

Marks and Spencer plc financial statements 2017

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 1,400 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.

The Group has announced its intention to close its owned stores in ten international markets, resulting in the recognition of a cost of £130.5m in the period. The closure programmes are ongoing with completion during the period only achieved in China where the final store was closed on 1 April 2017. The stores in the other markets will all be closed during the 2017/18 financial year.

Marks and Spencer plc is incorporated in the United Kingdom 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 52 weeks ended 1 April 2017 (the 'year'). The prior financial year was the 53 weeks ended 2 April 2016.

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 2017, which does not form part of this report:

Strategic report on pages 2-33

Chairman's statement on pages 4 – 5

Chief Executive's strategic review on pages 8-11

Financial review on pages 26-29

Employee information on page 22.

Results

	Notes	52 weeks ended 1 April 2017			53 weeks ended 2 April 2016		
		Before Adjusted Items £m	Adjusted Items £m	Total £m	Before Adjusted Items £m	Adjusted Items £m	Total £m
Revenue	2, 3	10,622.0	–	10,622.0	10,555.4	–	10,555.4
Operating profit	2, 3, 5	690.6	(483.2)	207.4	784.9	(200.8)	584.1
Finance income	6	36.2	–	36.2	21.1	–	21.1
Finance costs	6	(113.0)	–	(113.0)	(116.4)	–	(116.4)
Profit before tax	4, 5	613.8	(483.2)	130.6	689.6	(200.8)	488.8
Income tax expense	7	(122.4)	61.9	(60.5)	(118.8)	34.4	(84.4)
Profit for the year		491.4	(421.3)	70.1	570.8	(166.4)	404.4
Attributable to:							
Owners of the parent		492.8	(421.3)	71.5	573.3	(166.4)	406.9
Non-controlling interests		(1.4)	–	(1.4)	(2.5)	–	(2.5)
		491.4	(421.3)	70.1	570.8	(166.4)	404.4

Group revenue increased to £10,622.0m compared with £10,555.4m last year (on a 53 week basis). The increased revenue was largely generated from the UK food business with the Group opening a further 30 new owned stores and 38 new franchise stores in the period. This was somewhat offset by lower revenue from the UK clothing & home business partly due to the strategy to reduce reliance on promotions and sale activity.

Group operating profit before adjusted items decreased by 12.0% to £690.6m (against a 53 week comparative). The Group recognised adjusted items of £483.2m during the year primarily in relation to the closure to future accrual of the UK defined benefit scheme, the proposed closure of international stores and changes to the UK estate arising from the Group's strategic review.

Net finance costs were £76.8m compared with £95.3m last year (on a 53 week basis) largely due to increased pension net finance income as a result of a higher UK defined benefit scheme surplus at the start of the year.

Group profit before tax was £130.6m compared with £488.8m 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 30 – 33 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.

MARKS AND SPENCER PLC
STRATEGIC REPORT

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 2017, which does not form part of this report.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and strategic report as set out on pages 1 – 33 of the Marks and Spencer Group plc Annual Report 2017 as well as the Group's principal risks and uncertainties as set out on pages 30 – 33 of the Marks and Spencer Group plc Annual Report 2017. 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 28 September 2017 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 £70.1m (last year £404.4m). The directors have declared dividends as follows:

Ordinary shares:		
2016	2017	£m
111.1	111.2	Paid 1st interim dividend 3.9p (last year 3.9p)
74.1	–	Paid special dividend Nil (last year 2.64p)
193.8	193.8	Paid final interim dividend 6.8p (last year 6.8p)
379.1	305.0	Total ordinary dividend 10.7 p per share (last year 13.34p)

Share capital

The Company's issued ordinary share capital, as at 1 April 2017 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, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 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 amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.

> The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third party arrangement is in place for the supply of financial services products to existing customers of the Company, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (while 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 were as follows:

Amanda Mellor
Stephen Rowe
Helen Weir

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 1 April 2017 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.

REPORT OF THE DIRECTORS

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, emails and broadcasts by the Chief Executive and members of the Board. These take place at key points in the year to all Head Office, distribution centre and store management employees. In addition, store colleagues can also hear business briefings by telephone and there are quarterly CEO/ CFO trading updates broadcast by Skype to our store management teams. These communications are supplemented by various employee publications including M&S World magazine, Plan A updates and DVD presentations.

Our Making Every Moment Special employee engagement programme was launched last summer with two hours of training to empower store colleagues to put customers at the heart of the business and to make decisions based on customers' specific needs. The programme engaged with 70,000 employees through 75 regional leadership events and 1,500 store events, taking ideas from colleagues from across the business and has had tremendous results.

More than 3,500 employees from across every store, distribution centre and Head Office location are elected to our Business Involvement Groups (BIG) to represent colleagues in two-way communication and consultation with the Company. These representatives have continued to play a key role in a number of business changes this year. The National BIG Chair meets with the Group Chairman and CEO regularly, as well as providing updates to and attending Board meetings annually. In addition, directors and senior management regularly attend the National BIG meetings. They also visit stores and discuss matters of interest and concern to both employees and the business through meetings with local BIG representatives, listening groups and informal discussions.

The 22nd meeting of the European Works Council (EWC) (established in 1995) will take place in November 2017. The EWC provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Economic Area. The EWC has the opportunity to be addressed by the Chief Executive, International Director and other senior members of the Company on issues that affect the European business.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all employee Save As You Earn Scheme and Share Incentive Plan. Approximately 25,000 employees currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 112 and 113 of the Marks and Spencer Group plc Annual Report 2017.

There are websites for both pension schemes – the defined contribution Scheme (Your M&S Pension Saving Plan) and the defined benefit scheme (the M&S Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

In April 2016, the business launched a campaign which engaged all employees in putting forward their ideas for how M&S could drive down costs and reduce inefficiency. The Crunch Costs campaign received an overwhelming response with colleagues submitting 1,300 ideas from stores and offices. So far, the implemented ideas have generated savings of £20m, which has enabled the business to add over 3,000 colleagues to our stores. By recognising and celebrating employee ideas and contributions, the Company has driven high levels of engagement and motivation from employees. The most recent results of the Your Say employee survey show that the employee engagement score has increased by three percentage points on the previous year, and currently sits at 81%. Over 1,500 employees took part in Wellbeing Goals, a new initiative launched to inspire people to take a more holistic look at their overall wellbeing and follow simple steps each week to improve what matters to them, whether from a physical, mental, social or financial perspective. The business has also taken steps to connect the two important agendas of Diversity and Inclusion with Wellbeing in a bold two-week campaign inviting people to Be Yourself at work. This was supported by hosted events and colleague videos on what it means to be yourself at work and how inclusivity at work positively impacts wellbeing.

The Company continued to promote its free service provided by a confidential team of mental wellbeing specialists, Live Well Work Well, by distributing wallet cards with details of the service across all stores and business areas. The Company also invested in supporting the Buddy Network, a peer-to-peer support group, to provide colleagues with a way to share experiences and support each other in managing physical or mental health conditions alongside work.

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued. M&S was one of the first major companies to remove the default retirement age in 2001 and has 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 2017, the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S. Employee-led diversity networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. These networks cover gender, ethnicity, disability, parents and sexual orientation/gender identity. Each network has support from a senior sponsor. Throughout the year employees have been involved in celebrating International Women's Day, Pride, Black History Month and the International Day of Persons with Disabilities.

Employees with disabilities

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

REPORT OF THE DIRECTORS

Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

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 (the 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, covering the period from 3 April 2016 to 1 April 2017, to the Audit Committee on 18 May 2017. 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. Two allegations regarding potential breaches of GSCOP were raised by suppliers during the relevant period. Neither is being pursued and both are considered closed by M&S.

Total Global M&S Greenhouse gas emissions 2016/2017

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance against our 2006/07 voluntary baseline, see the 2017 Plan A Report.

	2016/17 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	185	168	+10
Indirect emissions from energy (scope 2)	293	340	-14
Total statutory emissions (scope 1 and 2)	478	508	-6
Transport, energy T&D, waste and travel emissions (scope 3)	48	59	-19
Total gross/location-based emissions	526	567	-7
Carbon intensity measure (per 1,000 sq ft of salesfloor)	26	30	-13
Green tariffs and bio-methane procured	305	302	+1
Remaining market-based emissions	221	265	-17
Carbon offsets	221	265	-17
Total net operational emissions	0	0	Level

Emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance using 2015 DEFRA/DECC conversion factors. 2013/14 is the mandatory baseline year. As these emissions account for less than 10% of M&S's total carbon footprint, we also engage with suppliers and customers to address the most significant sources.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 1 April 2017. 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 and the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable 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 a going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

REPORT OF THE DIRECTORS

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose at any time with reasonable accuracy the financial position of the Company and the Group and to 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 the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 34 – 35 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/she 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 28 September 2017 and signed on its behalf by



AMANDA MELLOR
Director
London, 28 September 2017

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 1 April 2017 which comprise the Consolidated income statement, the Consolidated and Company statement 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 27 and C1 to C21.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 group's and of the parent company's affairs as at 1 April 2017 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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



Catherine Lucy Newman, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
28 September 2017

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 1 April 2017			53 weeks ended 2 April 2016		
		Before adjusted items £m	Adjusted items £m	Total £m	Before adjusted items £m	Adjusted items £m	Total £m
Revenue	2, 3	10,622.0	–	10,622.0	10,555.4	–	10,555.4
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Profit before tax	4, 5	613.8	(483.2)	130.6	689.6	(200.8)	488.8
Income tax expense	7	(122.4)	61.9	(60.5)	(118.8)	34.4	(84.4)
Profit for the year		491.4	(421.3)	70.1	570.8	(166.4)	404.4
Attributable to:							
Owners of the parent		492.8	(421.3)	71.5	573.3	(166.4)	406.9
Non-controlling interests		(1.4)	–	(1.4)	(2.5)	–	(2.5)
		491.4	(421.3)	70.1	570.8	(166.4)	404.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Profit for the year		70.1	404.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	10	(68.9)	346.2
Tax charge/(credit) on items that will not be reclassified		25.3	(45.6)
		(43.6)	300.6
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences		31.0	7.3
Fair value movement on available for sale investments		(9.3)	(14.9)
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		56.1	(30.1)
– reclassified and reported in profit or loss		(72.4)	(22.1)
– amount recognised in inventories		(20.1)	5.9
Tax credit on cash flow hedges and net investment hedges		4.1	6.5
		(10.6)	(47.4)
Other comprehensive (expense)/income for the year, net of tax		(54.2)	253.2
Total comprehensive income for the year		15.9	657.6
Attributable to:			
Owners of the parent		17.3	660.1
Non-controlling interests		(1.4)	(2.5)
		15.9	657.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017 £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Intangible assets	13	709.0	797.3
Property, plant and equipment	14	4,792.0	5,027.1
Investment property		15.5	15.5
Investment in joint ventures		7.0	6.9
Other financial assets	15	10.3	19.6
Retirement benefit asset	10	706.0	851.0
Trade and other receivables	16	234.1	234.7
Derivative financial instruments	20	56.8	74.0
Deferred tax assets	22	-	-
		6,530.7	7,026.1
Current assets			
Inventories		758.5	799.9
Other financial assets	15	2,566.7	2,578.4
Trade and other receivables	16	318.6	328.0
Derivative financial instruments	20	163.1	72.1
Current tax assets		-	1.6
Cash and cash equivalents	17	468.6	247.6
		4,275.5	4,027.5
Total assets		10,806.2	11,053.7
Liabilities			
Current liabilities			
Trade and other payables	18	1,553.8	1,617.7
Partnership liability to the Marks & Spencer UK Pension Scheme	11	71.9	71.9
Borrowings and other financial liabilities	19	518.0	297.5
Derivative financial instruments	20	10.5	28.5
Provisions	21	147.2	14.0
Current tax liabilities		66.6	75.2
		2,368.0	2,104.8
Non-current liabilities			
Retirement benefit deficit	10	13.2	26.9
Trade and other payables	18	328.5	353.0
Partnership liability to the Marks & Spencer UK Pension Scheme	11	324.6	383.8
Borrowings and other financial liabilities	19	1,711.7	1,774.7
Derivative financial instruments	20	0.8	0.2
Provisions	21	113.5	52.0
Deferred tax liabilities	22	281.6	339.0
		2,773.9	2,929.6
Total liabilities		5,141.9	5,034.4
Net assets		5,664.3	6,019.3
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		17.3	32.3
Retained earnings		4,546.3	4,882.2
Total shareholders' equity		5,670.2	6,021.1
Non-controlling interests in equity		(5.9)	(1.8)
Total equity		5,664.3	6,019.3

