1 April 2017 in the range of £100m to £150m.

In addition, on 5 September 2016 the Company announced proposals to change the UK office structure which, if accepted, would result in a number of redundancies throughout the UK Head Offices. These proposals are subject to consultation with potential non-underlying charges for year ending 1 April 2017 in the range of £10m - £15m.

On 23rd June 2016, the UK voted to leave the European Union. This has resulted in volatility in currency and bond rates which could have an impact on the Group's trading performance and pension valuation.