

Marks and Spencer plc financial statements 2014

REGISTERED NUMBER

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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. We employ over 85,000 people and have around 1,200 stores including Simply Food franchised stores. We also trade in wholly-owned stores in the Netherlands, Republic of Ireland, France, Hungary, Hong Kong and China, through partly-owned stores in a number of European countries and in franchises within Asia, Europe and the Middle East.

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

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 52 weeks ended 29 March 2014 (the 'year').

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

Chairman's statement on pages 2 – 3

Chief Executives review on pages 8 – 14

Financial review on pages 32 – 35

Strategic review on pages 18 – 31

Environmental, Social and Community matters on pages 18 – 31

Employees on pages 30 – 31

Results

	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Summary of Group results		
Revenue	10,309.7	10,026.8
Operating profit before non-underlying operating profit items	741.9	778.6
Underlying net finance costs	(119.0)	(130.5)
Underlying profit before tax	622.9	648.1
Profit on property disposal	82.2	–
UK and Ireland one-off pension credits	27.5	–
Interest income on tax repayment net of fees	3.3	–
Restructuring costs	(77.3)	(9.3)
International store review	(21.9)	–
IAS 39 Fair value movement of embedded derivative	(3.5)	5.8
Strategic programme costs	(2.0)	(6.6)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	–	(75.3)
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	(50.8)	(15.5)
Profit before tax	580.4	547.2

Group revenue increased by 2.8% to £10,309.7m. Group operating profit (before adjustments to underlying operating profit) decreased by 4.7% to £741.9m.

Underlying net finance costs, were £119.0m compared with £130.5m last year. The average interest rate of borrowings during the year was 5.3% (last year 5.6%). Profit before tax was £580.4m compared with £547.2m 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 15 to 17 and 44 of that Group's annual report which does not form part of this report, but is still considered up to date in this respect. Copies of the Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Waterside House, 35 North Wharf Road, London W2 1NW.

Strategic Report

Key performance indicators

Information on the Company's key performance indicators can be found on pages 12 – 13 of the Marks and Spencer Group plc Annual Report, 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 as set out on pages 1 to 35 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 16 to 17 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements

The Strategic Report was approved by the Board on 23 September 2014 and signed on its behalf by



Amanda Mellor
Director

Report of the Directors

Profit and dividends

The profit for the financial year, after taxation, amounts to £489.3m (last year £461.5m). The directors have declared dividends as follows

	2014 £m	2013 £m
Ordinary shares		
Paid interim dividend 3.5p (last year 3.5p)	99.7	99.7
Proposed final dividend 6.2p (last year 6.1p)	176.7	173.9
Total ordinary dividend 9.7p per share (last year 9.6p)	276.4	273.6

Share capital

The Company's issued ordinary share capital, as at 29 March 2014 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note 23 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 the 6 December 2011 and the £400m Medium Term Notes ('MTN') issued by the Company on 12 December 2012 to various institutions and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN,

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

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

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

–the £100m Bilateral Facility dated 16 May 2013 between the Company and Lloyds Bank expiring May 2015 contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest,

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

–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.

Report of the Directors

Directors

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

Marc Bolland
Amanda Mellor
Steven Sharp (resigned 19 August 2013)
John Dixon (appointed 16 October 2013)
Alan Stewart (resigned 7 July 2014)

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 29 March 2014 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company or of any associated company.

Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, personal letters home, email and broadcasts by the Chief Executive and members of the Group Board at key points in the year to all head office employees and store management. In addition many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication are supplemented by our employee publications including, 'Your M&S' magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes.

The 19th meeting of the European Works Council ('EWC') (established in 1995) took place in September 2014. This Council provides an additional forum for informing, consulting with and involving employee representatives from the countries in the European Community. The EWC includes members from our party owned company established in the Czech Republic, Greece, Bulgaria, France, Netherlands, Croatia, Slovenia, Romania, the Republic of Ireland and the UK. The EWC will have the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This will include the directors of International and Multi-channel and the director of Plan A, which all have an impact across the European Community.

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

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 29 to 30 in note 12 to the financial statements.

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

The response has been excellent with 20,000 employees visiting the site, making personal pledges to improve a specific health or wellbeing issue. Employees are able to interact with one another, post information about clubs and groups in their area, and can gain access to information about corporate projects which link to their personal health pledges.

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

Report of the Directors

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and one where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 87 years old and joined the business at age 80. In April 2014, the Company once again featured in The Times Top 50 Places for Women to work and considers this highlights how equal opportunities are available for all.

Employees with disabilities

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

Political donations

No political donations were made during the year ended 29 March 2014. Marks & Spencer has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Events after the reporting period

There have not been any significant events since the balance sheet date. An indication of likely future developments in the business of the Company are included in the strategic report.

Financial instruments

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

Groceries supply code of practice

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

M&S submitted its report to the Audit Committee on 15 May 2014, covering the year 1 April 2013 to 31 March 2014. 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 year. Only two suppliers alleged breaches of the Order/GSCOP. Aside from a dispute referred to below, which has now been resolved, only one supplier has alleged breaches of the Order/GSCOP during the reporting year. Communications between M&S and the supplier are ongoing and the complaint has not been escalated to the Code Compliance Officer.

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

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

A formal dispute between M&S and a grocery supplier arose under the Order/GSCOP during the previous financial year (2012/13). During the reporting year (2013/14), that dispute was resolved and no other formal disputes arose.

Report of the Directors

Total Global M&S Greenhouse Gas Emissions 2013/14

	2013/14 000 tonnes
Direct emissions (scope 1)	169
Indirect emissions from energy (scope 2)	339
Total statutory emissions (scope 1+2)	508
Transport, energy, waste and business travel (scope 3)	58
Total gross emissions	566
Carbon intensity measure (per 1,000 sq ft of salesfloor)	30
Deductions for 'green' tariffs and carbon offsets	566
Total net emissions	-

Calculated based on operational control in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 DECC/DEFRA Guidelines. This is the first year that GHG emissions have been calculated for all M&S activities globally

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to auditor

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

Report of the Directors

Independent auditor

A resolution to appoint Deloitte LLP as auditor of the Company has been approved by the directors at the time of signing these financial statements. PricewaterhouseCoopers LLP remain the auditor for the year ended 29 March 2014.

Approved on behalf of the Board

A handwritten signature in black ink, appearing to read 'A Mellor', is positioned above the printed name and date.