The financial statements were approved by the Board and authorised for issue on 28 September 2017. The financial statements also comprise the notes on pages 13 to 41.

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	Foreign exchange reserve ¹ £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total £m
As at 29 March 2015	712.5	386.1	8.0	64.3	(12.6)	4,491.5	5,649.8	(0.8)	5,649.0
Profit/(loss) for the year	–	–	–	–	–	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(0.5)	7.8	–	7.3	–	7.3
Remeasurements of retirement benefit schemes	–	–	–	–	–	346.2	346.2	–	346.2
Tax charge on items that will not be reclassified	–	–	–	–	–	(45.6)	(45.6)	–	(45.6)
Fair value movement in equity for available for sales assets	–	–	–	–	–	(14.9)	(14.9)	–	(14.9)
Cash flow hedges and net investment hedges									
– fair value movement recognised in other comprehensive income	–	–	–	(21.8)	–	(8.3)	(30.1)	–	(30.1)
– reclassified and reported in profit or loss ²	–	–	–	(22.1)	–	–	(22.1)	–	(22.1)
– amount recognised in inventories	–	–	–	5.9	–	–	5.9	–	5.9
Tax on cash flow hedges and net investment hedges	–	–	–	6.5	–	–	6.5	–	6.5
Other comprehensive income/(expense)	–	–	–	(32.0)	7.8	277.4	253.2	–	253.2
Total comprehensive income/(expense)	–	–	–	(32.0)	7.8	684.3	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	(4.8)	4,887.0	6,021.1	(1.8)	6,019.3
As at 3 April 2016	712.5	386.1	8.0	32.3	(4.8)	4,887.0	6,021.1	(1.8)	6,019.3
Profit/(loss) for the year	–	–	–	–	–	71.5	71.5	(1.4)	70.1
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(4.3)	35.3	–	31.0	–	31.0
Remeasurements of retirement benefit schemes	–	–	–	–	–	(68.9)	(68.9)	–	(68.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	25.3	25.3	–	25.3
Fair value movement in equity for available for sale assets	–	–	–	–	–	(9.3)	(9.3)	–	(9.3)
Cash flow hedges and net investment hedges									
– fair value movement recognised in other comprehensive income	–	–	–	77.7	–	(21.6)	56.1	–	56.1
– reclassified and reported in profit or loss ²	–	–	–	(72.4)	–	–	(72.4)	–	(72.4)
– amount recognised in inventories	–	–	–	(20.1)	–	–	(20.1)	–	(20.1)
Tax on cash flow hedges and net investment hedges	–	–	–	4.1	–	–	4.1	–	4.1
Other comprehensive income/(expense)	–	–	–	(15.0)	35.3	(74.5)	(54.2)	–	(54.2)
Total comprehensive income/(expense)	–	–	–	(15.0)	35.3	(3.0)	17.3	(1.4)	15.9

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	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Foreign exchange reserve ¹ £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total £m
Transactions with owners:									
Dividends	-	-	-	-	-	(379.1)	(379.1)	-	(379.1)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	(2.7)	(2.7)
Credit for share-based payments	-	-	-	-	-	13.5	13.5	-	13.5
Deferred tax on share schemes	-	-	-	-	-	(2.6)	(2.6)	-	(2.6)
As at 1 April 2017	712.5	386.1	8.0	17.3	30.5	4,515.8	5,670.2	(5.9)	5,664.3

¹In the prior year financial statements, the foreign exchange reserve was presented within retained earnings.

²Amounts 'reclassified and reported in profit or loss' includes the revaluation of the cross currency swaps, offsetting the revaluation of the US dollar hedged bonds within finance costs.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flows from operating activities			
Cash generated from operations	25	1,165.7	1,311.3
Income tax paid		(98.0)	(99.3)
Net cash inflow from operating activities		1,067.7	1,212.0
Cash flows from investing activities			
Proceeds on property disposals		27.0	30.6
Purchase of property, plant and equipment		(309.1)	(363.3)
Purchase of intangible assets		(101.1)	(186.8)
Reduction/(purchase) of current financial assets		4.6	(7.2)
Interest received		6.6	6.8
Acquisition of subsidiary		-	(56.2)
Net cash used in investing activities		(372.0)	(576.1)
Cash flows from financing activities			
Interest paid ¹		(111.2)	(113.5)
Cash (outflow)/inflow from borrowings		(32.7)	3.1
Repayment of syndicated loan notes		(215.3)	(19.9)
Issuance of medium-term notes		300.0	-
Movement in parent company loan		7.1	21.0
Decrease in obligations under finance leases		(2.0)	(2.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		(57.9)	(56.0)
Equity dividends paid		(379.1)	(302.1)
Purchase of own shares by employee trust		-	(10.9)
Share buy back		-	(150.7)
Net cash used in financing activities		(491.1)	(631.4)
Net cash inflow from activities		204.6	4.5
Effects of exchange rate changes		5.6	3.7
Opening net cash		196.0	187.8
Closing net cash	26	406.2	196.0

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

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		420.9	206.3
Net cash inflow from activities		204.6	4.5
(Decrease)/increase in current financial assets		(11.6)	136.9
Decrease in debt financing		7.9	75.2
Exchange and other non-cash movements		(4.3)	(2.0)
Movement in net debt		196.6	214.6
Closing net debt	26	617.5	420.9

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

GENERAL INFORMATION

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

BASIS OF PREPARATION

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

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 33 including the Group's principal risks and uncertainties as set out on pages 30 to 33 of the M&S Group plc annual report, which does not form part of this 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 for the current financial year. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year, and are applicable for the Group, are the Annual Improvements to IFRSs: 2012-2014 cycle. These have not had a material impact on the Group.

NEW ACCOUNTING STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

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

- > IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 and introduces:
 - new requirements for the classification and measurement of financial assets and financial liabilities;
 - a new model for recognising provisions based on expected credit losses; and
 - simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

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

- > IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. The Group has completed an assessment on the impact of IFRS 15 and it is expected adoption will not have a material impact on any of the Group's revenue streams.
- > IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. IFRS 16 is not yet endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model. As such it requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease. Accounting requirements for lessors are substantially unchanged from IAS 17.

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

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

Alternative Performance Measures

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusted items for the 52-week period ended 1 April 2017:

Significant pension charges arising as a result of changes to the defined benefit scheme's rules and practices; significant restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business; net gains and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated; impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business; adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of

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possible mis-selling of M&S Bank financial products; and various legal settlements that are significant in value to the results of the Group or to a segment.

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

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

ACCOUNTING CONVENTION

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

BASIS OF CONSOLIDATION

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

SUBSIDIARIES

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

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

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

REVENUE

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

SUPPLIER INCOME

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

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

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

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

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

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

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

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

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

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

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 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 curtailment, is charged to operating profit in the year.

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

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

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

INTANGIBLE ASSETS

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Any impairment in value is recognised within the income statement.

LEASING

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

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

LEASEHOLD PREPAYMENTS

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROVISIONS

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

SHARE-BASED PAYMENTS

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

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

FOREIGN CURRENCIES

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

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

TAXATION

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

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

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

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

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

The Group designates certain hedging derivatives as either:

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

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

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

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

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

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 designates the hedge relationship.

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

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to the income statement for the period.

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

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

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

EMBEDDED DERIVATIVES

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

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

CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

CRITICAL ACCOUNTING JUDGEMENTS

Adjusted items The directors believe that the adjusted profit measures provide additional useful information for shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee.

The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusted items requires significant management judgement after considering the nature and intentions of a transaction.

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

SOURCES OF ESTIMATION UNCERTAINTY

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

The useful lives of property, plant and equipment are reviewed by management annually. See note 14 for further details.

Impairment of property, plant and equipment Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations. This method requires the Group to determine the appropriate period over which to assess future cash flows and discount rate assumptions. See notes 13 and 14 for further details on the Group's assumptions and associated sensitivities.

Post-retirement benefits The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is determined using fair value estimates provided by the manager of the investment or fund. See note 10 for further details on the impact of changes in the key assumptions and estimates and note 11 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

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

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

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

2 SEGMENTAL INFORMATION

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

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

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

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

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

	52 weeks ended 1 April 2017				53 weeks ended 2 April 2016			
	Management £m	Logistics adjustment ¹ £m	Adjusted items ² £m	Statutory £m	Management £m	Logistics adjustment ¹ £m	Adjusted items ² £m	Statutory £m
Clothing & Home revenue	3,792.7	—	—	3,792.7	3,961.3	—	—	3,961.3
Food revenue	5,649.0	—	—	5,649.0	5,509.5	—	—	5,509.5
UK revenue	9,441.7	—	—	9,441.7	9,470.8	—	—	9,470.8
Franchise	314.0	—	—	314.0	329.7	—	—	329.7
Owned	866.3	—	—	866.3	754.9	—	—	754.9
International revenue	1,180.3	—	—	1,180.3	1,084.6	—	—	1,084.6
Group revenue	10,622.0	—	—	10,622.0	10,555.4	—	—	10,555.4
Clothing & Home gross profit	2,128.7				2,180.7			
Food gross profit	1,837.7				1,806.2			
UK gross profit	3,966.4	(360.5)	—	3,605.9	3,986.9	(300.9)	—	3,686.0
UK operating costs	(3,390.4)	360.5	(297.7)	(3,327.6)	(3,320.1)	300.9	(49.1)	(3,068.3)
M&S Bank	50.2	—	(44.1)	6.1	59.9	—	(50.3)	9.6
UK operating profit	626.2	—	(341.8)	284.4	726.7	—	(99.4)	627.3
International operating profit	64.4	—	(141.4)	(77.0)	58.2	—	(101.4)	(43.2)
Group operating profit	690.6	—	(483.2)	207.4	784.9	—	(200.8)	584.1
Finance income	36.2	—	—	36.2	21.1	—	—	21.1
Finance costs	(113.0)	—	—	(113.0)	(116.4)	—	—	(116.4)
Profit before tax	613.8	—	(483.2)	130.6	689.6	—	(200.8)	488.8

1. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £360.5m (last year £300.9m). Updates to the methodology have been made in the current year to include depreciation of the relevant Distribution Centres within gross margin. This is to ensure consistent treatment with the underlying warehousing costs. The prior year comparatives have not been restated.

2. Management profit excludes the adjusted items (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 5).

OTHER SEGMENTAL INFORMATION

	2017			2016		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	374.1	12.2	386.3	624.9	20.0	644.9
Depreciation and amortisation	592.3	31.7	624.0	531.9	30.9	562.8
Impairment and asset write-offs	72.7	31.2	103.9	60.8	98.8	159.6
Total assets	10,433.6	372.6	10,806.2	10,639.6	414.1	11,053.7
Non-current assets	6,288.5	242.2	6,530.7	6,763.0	263.1	7,026.1

3 EXPENSE ANALYSIS

	2017 Total £m	2016 Total £m
Revenue	10,622.0	10,555.4
Cost of sales	(6,534.2)	(6,427.0)
Gross profit	4,087.8	4,128.4
Selling and administrative expenses	(3,460.4)	(3,412.9)
Other operating income	63.2	69.4
Operating profit before adjusted items	690.6	784.9
Adjusted items (see note 5)	(483.2)	(200.8)
Operating profit	207.4	584.1

The selling and administrative expenses are further analysed below:

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

1. There is an additional £61.2m (last year £51.0m) of employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures note 9A.

4 PROFIT BEFORE TAXATION

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

	2017 £m	2016 £m
Net foreign exchange (gains)/losses	(0.2)	6.9
Cost of inventories recognised as an expense	5,776.1	5,778.6
Write-down of inventories to net realisable value	234.9	239.7
Depreciation of property, plant, and equipment		
– owned assets	456.1	412.7
– under finance leases	0.5	1.4
Amortisation of intangible assets	167.4	148.7
Profit on property disposals	–	(0.6)
Impairments and write-offs of assets	103.9	159.6
Operating lease rentals payable		
– property	350.1	337.1
– fixtures, fittings and equipment	4.3	3.5

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

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

5 ADJUSTED ITEMS

The total adjusted items reported for the 52-week period ended 1 April 2017 is a net charge of £483.2m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2017 £m	2016 £m
Strategic programmes:			
– changes to pay and pensions	21	(156.0)	–
– UK organisation	14, 21	(24.0)	–
– UK store estate	14, 21	(51.6)	(37.0)
– International store closures and impairments	14, 21	(132.5)	(31.6)
UK store impairments, asset write-offs and onerous lease charges	14, 21	(94.6)	–
M&S Bank charges incurred in relation to the insurance mis-selling provision		(44.1)	(50.3)
UK logistics	14, 21	9.8	9.2
Legal settlements		9.8	–
Other impairments ¹		–	(94.5)
IAS 39 fair value movement of embedded derivative		–	(2.0)
Net gain on acquisition of joint venture holding Bradford warehouse		–	5.4
Adjustments to profit before tax		(483.2)	(200.8)

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

CHANGES TO PAY AND PENSIONS (£156.0m)

On 25 May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. The consultation with employees on these changes completed on 2 September 2016.

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

STRATEGIC PROGRAMMES – UK ORGANISATION (£24.0m)

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

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

STRATEGIC PROGRAMMES – UK STORE ESTATE (£51.6m)

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

STRATEGIC PROGRAMMES – INTERNATIONAL STORE CLOSURES AND IMPAIRMENTS (£132.5m)

The Group has announced its intention to close its owned stores in ten international markets, resulting in the recognition of a cost of £130.5m in the period. The expected closure costs primarily relate to redundancy, lease exit and property dilapidations.

International store impairment testing during the year identified a number of stores where current and anticipated future performance does not support the carrying value of the stores, with a resulting impairment charge of £9.0m being incurred.

Offsetting these store impairments are credits of £7.0m relating to the reversal of historic impairments against five stores and the release of unutilised provisions on completion of the exit from the Balkans.

UK STORE IMPAIRMENTS, ASSET WRITE-OFFS AND ONEROUS LEASE CHARGES (£94.6m)

The UK store impairment testing during the year has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £39.4m has been incurred in respect of the impairment of assets associated with these stores. A future charge of £9.4m has been incurred in respect of onerous lease provisions associated with some of these stores. Refer to note 14 for further details of these impairments.

MARKS AND SPENCER PLC

Since the announcement of the new UK store estate strategy, we have conducted a review of the £4.8bn net book value of the property, plant and equipment on the Group's balance sheet. This has identified an historical under depreciation of leasehold buildings assets, resulting in a £45.8m one-off non-cash depreciation charge, relating almost entirely to assets capitalised prior to 2012/13. Of the £45.8m, £43.2m relates to assets in the UK and £2.6m relates to assets in Ireland. The Group has concluded that this adjustment is not material to any of the Group's previously issued financial statements. This cumulative adjustment to the depreciation charge will be recognised as an adjusted item in the financial statements of Marks and Spencer Group plc in the 2017/18 financial year.

M&S BANK CHARGES INCURRED IN RELATION TO THE INSURANCE MIS-SELLING PROVISION (£44.1m)

The Group's income from M&S Bank has been reduced by the deduction of our share of the estimated liability in both the current and prior years. The deduction in the period is £44.1m.

UK LOGISTICS (£9.8m CREDIT)

A net credit of £9.8m has been recognised in the year relating to an updated view of the estimated closure costs of legacy logistics sites associated with the transition to a single tier distribution network. This credit largely arises following a decision to retain two logistics warehouses within the network which had previously been identified for closure.

LEGAL SETTLEMENTS (£9.8m CREDIT)

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

6 FINANCE INCOME/COSTS

	2017 £m	2016 £m
Bank and other interest receivable	6.6	5.8
Unwind of discount on financial instruments	0.3	–
Pension net finance income (see note 10)	29.3	15.3
Finance income	36.2	21.1
Interest on bank borrowings	(2.8)	(3.6)
Interest payable on syndicated bank facility	(4.3)	(5.5)
Interest payable on medium-term notes	(91.2)	(89.9)
Interest payable on finance leases	(1.9)	(1.9)
Unwind of discount on financial instruments	–	(0.4)
Unwind of discount on provisions	(0.2)	(0.4)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(12.6)	(14.7)
Finance costs	(113.0)	(116.4)
Net finance costs	(76.8)	(95.3)

7 INCOME TAX EXPENSE

A. TAXATION CHARGE

	2017 £m	2016 £m
Current tax		
UK corporation tax on profits for the year at 20% (last year 20%)		
– current year	98.3	111.6
– adjustments in respect of prior years	(17.4)	(5.6)
UK current tax	80.9	106.0
Overseas current taxation		
– current year	8.9	12.4
– adjustments in respect of prior years	7.3	(0.5)
Total current taxation	97.1	117.9
Deferred tax		
– origination and reversal of temporary differences	(48.3)	(28.3)
– adjustments in respect of prior years	11.5	2.6
– changes in tax rate	0.2	(7.8)
Total deferred tax (see note 22)	(36.6)	(33.5)
Total income tax expense	60.5	84.4

B. TAXATION RECONCILIATION

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

	2017 £m	2016 £m
Profit before tax	130.6	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	26.1	97.8
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	4.7	2.3
Other income and expenses that are not taxable or allowable for tax purposes	(0.7)	(9.6)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(3.9)	(7.8)
Overseas profits taxed at rates different to those of the UK	(2.3)	(4.3)
Overseas tax losses where there is no relief anticipated in the foreseeable future	0.5	3.7
Adjustments to the current and deferred tax charges in respect of prior periods	1.4	(3.5)
Adjusted items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	–	2.6
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	16.9	–
– International store closures and impairments where no tax relief is available	26.0	15.3
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	(1.7)	–
– profits and losses on property disposals	–	(1.5)
– acquisition of Lima (Bradford) S.à r.l	–	(5.4)
– retranslation of deferred tax balances due to the change in statutory UK tax rates	4.1	–
– overseas profits taxed at rates different to those of the UK	(10.6)	(5.2)
Total income tax expense	60.5	84.4

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

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

	2017 £m	2016 £m
Profit before taxation	130.6	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	26.1	97.8
Disallowable accounting depreciation and other similar items	90.2	85.4
Deductible capital allowances	(67.2)	(71.5)
Allowable deductions for employee share schemes	1.0	(3.4)
Allowable deductions for employee pension schemes	(11.7)	(13.4)
Overseas profits taxed at rates different to those of the UK	(2.3)	(4.3)
Overseas tax losses where there is no immediate relief	0.5	3.7
Other income and expenses that are not taxable or allowable	3.8	7.6
Adjusted items:		
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	26.5	21.0
– International store closures and impairments where no tax relief is available	27.3	–
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	(1.8)	–
– pay and pensions where tax relief is due in the future	25.4	–
– profits and losses on property disposals	–	(0.5)
– UK property and investment deductions where no tax relief is available	–	7.5
– Lima (Bradford) S.à r.l acquisition accounting	–	(5.4)
– embedded derivative	–	4.7
– overseas profits taxed at rates different to those of the UK	(10.6)	(5.2)
Current year current tax charge	107.2	124.0
Represented by:		
UK current year current tax	98.3	111.6
Overseas current year current tax	8.9	12.4
	107.2	124.0
UK adjustments in respect of prior years	(17.4)	(5.6)
Overseas adjustments in respect of prior years	7.3	(0.5)
Total current taxation (note 7A)	97.1	117.9

8 DIVIDENDS

	2017 per share	2016 per share	2017 £m	2016 £m
Dividends on equity ordinary shares				
Paid interim dividend	6.8p	6.7p	193.8	191.0
Paid special dividend	2.6p	–	74.1	–
Paid interim dividend	3.9p	3.9p	111.2	111.1
	13.3p	10.6p	379.1	302.1

In addition, the directors have proposed and paid an interim dividend of 6.8p per share (last year 6.8p per share) amount to a dividend of £193.8m in respect of the year ended 1 April 2017. 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 the Operating Committee) were:

	2017 Total £m	2016 Total £m
Wages and salaries	1,333.8	1,278.8
Social security costs	89.7	80.6
Pension costs	100.3	102.0
Share-based payments (see note 12)	10.6	16.0
Employee welfare and other personnel costs	47.1	46.7
Capitalised staffing costs	(28.9)	(37.4)
Total aggregate remuneration¹	1,552.6	1,486.7

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

Details of key management compensation are given in note 27.