Amanda Mellor, Director
London, 23 September 2014

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

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion

- the financial statements, defined below, give a true and fair view of the state of the group's and of the company's affairs as at 29 March 2014 and of the group's profit and the group's and the company's cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union,
- the company financial statements have been properly prepared in accordance with International Financial Reporting Standards (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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The group financial statements and company financial statements (the "financial statements"), which are prepared by Marks and Spencer plc, comprise

- the Consolidated and Company statements of financial position as at 29 March 2014,
- the Consolidated income statement and the Consolidated and Company statements of comprehensive income for the year then ended,
- the Consolidated and Company statements of cash flows for the year then ended,
- the Consolidated and Company statements of changes in equity for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") 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 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 financial statements 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 OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

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

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION continued

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

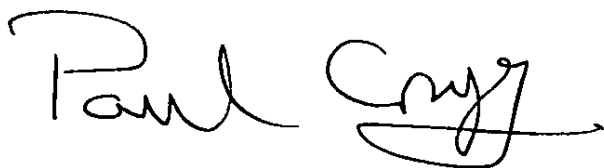
RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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



Paul Cragg (Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London

23 September 2014

Consolidated income statement

		52 weeks ended 29 March 2014	52 weeks ended 30 March 2013 (restated) ¹
	Notes	£m	£m
Revenue	2, 3	10,309 7	10,026 8
Operating profit	2, 3	694 5	753 0
Finance income	6	25 0	12 4
Finance costs	6	(139 1)	(218 2)
Profit before tax	4	580 4	547 2
Income tax expense	7	(91 1)	(85 7)
Profit for the year		489 3	461 5
Attributable to			
Owners of the parent		508 1	470 2
Non-controlling interests		(18 8)	(8 7)
		489 3	461 5

Non-GAAP measures Underlying profit before tax

Profit before tax		580 4	547 2
Adjusted for			
Profit on property disposal	5	(82 2)	–
UK and Ireland one-off pension credits	5	(27 5)	–
Interest income on tax repayment net of fees	5	(3 3)	–
Restructuring costs	5	77 3	9 3
International store review	5	21 9	–
IAS 39 Fair value movement of embedded derivative	5	3 5	(5 8)
Strategic programme costs	5	2 0	6 6
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	5	–	75 3
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	5	50 8	15 5
Underlying profit before tax	1	622 9	648 1

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Consolidated statement of comprehensive income

		52 weeks ended 29 March 2014	52 weeks ended 30 March 2013 (restated) ¹
	Notes	£m	£m
Profit for the year		489 3	461 5
Other comprehensive (expense)/income			
Items that will not be classified to profit or loss			
Remeasurements of retirement benefit schemes	11	(85 3)	105 8
Tax credit/(charge) on retirement benefit schemes		31 8	(23 3)
		(53 5)	82 5
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(20 8)	7 9
Fair value movement on available-for-sale assets		(19 6)	(8 5)
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		(109 9)	33 6
– reclassified and reported in net profit		36 4	(26 0)
– amount recognised in inventories		18 7	(13 6)
Tax credit/(charge) on cash flow hedges and net investment hedges		12 2	(0 4)
		(83 0)	(7 0)
Other comprehensive (expense)/income for the year, net of tax		(136 5)	75 5
Total comprehensive income for the year		352 8	537 0
Attributable to			
Owners of the parent		371 6	545 7
Non-controlling interests		(18 8)	(8 7)
		352 8	537 0

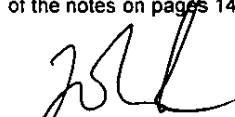
¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Consolidated statement of financial position

		As at 29 March 2014	As at 30 March 2013 (restated) ¹
	Notes	£m	£m
Assets			
Non-current assets			
Intangible assets	13	808 4	695 0
Property, plant and equipment	14	5,139 9	5,033 7
Investment property		15 7	15 8
Investment in joint ventures		12 7	15 5
Other financial assets	15	16 3	34 4
Retirement benefit asset	10	200 7	249 1
Trade and other receivables	16	313 5	265 4
Derivative financial instruments	20	40 6	65 3
		6,547 8	6,374 2
Current assets			
Inventories		845 5	767 3
Other financial assets	15	2,489 5	2,533 7
Trade and other receivables	16	309 5	245 0
Derivative financial instruments	20	13 7	42 5
Current tax receivable		-	3 1
Cash and cash equivalents	17	182 1	193 1
		3,840 3	3,784 7
Total assets		10,388 1	10,158 9
Liabilities			
Current liabilities			
Trade and other payables	18	1,692 8	1,503 8
Partnership liability to the Marks & Spencer UK Pension Scheme	11	71 9	71 9
Borrowings and other financial liabilities	19	448 7	558 7
Derivative financial instruments	20	51 5	13 7
Provisions	21	44 8	19 2
Current tax liabilities		39 6	54 3
		2,349 3	2,221 6
Non-current liabilities			
Retirement benefit deficit	10	11 7	13 1
Trade and other payables	18	334 0	292 1
Partnership liability to the Marks & Spencer UK pension scheme		496 8	550 7
Borrowings and other financial liabilities	19	1,655 1	1,727 3
Derivative financial instruments	20	75 4	13 1
Provisions	21	31 4	16 0
Deferred tax liabilities	22	242 6	240 6
		2,847 0	2,852 9
Total liabilities		5,196 3	5,074 5
Net assets		5,191 8	5,084 4
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		(41 8)	9 2
Retained earnings		4,127 6	3,987 6
Total shareholders' equity		5,192 4	5,103 4
Non-controlling interests in equity		(0 6)	(19 0)
Total equity		5,191 8	5,084 4

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

The financial statements were approved by the Board and authorised for issue on 23 September 2014. The financial statements also comprise of the notes on pages 14 to 44.


John Dixon, Director

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve ² £m	Retained earnings ³ £m	Total £m	Non- controlling interest £m	Total £m
As at 1 April 2012 (restated)¹	712.5	386.1	8.0	14.8	427.9	3,857.4	5,406.7	(11.4)	5,395.3
Profit/(loss) for the year (restated) ¹	–	–	–	–	–	470.2	470.2	(8.7)	461.5
Other comprehensive income									
Foreign currency translation	–	–	–	(1.5)	–	9.4	7.9	–	7.9
Remeasurements of retirement benefit schemes (restated) ¹	–	–	–	–	–	105.8	105.8	–	105.8
Tax charge on retirement benefit schemes (restated) ¹	–	–	–	–	–	(23.3)	(23.3)	–	(23.3)
Fair value movement in equity on available for sale assets	–	–	–	–	–	(8.5)	(8.5)	–	(8.5)
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	–	–	–	35.9	–	(2.3)	33.6	–	33.6
– reclassified and reported in net profit ⁴	–	–	–	(26.0)	–	–	(26.0)	–	(26.0)
– amount recognised in inventories	–	–	–	(13.6)	–	–	(13.6)	–	(13.6)
Tax on cash flow hedges and net investment hedges	–	–	–	(0.4)	–	–	(0.4)	–	(0.4)
Other comprehensive (expense)/income (restated) ¹	–	–	–	(5.6)	–	81.1	75.5	–	75.5
Total comprehensive (expense)/income (restated)¹	–	–	–	(5.6)	–	551.3	545.7	(8.7)	537.0
Transactions with owners									
Dividends	–	–	–	–	–	(273.6)	(273.6)	–	(273.6)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	1.1	1.1
Recognition of financial liability	–	–	–	–	(427.9)	(178.1)	(606.0)	–	(606.0)
Credit for share-based payments	–	–	–	–	–	28.0	28.0	–	28.0
Deferred tax on share schemes	–	–	–	–	–	2.6	2.6	–	2.6
As at 30 March 2013 (restated)¹	712.5	386.1	8.0	9.2	–	3,987.6	5,103.4	(19.0)	5,084.4
As at 31 March 2013 (restated)¹	712.5	386.1	8.0	9.2	–	3,987.6	5,103.4	(19.0)	5,084.4
Profit/(loss) for the year	–	–	–	–	–	508.1	508.1	(18.8)	489.3
Other comprehensive (expense)/income									
Foreign currency translation	–	–	–	(0.7)	–	(20.1)	(20.8)	–	(20.8)
Remeasurements of retirement benefit schemes	–	–	–	–	–	(85.3)	(85.3)	–	(85.3)
Tax charge on retirement benefit schemes	–	–	–	–	–	31.8	31.8	–	31.8
Fair value movement in equity on available for sale assets	–	–	–	–	–	(19.6)	(19.6)	–	(19.6)
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	–	–	–	(117.6)	–	7.7	(109.9)	–	(109.9)
– reclassified and reported in net profit ⁴	–	–	–	36.4	–	–	36.4	–	36.4
– amount recognised in inventories	–	–	–	18.7	–	–	18.7	–	18.7
Tax on cash flow hedges and net investment hedges	–	–	–	12.2	–	–	12.2	–	12.2
Other comprehensive expense	–	–	–	(51.0)	–	(85.5)	(136.5)	–	(136.5)
Total comprehensive (expense)/income	–	–	–	(51.0)	–	422.6	371.6	(18.8)	352.8
Transactions with owners									
Dividends	–	–	–	–	–	(273.6)	(273.6)	–	(273.6)
Transactions with non-controlling shareholders	–	–	–	–	–	(39.3)	(39.3)	37.2	(2.1)
Credit for share-based payments	–	–	–	–	–	21.3	21.3	–	21.3
Deferred tax on share schemes	–	–	–	–	–	9.0	9.0	–	9.0
As at 29 March 2014	712.5	386.1	8.0	(41.8)	–	4,127.6	5,192.4	(0.6)	5,191.8