B. AVERAGE MONTHLY NUMBER OF EMPLOYEES

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

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 59,764 (last year 58,895).

	2017 £'000	2016 £'000
Highest paid director	1,642	2,039
Aggregate emoluments of all other directors	1,902	3,224

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

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

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

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

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

The most recent actuarial valuation of the Marks and Spencer UK Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. During the year the Group paid the final contribution of £28m, as agreed at the 2012 actuarial valuation, in respect of benefits already accrued by members. In addition, the UK DB pension scheme will continue to receive income from the Scottish Limited Partnership. See Note 11 for further details.

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

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

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

By funding its DB pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated.

This could occur for several reasons, for example:

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

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

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

	2017 £m	2016 £m
Total market value of assets	10,135.1	8,515.3
Present value of scheme liabilities	(9,433.3)	(7,682.3)
Net funded pension plan asset	701.8	833.0
Unfunded retirement benefits	(1.0)	(0.9)
Post-retirement healthcare	(8.0)	(8.0)
Net retirement benefit surplus	692.8	824.1

Analysed in the statement of financial position as:

Retirement benefit asset	706.0	851.0
Retirement benefit deficit	(13.2)	(26.9)
Net retirement benefit surplus	692.8	824.1

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

B. FINANCIAL ASSUMPTIONS

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

	2017 %	2016 %
Rate of increase in salaries	N/A ¹	1.00
Rate of increase in pensions in payment for service	2.0-3.2 ¹	1.9-3.0
Discount rate	2.55	3.40
Inflation rate	3.20	2.95
Long-term healthcare cost increases	7.20 ¹	6.95

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

C. DEMOGRAPHIC ASSUMPTIONS

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

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

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

D. SENSITIVITY ANALYSIS

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

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

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

E. ANALYSIS OF ASSETS

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

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

	2017 £m	2016 £m
Debt investments		
– government bonds net of repurchase agreements ¹	5,219.7	4,165.7
– corporate bonds	901.9	1,058.2
– asset-backed securities and structured debt	547.9	459.0
Scottish Limited Partnership interest (see note 11)	412.1	469.5
Equity investments – quoted	1,504.0	1,047.5
Equity investments – unquoted	315.1	236.7
Property	509.3	420.7
Derivatives		
– interest and inflation rate swap contracts	(28.9)	(101.5)
– foreign exchange contracts and other derivatives	204.2	142.0
Hedge and reinsurance funds	322.0	317.9
Cash and cash equivalents	158.3	190.5
Other	69.5	109.1
	10,135.1	8,515.3

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

All pension assets have quoted prices in an active market with the exception of £1,444.9m (last year £1,219.1m) of unquoted assets. The fair values of the above equity and debt investments are based on publicly available market prices wherever available. Unquoted investments, hedge funds

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

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

F. ANALYSIS OF AMOUNTS CHARGED AGAINST PROFITS

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

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

G. SCHEME ASSETS

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

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

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

H. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

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

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

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

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). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

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

The partnership liability in relation to the first interest of £396.5m (last year £455.7m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 1 April 2017 an interest charge of £12.6m (last year £14.7m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £412.1m (last year £469.5m). It is also included as a liability on the Group's statement of financial position as it is a transferable financial instrument. The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19. The associated liability is eliminated on consolidation.

12 SHARE-BASED PAYMENTS

This year a charge of £10.6m was recognised for share-based payments (last year charge of £16.0m). Of the total share-based payments charge, £10.9m (last year £9.5m) relates to the Save As You Earn Scheme and a credit of £3.6m (last year charge of £1.1m) relates to the Performance Share Plan. The remaining charge of £3.3m (last year £5.4m) is spread over the other share plans. An additional charge of £1.3m was recognised in relation to the Annual Bonus Scheme for 2016/17 under the Deferred Share Bonus Plan. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 66 to 78 of the Marks and Spencer Group plc annual report 2017 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

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

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

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

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

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

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

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

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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:

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

B. PERFORMANCE SHARE PLAN*

The Performance Share Plan is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2016/17 included Adjusted Earnings Per Share, Return on Capital Employed and free cash flow. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 66 to 78 of the Marks and Spencer Group plc annual report which does not form part of this report. Awards under this plan have been made in each year since 2005.

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

C. DEFERRED SHARE BONUS PLAN*

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

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

D. RESTRICTED SHARE PLAN*

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

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

E. REPUBLIC OF IRELAND SAVE AS YOU EARN SCHEME

Sharesave, the Company's SAYE Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten-year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

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

F. MARKS AND SPENCER EMPLOYEE BENEFIT TRUST

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

G. SHAREBUY

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

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

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 28 March 2015					
Cost or valuation	129.7	112.5	1,087.7	86.6	1,416.5
Accumulated amortisation and impairments	(34.4)	(55.8)	(466.9)	(1.2)	(558.3)
Net book value	95.3	56.7	620.8	85.4	858.2
Year ended 2 April 2016					
Opening net book value	95.3	56.7	620.8	85.4	858.2
Additions	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
Year ended 1 April 2017					
Opening net book value	77.2	18.7	627.7	73.7	797.3
Additions	–	–	0.3	100.8	101.1
Transfers	–	–	95.8	(107.6)	(11.8)
Asset impairments	–	–	6.1	(5.1)	1.0
Asset write-offs	–	–	(9.6)	(2.9)	(12.5)
Amortisation charge	–	(5.3)	(162.1)	–	(167.4)
Exchange difference	1.2	–	0.2	(0.1)	1.3
Closing net book value	78.4	13.4	558.4	58.8	709.0
At 1 April 2017					
Cost or valuation	131.9	112.3	1,368.3	82.5	1,695.0
Accumulated amortisation, impairments and write-offs	(53.5)	(98.9)	(809.9)	(23.7)	(986.0)
Net book value	78.4	13.4	558.4	58.8	709.0

Goodwill relates to the following:

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 2 April 2016	69.5	7.0	0.7	77.2
Exchange difference	–	1.2	–	1.2
Net book value at 1 April 2017	69.5	8.2	0.7	78.4

IMPAIRMENT TESTING

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

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 28 March 2015				
Cost	2,855.1	7,066.4	133.3	10,054.8
Accumulated depreciation, impairments and write-offs	(339.8)	(4,672.3)	(11.6)	(5,023.7)
Net book value	2,515.3	2,394.1	121.7	5,031.1
Year ended 2 April 2016				
Opening net book value	2,515.3	2,394.1	121.7	5,031.1
Additions	115.2	204.6	138.3	458.1
Transfers	1.7	186.8	(188.5)	–
Disposals	(5.0)	(0.6)	–	(5.6)
Asset impairments	(30.4)	(24.3)	(1.9)	(56.6)
Asset write-offs	–	(2.9)	–	(2.9)
Depreciation charge	(13.3)	(400.8)	–	(414.1)
Exchange difference	11.4	5.9	(0.2)	17.1
Closing net book value	2,594.9	2,362.8	69.4	5,027.1
At 2 April 2016				
Cost	2,981.6	7,476.3	82.9	10,540.8
Accumulated depreciation, impairments and write-offs	(386.7)	(5,113.5)	(13.5)	(5,513.7)
Net book value	2,594.9	2,362.8	69.4	5,027.1
Year ended 1 April 2017				
Opening net book value	2,594.9	2,362.8	69.4	5,027.1
Additions	–	76.2	209.0	285.2
Transfers	17.4	189.6	(196.2)	10.8
Disposals	(0.6)	(1.0)	–	(1.6)
Asset impairments	(11.6)	(68.6)	(1.9)	(82.1)
Asset write-offs	(6.0)	(1.8)	(2.5)	(10.3)
Depreciation charge	(57.3)	(399.3)	–	(456.6)
Exchange difference	10.0	9.2	0.3	19.5
Closing net book value	2,546.8	2,167.1	78.1	4,792.0
At 1 April 2017				
Cost	3,008.4	7,750.3	96.0	10,854.7
Accumulated depreciation, impairments and write-offs	(461.6)	(5,583.2)	(17.9)	(6,062.7)
Net book value	2,546.8	2,167.1	78.1	4,792.0

The net book value above includes land and buildings of £42.1m (last year £42.6m) and equipment of nil (last year £0.2m) where the Group is a lessee under a finance lease.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

In addition the Group has recognised additional impairment charges of £27.3m associated with stores approved for closure during the year, £13.1m associated with the exit from owned stores in ten international markets and £5.7m associated with the rationalisation of UK Head Offices. Offsetting these charges were impairment reversals of £7.4m following an updated view of the logistics strategy. These net charges have been recognised within adjusted items (see note 5). Depreciation charge includes a one-off charge of £45.8m. Refer to note 5 for further details.

15 OTHER FINANCIAL ASSETS

	2017 £m	2016 £m
Non-current		
Unlisted investments	3.0	3.0
Other Investments ¹	7.3	16.6
	10.3	19.6
Current		
Short-term investments ²	14.5	19.1
Amounts owed by parent companies	2,552.2	2,559.3
	2,566.7	2,578.4

1. Other Investments represents shares in Marks and Spencer Group plc held for issue against vested employee schemes.

2. Includes £5.3m (last year £3.6m) of money market deposit held by Marks and Spencer plc in an escrow account.

Non-current investments are carried as available-for-sale assets, these are measured at fair value with changes in their value taken to the statement of comprehensive income.

16 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Non-current		
Other receivables	15.1	12.9
Prepayments and accrued income	219.0	221.8
	234.1	234.7
Current		
Trade receivables	111.0	123.4
Less: provision for impairment of receivables	(1.7)	(0.7)
Trade receivables – net	109.3	122.7
Other receivables	28.5	50.4
Prepayments and accrued income	180.8	154.9
	318.6	328.0

Trade and other receivables that were past due but not impaired amounted to £20.8m (last year £19.6m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £31.5m (last year £19.4m) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial.

17 CASH AND CASH EQUIVALENTS

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

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

18 TRADE AND OTHER PAYABLES

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

19 BORROWINGS AND OTHER FINANCIAL LIABILITIES

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

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (See note 27).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US\$500m and US\$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross-currency interest rate swaps).
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, £425m (last year £425m) was swapped from fixed to floating rate.
6. The prior year comparatives have been split to show the interest accrued on medium-term notes and revaluation of medium-term notes on individual line items to be in line with the format of the current year note disclosure.

FINANCE LEASES

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain properties and equipment under finance leases. The weighted average lease term for equipment is three years (last year four years) and 95 years (last year 96 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

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 liquidation of any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

FINANCIAL RISK MANAGEMENT

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

(A) LIQUIDITY AND FUNDING RISK

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

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

At the year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2022. During the current financial year, the Group extended the facility by one year. This facility contains only one financial covenant, being the ratio of earnings before

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interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At the year end, these amounted to £150m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year £205m) was drawn under the committed facilities and £nil (last year £30m) was drawn under the uncommitted facilities.

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

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

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

The present value of finance lease liabilities is as follows:

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

(B) COUNTERPARTY RISK

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

Exposures are managed in accordance with the Group's treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (A-)/Moody's (A3) ((BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different to the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating, the lower rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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

	Credit rating of counterparty								Total £m
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £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

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

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash at hand and in transit of £116.9m (last year £98.4m).

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

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £111m (last year £114m), other receivables £44m (last year £63m), cash and cash equivalents £469m (last year £248m) and derivatives £220m (last year £146m).

(C) FOREIGN CURRENCY RISK

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

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

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

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

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

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €26m (last year €nil) and HK\$190m (last year HK\$1,245m) of derivatives were hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance resulted in a £2.3m gain (last year £nil) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £367m (last year £289m).

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

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

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.0% (last year 5.3%) and the weighted average time for which the rate is fixed is six years (last year seven years).

(D) INTEREST RATE RISK

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

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

At the balance sheet date, fixed rate borrowings amounted to £1,734.5m (last year £1,350.0m) representing the public bond issues and finance leases, amounting to 78% (last year 65%) of the Group's gross borrowings.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

SENSITIVITY ANALYSIS

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 2 April 2016				
Impact on income statement: gain/(loss)	9.2	(11.1)	–	–
Impact on other comprehensive income: (loss)/gain	(0.8)	1.0	136.0	(90.7)
At 1 April 2017				
Impact on income statement: gain/(loss)	7.8	(2.1)	–	–
Impact on other comprehensive income: (loss)/gain	(2.2)	0.3	246.4	(164.3)

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

FAIR VALUE HIERARCHY

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

- > Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- > Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's Level 2 financial instruments include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- > Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

There were no transfers between the levels of the fair value hierarchy. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost (see note 15).

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

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

In the prior year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the lease contract was between subsidiaries of the Group. Gains recognised in the prior year income statement related to the valuation of the embedded derivative in the lease contract up until the acquisition date.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £2,110.7m (last year £1,726.4m); the fair value of this debt was £2,236.7m (last year £1,868.3m).

CAPITAL POLICY

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

In doing so, the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 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 of Marks and Spencer Group plc, return capital to shareholders of Marks and Spencer Group plc, issue new shares or sell assets to reduce debt.

21 PROVISIONS

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

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

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

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

Please see note 5 for further information on these provisions.

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 19% and 17% (last year 20%, 19% and 18%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

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

DEFERRED TAX ASSETS/(LIABILITIES):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 28 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
Credited/(charged) to income statement	6.4	25.9	0.7	3.0	36.0	(2.5)	33.5
Credited/(charged) to equity/other comprehensive income	–	–	(51.4)	(1.8)	(53.2)	2.4	(50.8)
Other balance sheet movement	(7.6)	–	–	–	(7.6)	–	(7.6)
At 2 April 2016	(48.2)	(80.1)	(205.5)	(1.9)	(335.7)	(3.3)	(339.0)
At 3 April 2016	(48.2)	(80.1)	(205.5)	(1.9)	(335.7)	(3.3)	(339.0)
Credited/(charged) to income statement	3.5	17.9	14.5	1.4	37.3	(0.7)	36.6
Credited/(charged) to equity/other comprehensive income	–	–	21.6	4.8	26.4	(5.2)	21.2
Other balance sheet movement	1.4	–	–	(1.6)	(0.2)	(0.2)	(0.4)
At 1 April 2017	(43.3)	(62.2)	(169.4)	2.7	(272.2)	(9.4)	(281.6)

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

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

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

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures unless a material liability is expected to arise on an anticipated distribution of these earnings under applicable tax legislation. Undistributed earnings with a gross value of £38.2m (last year £30.6m) and a potential tax liability of £9.0m (last year £7.2m) have not been recognised on the basis that the distribution can be controlled by the Group.

23 ORDINARY SHARE CAPITAL

	2017		2016	
	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**

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

B. OTHER MATERIAL CONTRACTS

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

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

C. COMMITMENTS UNDER OPERATING LEASES

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

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

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

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

25 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS**CASH FLOWS FROM OPERATING ACTIVITIES**

	2017 £m	2016 £m
Profit on ordinary activities after taxation	70.1	404.4
Income tax expense	60.5	84.4
Finance costs	113.0	116.4
Finance income	(36.2)	(21.1)
Operating profit	207.4	584.1
Depreciation, amortisation and asset impairments and write-offs before adjusted items	589.5	576.8
Share-based payments charge	10.6	16.0
Pension costs charged against operating profit	100.3	102.0
Adjusted profit items	483.2	200.8
Decrease/(increase) in inventories	53.9	(22.5)
(Increase)/decrease in receivables	(9.9)	3.3
(Decrease)/increase in payables	(53.1)	32.4
Adjusted items cash outflows	(36.8)	(12.9)
Adjusted items non-cash	(44.1)	(50.3)
Cash contributions to pension schemes	(135.3)	(118.4)
Cash generated from operations	1,165.7	1,311.3

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

26 ANALYSIS OF NET DEBT

A. RECONCILIATION OF MOVEMENT IN NET DEBT

	At 3 April 2016 £m	Cash flow £m	Exchange and other non-cash movements £m	At 1 April 2017 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 19)	(297.3)	237.2	(10.2)	(70.3)
Less: amounts treated as financing (see below)	245.7	(248.0)	10.2	7.9
	(51.6)	(10.8)	–	(62.4)
Cash and cash equivalents (see note 17)	247.6	215.4	5.6	468.6
Net cash per statement of cash flows	196.0	204.6	5.6	406.2
Current financial assets (see note 15)	2,578.3	(11.6)	–	2,566.7
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(245.7)	248.0	(10.2)	(7.9)
Medium-term notes (see note 19)	(1,613.8)	(300.0)	2.4	(1,911.4)
Finance lease liabilities (see note 19)	(48.6)	2.0	(2.1)	(48.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(445.3)	57.9	–	(387.4)
Debt financing	(2,353.4)	7.9	(9.9)	(2,355.4)
Net debt	420.9	200.9	(4.3)	617.5

B. RECONCILIATION OF NET DEBT TO STATEMENT OF FINANCIAL POSITION

	2017 £m	2016 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17)	468.6	247.6
Current financial assets (see note 15)	2,566.7	2,578.3
Bank loans and overdrafts (see note 19)	(70.3)	(297.3)
Medium-term notes – net of hedging derivatives	(1,957.8)	(1,656.1)
Finance lease liabilities (see note 19)	(48.7)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 11 and 20)	(396.5)	(455.7)
	562.0	368.2
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	55.5	52.7
Total net debt	617.5	420.9

27 RELATED PARTY TRANSACTIONS

A. SUBSIDIARIES

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

B. HEDGE END JOINT VENTURE

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

C. MARKS & SPENCER UK PENSION SCHEME

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

D. KEY MANAGEMENT COMPENSATION

The Group has determined that the key management personnel constitute the Board directors for the whole year and the members of the Operating Committee with effect from November 2016, when the terms of reference of the Operating Committee were ratified. For the whole of the prior year the Group had determined that only members of the Board were key management personnel. Further information about the remuneration of individual directors is provided in the Remuneration Report within the Marks and Spencer Group PLC Annual Report which does not form part of this report.

	2017 £m	2016 £m
Salaries and short-term benefits	6.9	5.0
Termination Payments	–	0.1
Share-based payments	–	0.6
Total	6.9	5.7

E. OTHER RELATED PARTY TRANSACTIONS

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

F. TRANSACTIONS WITH PARENT COMPANY

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £379.1 (last year: £302.1m) and has decreased its loan to its parent company by £7.1m (last year increase of £129.7m). The outstanding balance was £2,552.2m (last year £2,559.2m) and was non-interest bearing. There were no other related party transactions.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Profit/(Loss) for the year	(182.7)	330.4
Other comprehensive income/(expense):		
Items that will not be classified to profit or loss		
Remeasurements of retirement benefit schemes	(51.7)	309.3
Tax charge on retirement benefit schemes	22.0	(38.2)
	(29.7)	271.1
Items that will be reclassified subsequently to profit or loss		
Fair value movement on available-for-sale assets	(9.3)	(14.9)
Cash flow hedges		
– fair value movements in other comprehensive income	45.5	12.7
– reclassified and reported in net profit	(82.4)	(22.2)
– amount recognised in inventories	(19.8)	3.4
Tax credit on cash flow hedges	7.0	1.3
	(59.0)	(19.7)
Other comprehensive (expense)/income for the year, net of tax	(88.7)	251.4
Total comprehensive (expense)/income for the year	(271.4)	581.8

The loss attributable to shareholders of the Company for the year is (£182.7m) (last year profit of £330.4m).

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017, £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Intangible assets	C6	617.9	698.5
Property, plant and equipment	C7	3,015.1	3,218.0
Investments in group undertakings	C8	946.6	1,097.6
Investment in joint ventures		5.9	5.9
Other financial assets	C9	10.3	19.6
Retirement benefit asset	C3	1,244.9	1,329.4
Trade and other receivables	C10	102.6	103.7
Derivative financial instruments	C14	56.8	95.3
		6,000.1	6,568.0
Current assets			
Inventories		687.7	721.6
Other financial assets	C9	5.3	3.6
Trade and other receivables	C10	4,584.0	3,460.2
Derivative financial instruments	C14	168.3	101.8
Cash and cash equivalents	C11	399.2	83.4
		5,844.5	4,370.6
Total assets		11,844.6	10,938.6
Liabilities			
Current liabilities			
Trade and other payables	C12	4,708.5	3,342.2
Borrowings and other financial liabilities	C13	514.9	334.0
Derivative financial instruments	C14	15.3	37.0
Provisions	C15	46.0	8.1
Current tax liabilities		46.4	51.7
		5,331.1	3,773.0
Non-current liabilities			
Retirement benefit deficit	C3	8.0	8.0
Trade and other payables	C12	525.2	528.5
Borrowings and other financial liabilities	C13	1,705.3	1,726.2
Derivative financial instruments	C14	0.8	0.2
Provisions	C15	109.0	47.7
Deferred tax liabilities	C16	304.5	354.2
		2,652.8	2,664.8
Total liabilities		7,983.9	6,437.8
Net assets		3,860.7	4,500.8
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		18.4	46.6
Retained earnings		2,735.7	3,347.6
Total equity		3,860.7	4,500.8

The financial statements were approved by the Board and authorised for issue on 28 September 2017. The financial statements also comprise the notes on pages 46 to 66.