1 Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1)

2 On 21 May 2012 the Group changed the terms of the Marks and Spencer Scottish Partnership and the total equity instrument of £427.9m was derecognised and the fair value of the remaining distributions of £606.0m was recognised as a financial liability (see note 11)

3 The Retained earnings reserve includes a cumulative £7.1m loss (last year £14.5m gain) in the currency reserve

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

Consolidated cash flow information

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Cash flows from operating activities			
Cash generated from operations	25	1,175.5	1,246.2
Income tax paid		(45.9)	(106.0)
Net cash inflow from operating activities		1,129.6	1,140.2
Cash flows from investing activities			
Proceeds on property disposals		25.0	–
Purchase of property, plant and equipment		(440.1)	(642.6)
Purchase of intangible assets		(201.5)	(187.1)
(Purchase)/sale of current financial assets		(1.7)	243.4
Interest received		3.4	5.9
Net cash used in investing activities		(614.9)	(580.4)
Cash flows from financing activities			
Interest paid ¹		(132.7)	(135.2)
Cash inflow from borrowings		167.5	0.5
Drawdown of syndicated loan notes		154.1	81.0
Movement in parent company loan		44.2	25.2
Issue of medium-term notes		–	395.6
Redemption of medium-term notes		(400.0)	(606.4)
Decrease in obligations under finance leases		(7.3)	(11.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(50.3)	(71.9)
Equity dividends paid		(273.6)	(273.6)
Net cash used in financing activities		(498.1)	(595.8)
Net cash inflow/(outflow) from activities		16.6	(36.0)
Effects of exchange rate changes		(1.6)	0.9
Opening net cash		160.7	195.8
Closing net cash	26	175.7	160.7

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

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		(97.5)	684.6
Net cash inflow/(outflow) from activities		16.6	(36.0)
Decrease in current financial assets		(44.2)	(268.5)
Decrease in debt financing		135.9	132.7
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		–	(606.0)
Exchange and other non-cash movements		(2.6)	(4.3)
Movement in net debt		105.7	(782.1)
Closing net debt	26	8.2	(97.5)

Notes to the financial statements

1 Accounting policies

Basis of preparation

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

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 7 as well as the Group's principal risks and uncertainties as set out on pages 16 to 17 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements

The following IFRS, IFRS IC interpretations and amendments are effective for the first time in this financial year

IAS 19 (revised) 'Employee Benefits' has been adopted in the financial year. The revised standard replaces the expected return on plan assets and the interest cost on liabilities with a net interest expense calculated by applying the discount rate to the net defined benefit asset or liability. In addition, administration costs on pension funds are now recognised in the profit or loss when the administration services are performed. Previously the Group included an expense reserve in the defined benefit obligation. The revised standard has retrospective application. The adoption of the revised standard has resulted in the following changes

Income Statement (total profit after tax decrease of £13.2m)

- Service cost increased by £3.0m,
- Pension interest income decreased by £14.1m, and
- Income tax expense decreased by £3.9m

Statement of Financial Position (total net asset increase of £33.1m)

- Net retirement benefit asset increased by £43.0m, and
- Deferred tax liability increased by £9.9m

Retained Earnings (total increase of £33.1m)

- Opening retained earnings increased by £34.6m,
- Profit after tax decreased by £13.2m,
- Remeasurements of retirement benefit assets recognised in other comprehensive income (OCI) increased by £15.1m, and
- Tax on retirement benefit scheme recognised in OCI increased by £3.4m

The Group has adopted the amendments to IAS 1 'Presentation of items of other comprehensive income', which require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified. The

amendments have been applied retrospectively and the presentation of items of comprehensive income have been regrouped to reflect the change

The Group has adopted IFRS 13 'Fair value measurement' and the measurement and disclosure requirements are applicable for the financial year beginning 31 March 2013. IFRS 13 aims to improve consistency and reduce complexity by providing precise definition of fair value and a single source of fair measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. This has no material impact on the Group.

The Group has adopted the amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. Refer to note 21

The Group has also early adopted the amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' for the first time in the current year. Refer to note 14

There are no other new standards or amendments to standards which are mandatory for the first time in this financial year that have had any material impact on the Group

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' have received EU endorsement and are applicable for the financial year beginning 30 March 2014. They are not expected to have a material impact on the Group

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

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

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

Accounting convention

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

Notes to the financial statements continued

1 Accounting policies continued

Subsidiaries

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

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

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

Revenue

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

Dividends

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

Pensions

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

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

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

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 as they fall due.

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

Any impairment in value is charged to the income statement.

Notes to the financial statements continued

1 Accounting policies continued

Leasing

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

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

Leasehold prepayments

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

Cash and cash equivalents

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

Provisions

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

Share-based payments

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

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

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas

subsidiaries are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves and reported in the consolidated statement of comprehensive income.

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

Taxation

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

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

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

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

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

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

Financial instruments

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

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

Notes to the financial statements continued

1 Accounting policies continued

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

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

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

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

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

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

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

Derivative financial instruments and hedging activities

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

The Group designates certain hedging derivatives as either

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge),

- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge), or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

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

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

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

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

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

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

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

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

Notes to the financial statements continued

1 Accounting policies continued

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

Embedded derivatives

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

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

Critical accounting estimates and judgements

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

A Impairment of goodwill and brands The Group is required to test annually or as triggering events occur, whether the goodwill or brands have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows.

Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 13 for further details.

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

C Depreciation of property, plant and equipment and amortisation of computer software Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out

above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 13 and 14 for further details.

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

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

F Inventory valuation Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis which requires the estimation of the eventual sales price of goods to customers in the future.