Helen Weir, Director

Registered number:

00214436

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 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 hedges						
- 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
At 3 April 2016	712.5	386.1	8.0	46.6	3,347.6	4,500.8
Profit/(loss) for the year	-	-	-	-	(182.7)	(182.7)
Other comprehensive income:						
Remeasurements of retirement benefit schemes	-	-	-	-	(51.7)	(51.7)
Tax charge on retirement benefit schemes	-	-	-	-	22.0	22.0
Fair value movement in equity on available-for-sale assets	-	-	-	-	(9.3)	(9.3)
Cash flow hedges						
- fair value movements in other comprehensive income	-	-	-	67.0	(21.5)	45.5
- reclassified and reported in net profit	-	-	-	(82.4)	-	(82.4)
- amount recognised in inventories	-	-	-	(19.8)	-	(19.8)
Tax on cash flow hedges	-	-	-	7.0	-	7.0
Other comprehensive income	-	-	-	(28.2)	(60.5)	(88.7)
Total comprehensive income	-	-	-	(28.2)	(243.2)	(271.4)
Transactions with owners:						
Dividends	-	-	-	-	(379.1)	(379.1)
Release for share-based payments	-	-	-	-	13.2	13.2
Deferred tax on share schemes	-	-	-	-	(2.8)	(2.8)
At 1 April 2017	712.5	386.1	8.0	18.4	2,735.7	3,860.7

COMPANY STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flows from operating activities			
Cash generated from operations	C19	1,065.1	1,100.7
Income tax paid		(87.6)	(90.4)
Net cash inflow from operating activities		977.5	1,010.3
Cash flows from investing activities			
Purchase of property, plant and equipment		(302.8)	(343.3)
Proceeds from sale of property, plant and equipment		27.0	5.6
Purchase of intangible assets		(90.1)	(186.4)
Reduction of non-current financial assets		–	0.7
(Purchase)/sale of current financial assets		(1.7)	(2.4)
Interest received		0.2	0.1
Acquisition of subsidiary		–	(56.2)
Net cash used in investing activities		(367.4)	(581.9)
Cash flows from financing activities			
Interest paid		(90.5)	(94.5)
Cash (outflow)/inflow from borrowings		(19.8)	30.0
(Repayment) of syndicated loan notes		(215.3)	(19.9)
Issuance of medium-term notes		300.0	–
Movement in intercompany loans treated as financing		336.4	(73.2)
Decrease in obligations under finance leases		(1.7)	(2.0)
Equity dividends paid		(379.1)	(302.1)
Purchase of shares in ultimate parent company held in employee trust		–	(10.9)
Net cash used in financing activities		(70.0)	(472.6)
Net cash inflow/(outflow) from activities		540.1	(44.2)
Opening net cash		31.8	76.0
Closing net cash	C11	571.9	31.8

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 21 of the Group financial statements.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement. The loss for the year was £182.7m (2016: profit of £330.4m).

C2 DIVIDENDS

	2017 per share	2016 per share	2017 £m	2016 £m
Dividends on equity ordinary shares				
Paid interim dividend	6.8p	6.7p	193.8	191.0
Paid special dividend	2.6p	N/A	74.1	N/A
Paid interim dividend	3.9p	3.9p	111.2	111.1
	13.3p	10.6p	379.1	302.1

In addition, the directors have proposed and paid an interim dividend of 6.8p per share (last year 6.8p per share) amounting to a dividend of £193.8m in respect of the year ended 1 April 2017. 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 (DB) arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

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

The most recent actuarial valuation of the Marks and Spencer Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. During the year the Company paid the final contribution of £28m, as agreed at the 2012 actuarial valuation, in respect of benefits already accrued by members. In addition, the DB pension scheme will continue to receive income from the Scottish Limited Partnership. See Note C4 for further details.

The DC 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 the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 53,661 active members (last year 40,712) and some 12,866 deferred members (last year 8,823).

The total Company retirement benefit cost was £119.6m (last year £50.0m). Of this, £77.4m (last year £12.6m) relates to the DB pension scheme including curtailment charges and £41.9m (last year £37.1m) to the DC plan and £0.3m (last year £0.3m) relates to other retirement benefit schemes.

By funding its DB pension scheme, 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 than that assumed, resulting in higher payments from the schemes.
- > Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that lead to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.
- > Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Company is exposed to additional risks through its obligation to the DB pension scheme via its interest in the Scottish Limited Partnership (see note C4). 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 to the pension scheme, or an increase in the collateral to be provided by the Company.

C3 RETIREMENT BENEFITS CONTINUED

A. Pensions and other post-retirement liabilities

	2017 £m	2016 £m
Total market value of assets	10,569.6	8,902.1
Present value of scheme liabilities	(9,324.7)	(7,572.7)
Net funded pension plan asset	1,244.9	1,329.4
Post-retirement healthcare	(8.0)	(8.0)
Net retirement benefit asset	1,236.9	1,321.4
Analysed in the statement of financial position as:		
Retirement benefit asset	1,244.9	1,329.4
Retirement benefit deficit	(8.0)	(8.0)
	1,236.9	1,321.4

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

B. Financial assumptions

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

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

¹ There are no increases in salaries required as the DB scheme is now closed to future accrual

The inflation rate of 3.20% (last year 2.95%) 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 2.20% (last year 1.95%) 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 1 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 lite tables. The life expectancies underlying the valuation are as follows:

		2017	2016
Current pensioners (at age 65)	– males	23.2	23.1
	– females	24.7	24.6
Future pensioners (at age 65)	– males	N/A ¹	23.6
	– females	N/A ¹	26.2
Deferred pensioners (at age 65)	– males	24.7	24.1
	– females	27.1	26.4

¹ No future pensioners currently in an active status as all employees in the DB scheme from 1 April 2017 are in a deferred status due to the decision to close the DB scheme to future accrual

D. Analysis of assets

The investment strategy of the DB 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 92% of interest rate movements and 90% 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:

	2017 £m	2016 £m
Debt investments		
– government	5,195.1	4,137.1
– corporate bonds	896.3	1,058.2
– asset backed securities and structured debt	547.9	459.0
Scottish Limited Partnership interest (see note C4)	950.7	948.0
Equity investments – quoted	1,447.8	1,002.3
Equity investments – unquoted	315.1	236.7
Property	509.3	420.7
Derivatives		
– interest and inflation rate swap contracts	(28.9)	(101.5)
– foreign exchange contracts and other derivatives	204.2	142.0
Hedge and reinsurance funds	322.0	317.9
Cash and cash equivalents	158.2	188.7
Other	51.9	93.0
	10,569.6	8,902.1

All pension assets have quoted prices in an active market with the exception of £1,444.9m (Last year: £1,219m) of unquoted assets. 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 Scottish Limited Partnership interest is valued at the net present value of the future expected distributions from the partnership. 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 DB scheme indirectly held 193,506 (last year 169,509) ordinary shares in Marks and Spencer Group plc 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:

	2017 £m	2016 £m
Current service cost	(47.0)	(90.1)
Administration costs	(3.0)	(3.0)
Past service costs – curtailment charge	(128.0)	(1.0)
Net interest income	58.4	44.1
Total	(119.6)	(50.0)
Remeasurement on the net defined benefit surplus:		
actual return on scheme assets excluding amounts included in net interest income	(1,567.8)	176.0
actuarial gain – experience	(0.2)	(164.8)
actuarial loss – demographic assumptions	–	100.8
actuarial gain/(loss) – financial assumptions	1,619.7	(421.3)
Components of defined benefit gain recognised in other comprehensive income	51.7	(309.3)
Total	(67.9)	(359.3)

The closure of the DB pension scheme to future accrual has resulted in a one-off curtailment of £127.0m in the period which relates to the removal of the 1% salary cap on past service accruals, and replacement with the higher CPI rate as current active DB members become deferred members. There were also some curtailment changes incurred before the closure of the scheme was announced.

F. Scheme assets

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

	2017 £m	2016 £m
Fair value of scheme assets at start of year	8,902.1	8,983.6
Interest income based on discount rate	311.7	289.4
Actual return on scheme assets excluding amounts included in net interest income	1,567.8	(176.0)
Employer contributions	128.7	110.2
Benefits paid	(337.7)	(302.1)
Administration costs	(3.0)	(3.0)
Fair value of scheme assets at end of year	10,569.6	8,902.1

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:

	2017 £m	2016 £m
Present value of obligation at start of year	7,580.7	8,031.7
Current service cost	88.9	90.1
Curtailement charge	128.0	1.0
Interest cost	253.3	245.3
Benefits paid	(337.7)	(302.1)
Actuarial (gain) – experience	(0.2)	(164.8)
Actuarial loss – demographic assumptions	-	100.8
Actuarial loss/(gain)– financial assumptions	1,619.7	(421.3)
Present value of obligation at end of year	9,332.7	7,580.7
Analysed as:		
Present value of pension scheme liabilities	9,324.7	7,572.7
Post-retirement healthcare	8.0	8.0
Present value of obligation at end of year	9,332.7	7,580.7

The average duration of the defined benefit obligation at 1 April 2017 is 19 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:

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

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

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 Partnership). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Company retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further £36.4m annually from 2017 until 2031.

The partnership liability in relation to the first interest of £396.5m (last year £455.7m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 1 April 2017 an interest charge of £12.6m (last year £14.7m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £412.1m (last year £469.5m). It is also included as a liability on the Company's statement of financial position as it is a transferable financial instrument. The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19. The associated liability is eliminated on consolidation.

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 28 March 2015			
Cost or valuation	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 or valuation	1,221.7	75.2	1,296.9
Accumulated amortisation	(598.4)	–	(598.4)
Net book value	623.3	75.2	698.5
Year ended 1 April 2017			
Opening net book value	623.3	75.2	698.5
Additions	–	103.3	103.3
Transfers	94.9	(107.7)	(12.8)
Disposals	(0.5)	–	(0.5)
Asset write-offs and impairments	(3.5)	(6.4)	(9.9)
Amortisation charge	(160.7)	–	(160.7)
Closing net book value	553.5	64.4	617.9
At 1 April 2017			
Cost or valuation	1,312.6	64.4	1,377.0
Accumulated amortisation	(759.1)	–	(759.1)
Net book value	553.5	64.4	617.9

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 28 March 2015				
Cost	1,067.9	6,555.1	107.6	7,730.6
Accumulated depreciation and write-offs	(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 1 April 2017				
Cost	1,057.8	6,886.5	66.1	8,010.4
Accumulated depreciation and write-offs	(121.6)	(4,670.8)	–	(4,792.4)
Net book value	936.2	2,215.7	66.1	3,218.0
Year ended 1 April 2017				
Opening net book value	936.2	2,215.7	66.1	3,218.0
Additions	–	68.6	206.4	275.0
Transfers	15.1	187.1	(190.5)	11.7
Disposals	(0.6)	(1.0)	–	(1.6)
Asset write-offs	(1.9)	(3.4)	(1.3)	(6.6)
Asset impairments	(9.4)	(52.9)	(1.8)	(64.1)
Depreciation charge	(46.2)	(371.1)	–	(417.3)
Closing net book value	893.2	2,043.0	78.9	3,015.1
At 1 April 2017				
Cost	1,062.9	7,088.3	80.2	8,231.4
Accumulated depreciation and write-offs	(169.7)	(5,045.3)	(1.3)	(5,216.3)
Net book value	893.2	2,043.0	78.9	3,015.1

The net book value above includes land and buildings of £35.5m (last year £36.3m) and equipment of nil (last year £0.2m) 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 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
Year ended 1 April 2017			
Opening net book value	1,097.1	0.5	1,097.6
Additions	–	–	–
Disposals	(64.5)	–	(64.5)
Provision for impairment	(86.5)	–	(86.5)
Closing net book value	946.1	0.5	946.6
At 1 April 2017			
Cost	1,324.4	0.5	1,324.9
Provision for impairment	(378.3)	–	(378.3)
Net book value	946.1	0.5	946.6

The investment in the company Per Una was impaired in the prior 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.

					Proportion of voting rights and shares held by:
	Registered address	Principal activity	Country of incorporation and operation	Company	A subsidiary
Amethyst Leasing (Holdings) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	100%	–
Amethyst Leasing (Properties) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	–	100%
Andis SARL	48, Rue de la Chaussée-d'Antin 75009 Paris, France	Dormant	France	–	100%
Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Holding company	Republic of Ireland	100%	–
Busyexport Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Hedge End Park Limited	33, Holborn, London, EC1N 2HT	Property investment	United Kingdom	50%	–
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Holding company	Guernsey	–	100%
M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Holding company	Spain	–	100%
M&S Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	100%	–
M&S Poland sp. z o.o.	UL Marszałkowska 104/122, 00-017 Warszawa, Poland	Retailing	Poland	–	100%
M&S Services S.R.O.	Vyskocilova 14814, 14000 Praha 4, Michle, Czech Republic	Distribution	Czech Republic	–	100%
Manford (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	100%	–
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Dormant	Portugal	–	100%
Marks & Spencer Canada Incorporated	40, Wellington Row, Saint John, NB E2L 4S3 Canada	Holding company	Canada	–	100%
Marks and Spencer Company Archive CIC	Waterside House, 35, North Wharf Road, London, W2 1NW	Archive facilities	United Kingdom	–	–
Marks & Spencer Holdings Canada Incorporated	40, Wellington Row, Saint John, NB E2L 4S3 Canada	Holding company	Canada	–	100%
Marks & Spencer Inc.	40, Wellington Row, Saint John, NB E2L 4S3 Canada	Dormant	Canada	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 Investments continued

B. Subsidiary undertakings continued

	Registered address	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
				Company	A subsidiary
Marks & Spencer Outlet Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Staffing	United Kingdom	100%	–
Marks & Spencer Services Inc.	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	Dormant	USA	100%	–
Marks & Spencer Simply Foods Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Retailing	United Kingdom	100%	–
Marks & Spencer Ventures Finance LLC	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	Dormant	USA	–	100%
Marks and Sparks Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	100%	–
Marks and Spencer (Aldemey) Limited	Linwood, Alles es Fees, Aldemey	Dormant	Guernsey	–	100%
Marks and Spencer (Asia Pacific) Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9, Canton Road, Kowloon, Hong Kong	Retailing and sourcing	Hong Kong	–	100%
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Dormant	Australia	100%	–
Marks and Spencer (Belgium) SPRL	4 th floor, 97 Rue Royale, 1000 Brussels, Belgium	Retailing	Belgium	–	100%
Marks and Spencer (Bradford) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property Investment	United Kingdom	–	100%
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9, Canton Road, Kowloon, Hong Kong	Holding company	Hong Kong	–	100%
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Retailing	Hungary	–	100%
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millennia, 4 th Floor, India Lake Wing, #1 Murphy Road, Bangalore, 560008, India	Sourcing and wholesaling	India	–	100%
Marks and Spencer (Ireland) Limited ^a	24-27 Mary Street, Dublin 1, Ireland	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Israel) Limited	31, Ahad Haam Street, Tel Aviv 65202, Israel	Dormant	Israel	83.3%	–
Marks and Spencer (Jersey) Limited	7-11 Britannia Place, Bath Street, St Helier	Dormant	Jersey	–	100%
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Holding company	The Netherlands	–	100%
Marks and Spencer (Northern Ireland) Limited	8, Leganbank Road, Belfast, BT1 3LR	Non-trading	United Kingdom	100%	–
Marks and Spencer (Property Investments) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer (Shanghai) Limited	Unit 03-04, 6/F, ECO city, 1788, 1788 West Nan Jing Road, Shanghai, China	Sourcing	China	–	100%
Marks and Spencer (Shanghai) Limited Dongguan Branch	Suite 1507, Wanda Centre, 208 Dongzhong road, Dongcheng District, Dongguan, Guangdong, P.R. China	Sourcing	China	–	– ^a
Marks and Spencer (Singapore) Investments Pte. Ltd	77, Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Holding company	Singapore	–	100%
Marks and Spencer (Thailand) Limited	1011 Supalai Grand Tower, 24 th floor, Rama 3 Road, Kwaeng Chongnonsi, Khet Yannawa, Bangkok 10120, Thailand	Dormant	Thailand	99.7%	–
Marks and Spencer 2005 (Brooklands Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Chester Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Chester Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 Investments continued

B. Subsidiary undertakings continued

	Registered address	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
				Company	A subsidiary
Marks and Spencer 2005 (Hedge End Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kensington Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Parman House Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Pudsey Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer 2005 (Warrington Gemini Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer Chester Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	–	100%
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi Istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Sourcing and wholesaling	Turkey	–	100%
Marks and Spencer (Commercial Shanghai) Limited	863 Nanjing Road West, Jin An District, Shanghai, China	Retailing	China	–	100%
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Wyskoclova 1481/4, Czech Republic	Retailing	Czech Republic	–	100%
Marks and Spencer Guernsey Investments LLP	Waterside House, 35, North Wharf Road, London, W2 1NW	Financial services	United Kingdom	–	– ⁴
Marks and Spencer Hungary Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Holding company	United Kingdom	–	100%
Marks and Spencer International Holdings Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Holding company	United Kingdom	100%	–
Marks and Spencer Investments	Waterside House, 35, North Wharf Road, London, W2 1NW	Financial services	United Kingdom	–	100%
Marks and Spencer BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Holding company	The Netherlands	–	100%
Marks and Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Retailing	Greece	–	80%
Marks and Spencer GmbH in liq. (in liquidation)	Stern gasse 13, Vienna, Austria	Dormant	Austria	–	100%
Marks and Spencer Croatia DOO (in liquidation)	Draškovićeva ul, 82, 10000, Zagreb, Croatia	Retailing	Croatia	–	100%
Marks and Spencer Romania SA	No. 262 Timisoara Boulevard, Anchor Plaza, 3 rd Floor premises 3B-1, 6 th District, Bucharest, Romania	Retailing	Romania	–	100%
Marks and Spencer DOO Beograd (in liquidation)	Patrisa Lumumbe no. 70, 11000 Belgrade	Retailing	Serbia	–	100%
Marks and Spencer Montenegro DOO Podgorica (in liquidation)	C/O Eurofast Global Limited, 112 Bul Svetog Petra, Cetinjskog, 8100 Podgorica, Montenegro	Retailing	Montenegro	–	100%
Marks and Spencer plc Bangladesh Liaison Office	Level 6, Concord IK Tower, Plot#2, North Avenue, Gulshan 2, Dhaka, 1212, Bangladesh	Sourcing	Bangladesh	– ²	–
Marks and Spencer plc Sri Lanka Liaison Office	Parkland building, 9 th Floor, 33 Park Street, Colombo. Colombo 2, Sri Lanka	Sourcing	Sri Lanka	– ²	–
Marks and Spencer Property Developments Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	–	100%
Marks and Spencer Property Holdings Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Marks and Spencer Reliance India Pvt Ltd	4 th floor, Court House, Lokmanya, Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	Retailing	India	–	51%
Marks and Spencer Scottish Limited Partnership	2-28 St. Nicholas Street, Aberdeen, AB10 1BU	Property investment	United Kingdom	– ⁵	–
Marks and Spencer Shared Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Support services	United Kingdom	–	100%
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Holding company	The Netherlands	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 Investments continued

B. Subsidiary undertakings continued

	Registered address	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by:	
				Company	A subsidiary
Marks and Spencer SA (PTY) Limited	Woolworths House, 93 Longmarket Street, Cape Town, 8001, South Africa	Dormant	South Africa	–	100%
Marks and Spencer Nederland (Retail) BV	Muntplein 10C, 1012 WR, Amsterdam, Netherlands	Retailing	The Netherlands	–	100%
M&S Mode International BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Trademarks	The Netherlands	–	100%
MSF Latvia SIA (in liquidation)	Ieriku iela 3, Riga, LV-1084, Latvia	Retailing	Latvia	–	100%
MSF Slovakia S.R.O.	Ivanská cesta 16, Bratislava, 821 Slovakia 04, Slovakia	Retailing	Slovakia	–	100%
Marks and Spencer France Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Retailing	United Kingdom	100%	–
Marks and Spencer France Limited French Branch	6 Place de la Madeleine, 75008, Paris, France	Retailing	France	– ²	–
Minterton Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Trademarks	United Kingdom	100%	–
Ou MSF Estonia	Paldiski mnt 102, Tallin, 13522, Estonia	Retailing	Estonia	–	100%
Per Una Italia SRL (in liquidation)	Via Giotto 25-59100 Prato, Italy	Dormant	Italy	–	100%
Ruby Properties (Cumbernauld) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Ruby Properties (Enfield) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Ruby Properties (Hardwick) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Ruby Properties (Long Eaton) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Ruby Properties (Thorncroft) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Ruby Properties (Tunbridge) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
Simply Food (Property Investments)	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	–	100%
Simply Food (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Property investment	United Kingdom	100%	–
St. Michael (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	Dormant	United Kingdom	–	100%
St Michael Finance plc	Waterside House, 35, North Wharf Road, London, W2 1NW	Financial services	United Kingdom	100%	–
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	Holding company	India	–	100%
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Holding company	Guernsey	–	100%
UAB MSF Lithuania	Gedimino pr. 20, Vilnius, 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.

C9 OTHER FINANCIAL ASSETS

	2017 £m	2016 £m
Non-current		
Unlisted investments	3.0	3.0
Other investments ¹	7.3	16.6
	10.3	19.6
Current		
Other investments	5.3	3.6

1. Non-current other investments are £7.3m (last year £16.6m) shares in Marks and Spencer Group plc held for employee share schemes.

Non-current investments are carried as available-for-sale assets, these are measured at fair value with changes in their value taken to the statement of comprehensive income.

C10 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Non-current		
Prepayments and accrued income	102.6	103.7
	102.6	103.7
Current		
Trade receivables	108.3	112.5
Less: Provision for impairment of receivables	(7.5)	(6.7)
Trade receivables – net	100.8	105.8
Other receivables	13.4	11.5
Prepayments and accrued income	166.3	139.5
Amounts owed by parent company	2,564.9	2,566.3
Amounts owed by subsidiary companies	1,738.6	637.1
	4,584.0	3,460.2

Trade receivables that were past due but not impaired amounted to £6.6m (last year £9.3m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 1 April 2017, £713.0m (last year £674.5m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £2.7m (last year £9.7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £3,590.5m (last year £2,652.3m) of intercompany receivables are interest-free.

C11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £571.9m (last year £31.8m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.19% (last year is 0.03%). These deposits have an average maturity of three days (last year three days).