Non GAAP performance measures

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

- profits and losses on the disposal of properties,
- one-off pension credits arising on changes to the defined benefit scheme rules and practices,
- interest relating to significant and one-off repayments from tax litigation claims,
- restructuring costs,
- significant and one-off impairment charges that distort underlying trading, fair value movement in financial instruments,
- costs relating to strategy changes that are not considered normal operating costs of the underlying business, and
- adjustment in income from HSBC in relation to M&S Bank due to a non recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

Notes to the financial statements continued

2 Segmental information

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

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

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

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

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

	2014			2013		
	Management £m	Adjustment ² £m	Statutory £m	Management (restated) ³ £m	Adjustment ¹ £m	Statutory (restated) ³ £m
General Merchandise	4,094.5	(2.0)	4,092.5	4,090.3	3.6	4,093.9
Food	5,063.2	–	5,063.2	4,857.5	–	4,857.5
UK revenue	9,157.7	–	9,155.7	8,947.8	3.6	8,951.4
Franchised	404.0	–	404.0	392.6	–	392.6
Owned	750.0	–	750.0	682.8	–	682.8
International revenue	1,154.0	–	1,154.0	1,075.4	–	1,075.4
Group revenue	10,311.7	(2.0)	10,309.7	10,023.2	3.6	10,026.8
UK operating profit ¹	619.2	(18.9)	600.3	658.4	(25.6)	632.8
International operating profit	122.7	(28.5)	94.2	120.2	–	120.2
Group operating profit	741.9	(47.4)	694.5	778.6	(25.6)	753.0
Finance income	20.1	4.9	25.0	12.4	–	12.4
Finance costs	(139.1)	–	(139.1)	(142.9)	(75.3)	(218.2)
Profit before tax	622.9	(42.5)	580.4	648.1	(100.9)	547.2

1 UK statutory profit includes £6.4m (last year £35.6m) in respect of fees received from HSBC in relation to M&S Bank (formerly M&S Money). UK management operating profit includes fees in relation to M&S Bank of £57.2m (last year £51.1m) which reflects a non-GAAP adjustment of £50.8m (last year £15.5m) as detailed in note 5.

2 Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5).

3 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1).

Other segmental information

	2014			2013		
	UK £m	International £m	Total £m	UK (restated) ^{1,2} £m	International ² £m	Total (restated) ¹ £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	688.6	65.1	753.7	761.6	59.7	821.3
Depreciation and amortisation	434.9	34.4	469.3	421.7	28.8	450.5
Impairment and asset write-offs	21.3	13.9	35.2	9.6	7.2	16.8
Total assets	7,411.4	491.6	7,903.0	7,121.7	489.0	7,610.7
Non-current assets	6,157.6	376.9	6,534.5	5,965.4	377.4	6,342.8

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1).

2 Re-presentation of the prior year for an adjustment relating to an intercompany offset between UK and International segmental assets whilst not affecting total assets.

Notes to the financial statements continued

3 Expense analysis

	2014			2013		
	Underlying £m	Adjustments £m	Total £m	Underlying (restated) ¹ £m	Adjustments £m	Total (restated) ¹ £m
Revenue	10,309.7	–	10,309.7	10,026.8	–	10,026.8
Cost of sales	(6,439.0)	–	(6,439.0)	(6,230.3)	–	(6,230.3)
Gross profit	3,870.7	–	3,870.7	3,796.5	–	3,796.5
Selling and administrative expenses	(3,224.3)	–	(3,224.3)	(3,110.0)	–	(3,110.0)
Other operating income	95.5	–	95.5	92.1	–	92.1
Non-GAAP adjustments to underlying profit (see note 5)	–	(47.4)	(47.4)	–	(25.6)	(25.6)
Operating profit	741.9	(47.4)	694.5	778.6	(25.6)	753.0

The selling and administrative expenses are further analysed below

	2014 Total £m	2013 Total (restated) ¹ £m
Employee costs (see note 9A)	1,410.9	1,324.2
Occupancy costs	690.7	651.2
Repairs, renewals and maintenance of property	102.1	96.7
Depreciation, amortisation and asset write-offs	477.8	463.2
Other costs	542.8	574.7
Selling and administrative expenses	3,224.3	3,110.0

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits' (see note 1)

4 Profit before taxation

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

	2014 £m	2013 £m
Net foreign exchange gains	(5.1)	–
Cost of inventories recognised as an expense	5,803.5	5,639.6
Depreciation of property, plant, and equipment		
– owned assets	372.5	364.2
– under finance leases	7.2	9.9
Amortisation of intangible assets	89.6	76.4
Profit on property disposals	(82.2)	–
Operating lease rentals payable		
– property	312.5	293.9
– fixtures, fittings and equipment	2.9	4.2

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

	2014 £m	2013 £m
Annual audit of the Company and the consolidated financial statements	0.5	0.5
Audit of subsidiary companies	0.4	0.5
Other assurance services	0.2	0.2
Tax compliance services	0.3	0.3
Tax advisory services	0.4	0.3
Other non-audit services	0.4	0.5
	2.2	2.3

Notes to the financial statements continued

5 Non-GAAP performance measures

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

- The profit on property disposal relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years and has been recognised as an operating lease.
- Pension credit arising from changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post retirement pension increases have been removed and pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m).
- Interest income (net of fees) on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries. Refer to note 7.
- Restructuring costs relating to the Group's strategy to transition to a one-tier distribution network and the closure costs of the legacy logistics site (£53.2m), and restructuring costs in Ireland following a thorough commercial review of the Ireland business (£24.1m). This includes costs relating to the closure of four stores, redundancies and other associated costs.
- International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group.
- IAS 39 fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%.
- Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the initial Focus on the UK plans. This includes asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business. We do not anticipate incurring any further costs in relation to this programme.
- Fair value movement of the Puttable Callable Reset medium-term notes (PCR notes) realised on the repurchase of debt – in December 2007 the Group issued £250m of 30 year puttable callable bonds which included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the Group bought back and cancelled these bonds in January 2013, resulting in a one-off fair value loss. This change is the fair value movement of the bond net of any immaterial associated unamortised bond costs and fees. It is not considered a normal bond cost of the business.
- The Group has an economic interest in M&S Bank, a wholly-owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. Last year, M&S Bank recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements for the year ended 31 December 2012 with a further estimated liability in its audited financial statements for the year ended 31 December 2013. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability (under the Relationship Agreement) in both the current and prior year and this reduction has been treated as an adjustment to reported profit before tax on the basis that the directors believe that the impact of the provision recognised by M&S Bank materially distorts the Group's underlying performance. We are continuing discussions with M&S Bank to determine whether these charges are properly for our account under the terms of our agreement with HSBC.

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

	Note	2014 £m	2013 £m
Profit on property disposal	4	82.2	–
UK and Ireland one-off pension credits	10	27.5	–
Interest income on tax repayment net of fees	6, 7	3.3	–
Restructuring costs	14, 21	(77.3)	(9.3)
International store review	14, 21	(21.9)	–
IAS 39 Fair value movement of embedded derivative	20	(3.5)	5.8
Strategic programme costs		(2.0)	(6.6)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	6, 19	–	(75.3)
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	2	(50.8)	(15.5)
Total adjustments		(42.5)	(100.9)

Notes to the financial statements continued

6 Finance income/costs

	2014 £m	2013 (restated) ¹ £m
Bank and other interest receivable	8 4	5 3
Pension net finance income (see note 10E)	11 7	7 1
Underlying finance income	20 1	12 4
Interest income on tax repayment (see note 7)	4 9	–
Finance income	25.0	12 4
Interest on bank borrowings	(3 3)	(2 1)
Interest payable on syndicated bank facility	(5 0)	(6 1)
Interest payable on medium-term notes	(110 5)	(114 3)
Interest payable on finance leases	(2 3)	(2 8)
Unwind of discount on financial instruments	(0 2)	(1 0)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	(17 8)	(16 6)
Underlying finance costs	(139 1)	(142 9)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	–	(75 3)
Finance costs	(139 1)	(218 2)
Net finance costs	(114 1)	(205 8)

1 Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1)

7 Income tax expense

A Tax charge

	2014 £m	2013 (restated) ¹ £m
Current tax		
UK corporation tax on profits for the year at 23% (last year 24%)		
– current year	97 1	125 5
– adjustments in respect of prior years	(39 1)	(41 3)
UK current tax	58 0	84 2
Overseas current taxation		
– current year	14 5	12 8
– adjustments in respect of prior years	(2 7)	3 8
Total current taxation	69 8	100 8
Deferred tax		
– origination and reversal of temporary differences	17 7	(6 6)
– adjustments in respect of prior years	26 2	(2 8)
– changes in tax rate	(22 6)	(5 7)
Total deferred tax (see note 22)	21 3	(15 1)
Total income tax expense	91 1	85 7

Notes to the financial statements continued

7 Income tax expense continued

B Tax reconciliation

The effective tax rate was 15.7% (last year 15.9%) and is reconciled below

	2014 £m	2013 (restated) ¹ £m
Profit before tax	580.4	547.2
Notional taxation at the standard UK corporation tax rate of 23% (last year 24%)	133.5	131.5
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	4.3	3.0
Other income and expenses not taxable or allowable for tax purposes	(5.4)	(8.1)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(22.5)	(5.4)
Overseas profits taxed at rates different to those of the UK	(3.7)	(4.0)
Overseas tax losses where there is no relief anticipated in the foreseeable future	8.7	9.3
Adjustments to current and deferred tax charges in respect of prior periods	2.8	(12.4)
Adjustments to underlying profit		
– international store review charges where no tax relief is available	4.9	–
– property disposal gain covered by other losses arising in the year	(13.0)	–
– deferred tax rate change benefit	–	(0.3)
Non-underlying adjustment to current and deferred tax charges in respect of prior periods	(18.5)	(27.9)
Total income tax expense	91.1	85.7

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

After excluding non-underlying items the underlying effective tax rate was 18.9% (last year 17.6%)

The non-underlying adjustment to the tax charge in respect of prior periods arises from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m, last year £nil)

On 2 July 2013, the Finance Bill received its final reading in the House of Commons and so the previously announced reduced rates of corporation tax of 21% from 1 April 2014 to 31 March 2015 and 20% from 1 April 2015 onwards were substantively enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 20%, which has resulted in the recognition of a deferred tax credit of £22.5m in the income statement (reducing the total effective tax rate by 3.9%), and the recognition of a deferred tax credit of £11.3m in other comprehensive income.

8 Dividends

	2014 per share	2013 per share	2014 £m	2013 £m
Dividends on equity ordinary shares				
Paid final dividend	6.1p	6.1p	173.9	173.9
Paid interim dividend	3.5p	3.5p	99.7	99.7
	9.6p	9.6p	273.6	273.6

The directors have proposed a final dividend in respect of the year ended 29 March 2014 of 6.2p per share amounting to a dividend of £176.7m. In line with the requirements of IAS 10 – 'Events after the reporting period', this dividend has not been recognised within these results.

Notes to the financial statements continued

9 Employees

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were

	2014 Total £m	2013 Total (restated) ¹ £m
Wages and salaries	1,197.5	1,136.7
Social security costs	85.9	75.8
Pension costs	92.4	71.4
Share-based payments (see note 12)	21.3	25.8
Employee welfare and other personnel costs	49.5	51.0
Capitalised staffing costs	(35.7)	(36.5)
Total aggregate remuneration	1,410.9	1,324.2

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Details of key management compensation are given in note 27

B Average monthly number of employees

	2014	2013
UK stores	-	-
– management and supervisory categories	5,533	5,511
– other	67,678	65,053
UK head office	-	-
– management and supervisory categories	3,176	2,975
– other	724	790
UK operations	-	-
– management and supervisory categories	92	58
– other	660	132
Overseas	7,950	7,215
Total average number of employees	85,813	81,734

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 61,176 (last year 57,518)

C Directors' emoluments

Emoluments of directors of the Company are summarised below

	2014 £000	2013 £000
Highest paid director	1,305	1,919
Aggregate emoluments	2,035	2,730

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

One director (last year nil) exercised share options in relation to the Group's long-term incentive plans

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

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

Notes to the financial statements continued

10 Retirement benefits

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

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

The defined benefit arrangement operates on a final salary basis and at the year end had some 13,000 active members (last year 13,000), 55,000 deferred members (last year 55,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution arrangement had some 38,000 active members (last year 33,000) and some 5,000 deferred members (last year 3,000). The scheme is governed by a Trustee board which is independent of the Group.

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

Within the total Group retirement benefit cost of £53.5m (last year restated £64.3m), £27.0m (last year restated £40.0m) relates to the UK defined benefit section, £41.7m (last year £20.3m) to the UK defined contribution section and £(15.2)m (last year £4.0m) to other retirement benefit schemes.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result a funding plan of £112m cash contributions was agreed with the Trustees. The Group has contributed c £28m to the UK defined benefit scheme on 31 March 2014 and expects to contribute an additional c £28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets. Future contributions to meet the cost of accruing benefits to the UK scheme are made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation.

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

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

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

A Pensions and other post-retirement liabilities

	2014 £m	2013 (restated) ¹ £m
Total market value of assets	6,729.4	6,930.0
Present value of scheme liabilities	(6,528.7)	(6,680.9)
Net funded pension plan asset	200.7	249.1
Unfunded retirement benefits	(0.7)	(0.8)
Post-retirement healthcare	(11.0)	(12.3)
Net retirement benefit asset	189.0	236.0
Analysed in the statement of financial position as		
Retirement benefit asset	200.7	249.1
Retirement benefit deficit	(11.7)	(13.1)
	189.0	236.0

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Notes to the financial statements continued

10 Retirement benefits continued

B Financial assumptions

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

	2014 %	2013 %
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment for service	2.2 – 3.3	2.4 – 3.2
Discount rate	4.45	4.3
Inflation rate	3.4	3.4
Long-term healthcare cost increases	7.4	7.1

The inflation rate of 3.4% 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 2.4% (last year 2.4%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.5% the surplus would increase/decrease by c £50m. If the inflation rate increased by 0.25%, the surplus would decrease by c £50m.

C Demographic assumptions

Apart from post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2012. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2012 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

	2014	2013
Current pensioners (at age 65) – males	22.4	22.4
– females	24.1	24.1
Future pensioners (at age 65) – males	21.8	21.8
– females	24.6	24.5
Deferred pensioners (at age 65) – males	22.6	22.5
– females	25.4	25.4

An increase of one year in the life expectancies would decrease the surplus by c £230m.