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

	2017 £m	2016 £m
Cash at bank and in hand	399.2	83.4
Bank loans and overdrafts	(67.3)	(291.6)
Syndicated loan notes	205.0	205.0
Bank loans and overdrafts treated as financing	35.0	35.0
	571.9	31.8

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C12 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Current		
Trade and other payables	967.8	1,061.5
Social security and other taxes	36.7	34.8
Accruals and deferred income	425.4	423.5
Amounts owed to subsidiaries	3,278.6	1,822.4
	4,708.5	3,342.2
Non-current		
Other payables	525.2	528.5

As at 1 April 2017, £1,243.7m (last year £1,347.6m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £11.1m (last year £9.7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,034.9m (last year £474.8m) of intercompany payables are interest-free.

C13 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2017 £m	2016 £m
Current		
Bank loans and overdrafts ¹	67.3	291.6
Finance lease liabilities	0.2	0.2
6.250% US\$500m medium-term notes 2017 ³	328.1	–
Interest accrued on medium-term notes	46.4	42.2
Revaluation of medium-term notes	72.9	–
	514.9	334.0
Non-current		
6.250% US\$500m medium-term notes 2017 ³	–	327.9
6.125% £400m medium-term notes 2019 ²	400.2	399.2
6.125% £300m medium-term notes 2021 ²	297.8	297.3
3.00% £300m medium-term notes 2023 ²	296.3	–
4.75% £400m medium-term notes 2025 ²	397.1	396.8
7.125% US\$300m medium-term notes 2037 ³	191.9	191.8
Revaluation of medium-term notes	80.0	71.1
Finance lease liabilities	42.0	42.1
	1,705.3	1,726.2
Total	2,220.2	2,060.2

1. Bank loans and overdrafts include 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 in the table on the following page. It is the Company's policy to lease certain properties and equipment under finance leases. The weighted average lease term for equipment is three years (last year four years) and 95 years (last year 96 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The 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.
- Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At year end, the Company had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2022. 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 £150m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £nil (last year £205m) was drawn under the committed facilities and £nil (last year £30m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Company has a Euro Medium Term Note programme of £3.0bn, of which £1.4bn (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 ¹ £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(86.6)	(205.0)	(98.6)	(2.0)	(392.2)	144.7	(69.9)	74.8
Between one and two years			(448.1)	(1.9)	(450.0)	399.3	(362.7)	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)	1,071.0	(900.8)	170.2
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)			
Timing of cash flows								
Within one year	(67.3)	–	(514.2)	(2.0)	(583.5)	549.9	(377.7)	172.2
Between one and two years	–	–	(88.0)	(1.9)	(89.9)	26.7	(14.5)	12.2
Between two and five years	–	–	(915.1)	(5.8)	(920.9)	63.9	(41.2)	22.7
More than five years	–	–	(1,309.0)	(155.6)	(1,464.6)	519.4	(413.2)	106.2
	(67.3)	–	(2,826.3)	(165.3)	(3,058.9)	1,159.9	(846.6)	313.3
Effect of discounting and foreign exchange	–	–	715.6	123.1	838.7			
At 1 April 2017	(67.3)	–	(2,110.7)	(42.2)	(2,220.2)			

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

The present value of finance lease liabilities is as follows:

	2017 £m	2016 £m
Within one year	(0.2)	(0.2)
Later than one year and not later than five years	(0.8)	(0.8)
Later than five years	(41.2)	(41.3)
Total	(42.2)	(42.3)

(b) Counterparty risk

Counterparty risk exists where the Company 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+/Baa1 for committed lending banks). 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							Total
	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
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

	Credit rating of counterparty ³							Total
	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	–	–	3.3	133.1	179.1	–	–	315.5
Derivative assets ²	–	–	63.8	83.5	19.1	–	40.9	207.3
At 1 April 2017	–	–	67.1	216.6	198.2	–	40.9	522.8

1. Includes cash on deposit and money market funds held by Marks & Spencer plc and Marks & Spencer General Insurance LP (escrow only).

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

3. Standard & Pools equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Pools, 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 £110m (last year £113m), other receivables £11m (£12m), cash and cash equivalents £399m (last year £84m) and derivatives £225m (last year £197m).

(c) Foreign currency risk

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

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

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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £2,801m (last year £2,918m) with a weighted average maturity date of six months (last year five months). Gains and losses in equity on forward foreign exchange contracts as at 1 April 2017 will be released to the income statement at various dates over the following 17 months (last year 14 months) from the balance sheet date.

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:

	2017			2016		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,727.9	492.3	2,220.2	1,343.6	716.6	2,060.2
	1,727.9	492.3	2,220.2	1,343.6	716.6	2,060.2

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 5.0% (last year 5.3%) and the weighted average time for which the rate is fixed is six years (last year seven years).

(d) Interest rate risk

The 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 £1,727.9m (last year £1,343.6m) representing the public bond issues and finance leases, amounting to 78% (last year 65%) of the Group's gross borrowings.

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

	2017 %	2016 %
Committed and uncommitted borrowings	0.3	1.0
Medium-term notes	5.0	5.3
Finance leases	4.2	4.1

Derivative financial instruments

		2017		2016	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Cross-currency swaps		72.6	–	–	–
Forward foreign exchange contracts	– cash flow hedges	86.6	(5.5)	71.4	(4.8)
	– held for trading	9.1	(9.8)	30.4	(32.2)
		168.3	(15.3)	101.8	(37.0)
Non-current					
Cross-currency swaps	– cash flow hedges	14.0	–	27.3	–
Forward foreign exchange contracts	– cash flow hedges	1.3	(0.8)	5.4	(0.2)
Interest rate swaps	– fair value hedge	41.5	–	41.3	–
Embedded derivative		–	–	21.3	–
		56.8	(0.8)	95.3	(0.2)

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £0.3m (last year £0.2m) as the gain on the hedged items was £0.3m (last year £3.0m loss) and the movement on the hedging instruments was £nil (last year £2.8m gain). The Group also holds a number of cross-currency swaps to redesignate 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 considers that a 2% +/- (last year 2%) movement in interest rates and a 20% +/- (last year 20%) weakening in sterling represents a reasonable possible change. However this analysis is for illustrative purposes only.

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

The impact from foreign exchange movements reflects the change in the fair value of the Company's transactional foreign exchange cash flow 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 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)
At 1 April 2017				
Impact on income statement: gain/(loss)	7.9	(2.4)	–	–
Impact on other comprehensive income: (loss)/gain	(2.2)	0.3	297.9	(199.2)

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 (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 1 April 2017					
Trade and other receivables	25.1	(22.8)	2.3	–	2.3
Derivative financial assets	225.1	–	225.1	(16.1)	209.0
Cash and cash equivalents	42.4	(41.6)	0.8	–	0.8
	292.6	(64.4)	228.2	(16.1)	212.1

Trade and other payables	(279.2)	22.8	(256.4)	–	(256.4)
Derivative financial liabilities	(16.1)	–	(16.1)	16.1	–
Bank loans and overdrafts	(103.9)	41.6	(62.3)	–	(62.3)
	(399.2)	64.4	(334.8)	16.1	(318.7)

	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)

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 interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. 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:

	2017				2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
- trading derivatives	–	9.1	–	9.1	–	30.4	–	30.4
Derivatives used for hedging	–	216.0	–	216.0	–	145.5	–	145.5
Embedded derivatives	–	–	–	–	–	–	21.3	21.3
Short-term investments	–	5.3	–	5.3	–	3.6	–	3.6
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- trading derivatives	–	(9.8)	–	(9.8)	–	(32.2)	–	(32.2)
Derivative used for hedging	–	(6.3)	–	(6.3)	–	(5.0)	–	(5.0)

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:

	2017 £m	2016 £m
Opening balance	21.3	23.7
Gains/(losses) recognised in the income statement	8.3	(2.4)
Derecognition	(29.6)	–
Closing balance	–	21.3

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

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 £2,110.7m (last year £1,726.4m), the fair value of this debt was £2,236.7m (last year £1,868.3m).

CAPITAL POLICY

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

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 26 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 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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 PROVISIONS

				2017	2016
	Property £m	Restructuring £m	Other £m	Total £m	Total £m
At start of year	47.5	5.1	3.2	55.8	65.3
Provided in the year	104.3	10.1	23.9	138.3	34.9
Released in the year	(18.0)	(2.9)	(1.0)	(21.9)	(29.3)
Utilised during the year	(9.1)	(10.4)	–	(19.5)	(15.1)
Reclassification from trade and other payables	–	–	2.3	2.3	–
At end of year	124.7	1.9	28.4	155.0	55.8
Analysed as:					
Current				46.0	8.1
Non-current				109.0	47.7

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

Restructuring provisions primarily relate to the estimated costs 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 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)
At 2 April 2016	(38.8)	(72.7)	(237.8)	(4.8)	(354.2)
Credited/(charged) to the income statement	3.4	12.4	11.2	2.1	29.1
Charged to equity	–	–	16.4	4.2	20.6
At 1 April 2017	(35.4)	(60.3)	(210.2)	1.5	(304.5)

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 £48.4m (last year £49.9m).

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

C17 ORDINARY SHARE CAPITAL

	2017		2016	
	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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C18 CONTINGENCIES AND COMMITMENTS

A. CAPITAL COMMITMENTS

	2017 £m	2016 £m
Commitments in respect of properties in the course of construction	156.0	114.5
Commitments in respect of computer software under development	10.8	17.1
	166.8	131.6

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.

	2017 £m	2016 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	239.6	195.0
Later than one year and not later than five years	883.5	740.8
Later than five years and not later than ten years	836.2	818.0
Later than ten years and not later than 15 years	402.9	428.4
Later than 15 years and not later than 20 years	276.7	319.5
Later than 20 years and not later than 25 years	159.4	215.9
Later than 25 years	1,019.1	891.4
Total	3,817.4	3,609.0

The total future sublease payments to be received are £31.5m (last year £33.6m).

C19 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

	2017 £m	2016 £m
Profit/(Loss) on ordinary activities after taxation	(182.7)	330.4
Income tax expense	34.7	68.4
Finance costs	107.7	107.9
Finance income	(69.5)	(53.0)
Operating profit	(109.8)	453.7
Decrease in inventories	33.9	10.5
Decrease in receivables	(22.6)	9.3
Increase in payables	189.5	43.6
Non-underlying operating cash (outflows)/inflows	(17.4)	(8.6)
Non-underlying operating non-cash items	(44.1)	(50.3)
Depreciation, amortisation and asset impairments	540.3	541.5
Share-based payments	10.6	15.9
Pension costs charged against operating profit	92.5	94.1
Cash contributions to pension schemes	(127.0)	(110.1)
Non-underlying operating profit items	519.2	101.1
Cash generated from operations	1065.1	1,100.7

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 £379.1m (last year £302.1m) and has decreased its loan to its parent company by £7.1m (last year decrease of £129.7m). The outstanding balance was £2,552.2m (last year £2,559.2m) and was non-interest bearing.

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

	2017 Transactions £m	2016 Transactions £m
Trading sales	(352.2)	(368.3)
Trading purchases	–	0.4
Rental expense	(144.0)	(133.9)
Rent receivable	23.7	24.0
Interest	0.6	0.8

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 54 of Marks and Spencer Group plc annual report 2017.

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 1 April 2017. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.