D Analysis of assets

The investment strategy of the UK defined benefit pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 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 80% of interest rate movements and 84% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

	2014 £m	2013 (restated) ¹ £m
Debt investments		
– Government	2,319.0	2,531.0
– Corporate Bonds	1,255.7	1,254.0
– Asset backed securities and structured debt	232.0	207.8
Scottish Limited Partnership interest (see note 11)	574.7	645.7
Equity investments – quoted	998.1	906.7
Equity investments – unquoted	110.1	142.6
Property	278.6	208.8
Derivatives		
– Interest and inflation rate swap contracts	51.3	324.3
– Foreign exchange contracts and other derivatives	123.3	167.9
Hedge and reinsurance funds	329.8	324.7
Cash and cash equivalents	444.1	159.9
Other	12.7	56.6
	6,729.4	6,930.0

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Notes to the financial statements continued

10 Retirement benefits continued

D Analysis of assets continued

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

At year end, the UK scheme indirectly held 199,523 (last year 150,955) ordinary shares in the Company through its investment in UK Equity Index Funds.

E Analysis of amount charged against profits

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

	2014 £m	2013 (restated) ¹ £m
Current service cost	88.7	68.8
Administration costs	3.0	3.0
Past service costs – curtailment charge	1.0	1.0
Past service cost – plan amendments	–	(1.4)
UK and Ireland one-off pension credits	(27.5)	–
Net interest income	(11.7)	(7.1)
Total	53.5	64.3
Remeasurement on the net defined benefit surplus		
Actual return on scheme assets excluding amounts included in net interest income	(322.0)	625.3
Actuarial (loss) – experience	(17.4)	(11.0)
Actuarial (loss) – demographic assumptions	–	(80.0)
Actuarial gain/(loss) – financial assumptions	254.1	(428.5)
Components of defined benefit cost recognized in other comprehensive income	(85.3)	105.8
Total	(31.8)	170.1

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

F Scheme assets

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

	2014 £m	2013 (restated) ¹ £m
Fair value of scheme assets at start of year	6,930.0	6,186.4
Interest income based on discount rate	294.0	282.0
Actual return on scheme assets excluding amounts included in net interest income ²	(322.0)	625.3
Employer contributions	92.1	70.9
Benefits paid	(261.2)	(234.0)
Administration costs	(3.0)	(3.0)
Exchange movement	(0.5)	2.4
Fair value of scheme assets at end of year	6,729.4	6,930.0

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

² The actual return on scheme assets was a loss of £28m (last year restated return of £907m). Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Notes to the financial statements continued

10 Retirement benefits continued

G Pensions and other post-retirement liabilities

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

	2014 £m	2013 (restated) ¹ £m
Present value of obligation at start of year	6,694 0	6,063 4
Current service cost	88 7	68 8
Curtailment charge	1 0	1 0
Past service cost	–	(1 4)
One-off UK and Ireland pension credits (note 5)	(27 5)	–
Interest cost	282 3	274 9
Benefits paid	(261 2)	(234 0)
Actuarial loss – experience	17 4	11 0
Actuarial loss – demographic assumptions	–	80 0
Actuarial (gain)/loss – financial assumptions	(254 1)	428 5
Exchange movement	(0 2)	1 8
Present value of obligation at end of year	6,540 4	6,694 0
Analysed as		
Present value of pension scheme liabilities	6,528 7	6,680 9
Unfunded pension plans	0 7	0 8
Post-retirement healthcare	11 0	12 3
Present value of obligation at end of year	6,540 4	6,694 0

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

The average duration of the defined benefit obligation at 29 March 2014 is 18 years (last year 18 years)

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

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

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

This distribution was discretionary at the instance of Marks and Spencer plc. On 21 May 2012 the Group changed the terms of the Partnership to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. The change was reflected by the derecognition of the related equity instruments and recognition of a financial liability from this date. The Partnership liability to the Marks and Spencer UK pension scheme of £568.7m is valued at the net present value of the future expected distributions from the Partnership.

During the year to 29 March 2014 an interest charge of £17.8m (last year £16.6m) was recognised in the income statement representing the unwinding of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £574.7m (last year £645.7m), refer to note 10D.

Notes to the financial statements continued

12 Share-based payments

The charge for share-based payments for the year was £21.3m (last year £25.8m). Of the total share-based payments charge, £9.6m (last year £13.4m) relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration Report on pages 52 to 77 of the Marks and Spencer Group plc Annual Report, which does not form part of this report.

A Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six month period after the completion of the SAYE contract, either three or five years after entering the scheme.

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	45,273,287	265.2p	47,245,342	259.3p
Granted	9,992,932	405.0p	9,977,206	312.0p
Exercised	(16,921,571)	237.7p	(7,369,406)	266.0p
Forfeited	(3,058,210)	300.6p	(3,575,404)	273.3p
Expired	(862,516)	450.2p	(1,004,451)	418.0p
Outstanding at end of the year	34,423,922	311.6p	45,273,287	265.2p
Exercisable at end of year	1,879,073	253.3p	1,700,575	366.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 448.1p (last year 370.4p).

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

	2014	2013
	3-year plan	3-year plan
Grant date	Nov 13	Nov 12
Share price at grant date	506p	389p
Exercise price	405p	312p
Option life in years	3 years	3 years
Risk-free rate	0.8%	0.3%
Expected volatility	24.2%	25.2%
Expected dividend yield	3.4%	4.4%
Fair value of option	105p	74p

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

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

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

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2014	2013	2014	2013	
January 2008	–	617,258	–	0.3	517p
January 2009	1,241,356	12,912,056	0.3	1.3	203p
January 2010	497	941,711	–	0.3	292p
January 2011	791,518	5,315,855	0.3	1.3	319p
January 2012	14,423,919	15,817,394	1.3	2.3	258p
January 2013	8,353,334	9,669,013	2.3	3.3	312p
January 2014	9,613,298	–	3.3	–	405p
	34,423,922	45,273,287	2.0	2.0	312p

Notes to the financial statements continued

12 Share-based payments continued

B Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on cumulative underlying basic earnings per share, return on capital employed, and revenue over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 66 to 67 of the Marks and Spencer Group plc Annual Report. Awards under this scheme have been made in each year since 2005.

During the year, 7,113,690 shares (last year 9,333,652) were awarded under the Plan. The weighted average fair value of the shares awarded was 440.7p (last year 329.7p). As at 29 March 2014, 21,170,536 shares (last year 21,492,589) were outstanding under the scheme.

C Deferred Share Bonus Plan*

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

During the year, 1,658,133 shares (last year 1,181,637) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 437.0p (last year 325.1p). As at 29 March 2014, 5,024,149 shares (last year 6,576,038) were outstanding under the scheme.

D Restricted Share Plan*

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

During the year, 798,196 shares (last year 1,257,044) have been awarded under the plan. The weighted average fair value of the shares awarded was 479.2p (last year 371.0p). As at 29 March 2014, 2,271,826 shares (last year 3,177,564) were outstanding under the scheme.

E Republic of Ireland Save As You Earn Scheme

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

During the year, 62,734 options (last year 147,557) options were granted, at a fair value of 105.1p (last year 73.8p). As at 29 March 2014, 251,545 options (last year 400,174) were outstanding under the scheme.

F Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,595,343 shares (last year 8,046,847) with a book value of £8.6m (last year £26.9m) and a market value of £11.8m (last year £31.4m). 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. In addition, the Trust has entered into a call option to purchase up to 1,600,000 of the Company's shares expiring June 2014. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes. Dividends are waived on all of these plans.

*Nil cost options

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

Notes to the financial statements continued

13 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 31 March 2012					
Cost or valuation	127 0	112 4	535 4	74 1	848 9
Accumulated amortisation and impairment	(34 4)	(39 9)	(190 3)	–	(264 6)
Net book value	92 6	72 5	345 1	74 1	584 3
Year ended 30 March 2013					
Opening net book value	92 6	72 5	345 1	74 1	584 3
Additions	–	–	50 2	136 9	187 1
Transfers	–	–	27 8	(27 8)	–
Amortisation charge	–	(5 3)	(71 1)	–	(76 4)
Closing net book value	92 6	67 2	352 0	183 2	695 0
At 30 March 2013					
Cost or valuation	127 0	112 4	613 4	183 2	1,036 0
Accumulated amortisation and impairment	(34 4)	(45 2)	(261 4)	–	(341 0)
Net book value	92 6	67 2	352 0	183 2	695 0
Year ended 29 March 2014					
Opening net book value	92 6	67 2	352 0	183 2	695 0
Additions	3 3	–	128 0	72 6	203 9
Transfers	–	–	137 4	(137 4)	–
Amortisation charge	–	(5 3)	(84 3)	–	(89 6)
Exchange difference	(0 7)	–	(0 2)	–	(0 9)
Closing net book value	95 2	61 9	532 9	118 4	808 4
At 29 March 2014					
Cost or valuation	129 6	112 4	878 6	118 4	1,239 0
Accumulated amortisation and impairment	(34 4)	(50 5)	(345 7)	–	(430 6)
Net book value	95 2	61 9	532 9	118 4	808 4

Goodwill and indefinite life intangibles relate to the following business units

	per una £m	Marks and Spencer Czech Republic as £m	Supreme Trademarks Private Limited £m	Marks and Spencer (Hungary) KFT £m	Total goodwill £m	M&S Mode Indefinite life intangible £m
Net book value at 30 March 2013	69.5	15.4	7.7	–	92.6	32.4
Additions	–	–	–	3.3	3.3	–
Impairment	–	–	–	–	–	–
Exchange difference	–	0.1	(0.8)	–	(0.7)	–
Net book value at 29 March 2014	69.5	15.5	6.9	3.3	95.2	32.4

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.

Brands consist of the per una brand cost of £80.0m and the M&S Mode brands of £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight-line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business.

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

Notes to the financial statements continued

13 Intangible assets continued

Impairment testing continued

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

The values attributed to the key assumptions are as follows

	Long-term growth rate		Pre-tax	
	2014	2013	2014	2013
	%	%	%	%
per una	2.0	2.0	11.0	10.7
Marks and Spencer Czech Republic a.s.	2.5	1.5	13.1	12.2
Supreme Trademarks Private Limited	6.0	6.0	18.3	17.4
Marks and Spencer (Hungary) KFT	1.5	–	17.0	–

The M&S Mode brands are tested based on the regions operating in the European business. The discount rates used to calculate value in use range from 13.1% to 28.9% (last year 12.2% to 20.9%). Cash flows beyond the three year period have been extrapolated at long-term growth rates ranging from 1.0% to 2.5% (last year nil% to 1.5%).

Sensitivity analysis

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

Notes to the financial statements continued

14 Property, plant and equipment

	Land and Buildings £m	Fixtures fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2012				
Cost	2,759.4	5,612.9	330.1	8,702.4
Accumulated depreciation and asset write-offs	(270.6)	(3,641.9)	–	(3,912.5)
Net book value	2,488.8	1,971.0	330.1	4,789.9
Year ended 30 March 2013				
Opening net book value	2,488.8	1,971.0	330.1	4,789.9
Additions	17.3	430.3	186.6	634.2
Transfers	16.1	189.8	(205.9)	–
Disposals	(0.4)	(4.6)	–	(5.0)
Asset write-offs	(0.6)	(16.2)	–	(16.8)
Depreciation charge	(11.7)	(362.4)	–	(374.1)
Exchange difference	2.1	1.8	1.6	5.5
Closing net book value	2,511.6	2,209.7	312.4	5,033.7
At 30 March 2013				
Cost	2,817.1	6,198.1	312.4	9,327.6
Accumulated depreciation and asset write-offs	(305.5)	(3,988.4)	–	(4,293.9)
Net book value	2,511.6	2,209.7	312.4	5,033.7
Year ended 29 March 2014				
Opening net book value	2,511.6	2,209.7	312.4	5,033.7
Additions	34.6	362.7	155.8	553.1
Transfers	41.7	169.1	(210.8)	–
Disposals	(15.2)	(5.3)	–	(20.5)
Asset write-offs	(14.3)	(14.9)	(6.0)	(35.2)
Depreciation charge	(15.0)	(364.7)	–	(379.7)
Exchange difference	(3.7)	(6.6)	(1.2)	(11.5)
Closing net book value	2,539.7	2,350.0	250.2	5,139.9
At 29 March 2014				
Cost	2,871.7	6,686.8	256.2	9,814.7
Accumulated depreciation and asset write-offs	(332.0)	(4,336.8)	(6.0)	(4,674.8)
Net book value	2,539.7	2,350.0	250.2	5,139.9

The net book value above includes land and buildings of £43.7m (last year £43.9m) and equipment of £4.2m (last year £11.1m) where the Group is a lessee under a finance lease

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

Notes to the financial statements continued

15 Other financial assets

	2014 £m	2013 £m
Non-current		
Unlisted investments	3 0	3 0
Other investments ¹	13 3	31 4
	16 3	34 4
Current		
Amounts owed by parent company	2,471 8	2,516 8
Short-term investments ²	12 4	10 7
Unlisted investments	5 3	6 2
	2,489 5	2,533 7

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

2 Includes £nil (last year £0 3m) and £1 5m (last year £0 3m) of money market deposits held by the Marks and Spencer Scottish Limited Partnership and Marks and Spencer plc respectively

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

16 Trade and other receivables

	2014 £m	2013 £m
Non-current		
Other receivables	82 8	30 4
Prepayments and accrued income	230 7	235 0
	313 5	265 4
Current		
Trade receivables	127 5	113 7
Less: Provision for impairment of receivables	(0 7)	(5 4)
Trade receivables – net	126 8	108 3
Other receivables	53 9	29 1
Prepayments and accrued income	128 8	107 6
	309 5	245 0

Trade receivables that were past due but not impaired amounted to £6 4m (last year £1 8m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value

17 Cash and cash equivalents

Cash and cash equivalents are £182 1m (last year £193 1m). The carrying amount of these assets approximates their fair value

The effective interest rate on short-term bank deposits is 0 41% (last year 0 03%). These deposits have an average maturity of eight days (last year three days)

18 Trade and other payables

	2014 £m	2013 £m
Current		
Trade and other payables	1,144 0	972 7
Social security and other taxes	58 4	56 4
Accruals and deferred income	490 4	474 7
	1,692 8	1,503 8
Non-current		
Other payables	334 0	292 1

Notes to the financial statements continued

19 Borrowings and other financial liabilities

	2014 £m	2013 £m
Current		
Bank loans and overdrafts ¹	445.5	151.8
5 625% £400m medium term notes 2014 ⁴	–	400.2
Finance lease liabilities	3.2	6.7
	448.7	558.7
Non-current		
Bank loans	0.2	0.3
6 250% US\$500m medium-term notes 2017 ³	306.3	335.7
6 125% £400m medium-term notes 2019 ²	422.3	436.9
6 125% £300m medium-term notes 2021 ²	302.1	301.6
4 75% £400m medium term notes 2025 ²	392.3	401.4
7 125% US\$300m medium-term notes 2037 ³	182.9	200.7
Finance lease liabilities	49.0	50.7
	1,655.1	1,727.3
Total	2,103.8	2,286.0

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 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 On 24 March 2014 the Group repaid £400.2m of 5 625% medium-term notes

Finance leases

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

20 Financial instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

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

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

Notes to the financial statements continued

20 Financial instruments continued

Financial risk management

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

(a) Liquidity/funding risk

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

The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group

Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities

At year end, the Group had a committed syndicated bank revolving credit facility of £1 325bn set to mature on 28 September 2018 and a facility of £150m set to mature on 16 May 2014 (with an option to extend to a facility of £100m maturing on 16 May 2015). 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 Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £80m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £233 9m (last year £81m) was drawn under the committed facilities and £22 5m (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1 5bn (last year £1 5bn) was in issuance as at the balance sheet date.

The 5 625% £400m medium-term loan note was repaid in March 2014.

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 scheme £m	Total borrowings and other financial liabilities £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(70 8)	(81 0)	(509 6)	(9 3)	(71 9)	(742 6)	1,787 4	(1,751 9)	35 5
Between one and two years	(0 3)	–	(96 6)	(4 3)	(71 9)	(173 1)	201 7	(192 0)	9 7
Between two and five years	–	–	(619 5)	(7 3)	(215 5)	(842 3)	449 3	(431 1)	18 2
More than five years	–	–	(1,854 3)	(188 6)	(359 2)	(2,402 1)	485 6	(468 1)	17 5
	(71 1)	(81 0)	(3,080 0)	(209 5)	(718 5)	(4,160 1)	2,924 0	(2,843 1)	80 9
Effect of discounting and foreign	–	–	1,003 5	152 1	95 9	1,251 5			
At 30 March 2013	(71 1)	(81 0)	(2,076 5)	(57 4)	(622 6)	(2,908 6)			
Timing of cash flows									
Within one year	(211 6)	(233 9)	(93 5)	(5 5)	(71 9)	(616 4)	1,849 9	(1,879 6)	(29 7)
Between one and two years	(0 2)	–	(93 5)	(2 9)	(71 9)	(168 5)	207 4	(203 8)	3 6
Between two and five years	–	–	(562 6)	(6 9)	(215 6)	(785 1)	383 4	(414 4)	(31 0)
More than five years	–	–	(1,737 4)	(185 6)	(287 3)	(2,210 3)	425 5	(478 9)	(53 4)
	(211 8)	(233 9)	(2,487 0)	(200 9)	(646 7)	(3,780 3)	2,866 2	(2,976 7)	(110 5)
Effect of discounting and foreign	–	–	881 1	148 7	78 0	1,107 8			
At 29 March 2014	(211 8)	(233 9)	(1,605 9)	(52 2)	(568 7)	(2,672 5)			

The present value of finance lease liabilities is as follows

	2014 £m	2013 £m
Within one year	(3 2)	(6 7)
Later than one year and not later than five years	(1 2)	(9 1)
Later than five years	(47 8)	(41 6)
Total	(52 2)	(57 4)

Notes to the financial statements continued

20 Financial instruments continued

(b) Counterparty risk

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

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A-/A3 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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

	Credit rating of counterparty ³								Total
	AAA ^m £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	0.3	—	—	9.5	11.6	13.2	—	—	34.6
Derivative assets ²	—	—	—	16.9	6.4	42.4	16.1	—	81.8
At 30 March 2013	0.3	—	—	26.4	18.0	55.6	16.1	—	116.4

	AAA ^m £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
	AAA ^m £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	—	—	—	12.0	12.0	37.8	—	—	61.8
Derivative assets ²	—	—	—	7.6	0.5	11.7	5.5	6.6	31.9
At 29 March 2014	—	—	—	19.6	12.5	49.5	5.5	6.6	93.7

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

2 Excludes the embedded derivative within the lease host contract

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

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

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 £128m (last year £114m), other receivables £136m (last year £60m), cash and cash equivalents £182m (last year £193m) and derivatives £54m (last year £108m)

(c) Foreign currency risk

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

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

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,600m (last year £1,342m) with a weighted average maturity date of six months (last year seven months).

Gains and losses in equity on forward foreign exchange contracts as at 29 March 2014 will be released to the income statement at various dates over the following 16 months (last year 15 months) from the balance sheet date.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €162m of currency debt (last year €200m of derivatives) and HK\$698m (last year HK\$484m) of derivatives was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £417m (last year £307m).

Notes to the financial statements continued

20 Financial instruments continued

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 (which has no currency or interest rate exposure) and the Marks and Spencer Czech Republic a s put option, is set out below

	2014			2013		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,226.5	708.6	1,935.1	1,929.9	318.1	2,248.0
Euro	6.6	139.3	145.9	3.9	6.7	10.6
Other	—	22.8	22.8	—	27.4	27.4
	1,233.1	870.7	2,103.8	1,933.8	352.2	2,286.0

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.3% (last year 5.6%) and the weighted average time for which the rate is fixed is nine years (last year eight years).

(d) Interest rate risk

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

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

At the balance sheet date, fixed rate borrowings amounted to £1,233.1m (last year £1,933.8m) representing the public bond issues and finance leases, amounting to 59% (last year 85%) of the Group's gross borrowings.

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

	2014 %	2013 %
Committed and uncommitted borrowings	1.0	1.2
Medium-term notes	5.3	5.6
Finance leases	4.3	4.3

Derivative financial instruments

		2014		2013	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	— cash flow hedges	12.1	(50.9)	34.0	(12.8)
	— held for trading	1.6	(0.6)	3.6	(0.9)
	— net investment hedges	—	—	4.9	—
		13.7	(51.5)	42.5	(13.7)
Non-current					
Cross currency swaps	— cash flow hedges	—	(62.3)	3.2	(12.4)
Forward foreign exchange contracts	— cash flow hedges	0.3	(0.9)	3.8	(0.7)
Interest rate swaps	— fair value hedge	17.9	(12.2)	32.4	—
Embedded derivative (see note 5)		22.4	—	25.9	—
		40.6	(75.4)	65.3	(13.1)

The Group holds a number of interest rate swaps to redesignate 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 £0.5m (last year £nil) as the gain on the hedged item was £33.7m (last year £8.0m loss) and the loss on the hedging instrument was £34.2m (last year £8.0m 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.

Sensitivity analysis

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

Notes to the financial statements continued

20 Financial instruments continued

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 30 March 2013				
Impact on income statement gain/(loss)	3.7	(5.6)	–	–
Impact on other comprehensive income (loss)/gain	(6.9)	3.5	100.8	(67.2)
At 29 March 2014				
Impact on income statement gain/(loss)	4.2	(16.1)	–	–
Impact on other comprehensive income (loss)/gain	(17.9)	11.6	124.9	(141.3)

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 statement of financial position are set out below. For trade and other receivables and trade and other payables, amounts not offset in the statement of financial position but which could be offset under certain circumstances are also set out.

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 29 March 2014					
Trade and other receivables	33.5	(24.2)	9.3	(9.3)	–
Derivative financial assets	31.9	–	31.9	(31.9)	–
Cash and cash equivalents	45.2	(39.0)	6.2	–	6.2
	110.6	(63.2)	47.4	(41.2)	6.2

Trade and other payables	(233.2)	24.2	(209.0)	9.3	(199.7)
Derivative financial liabilities	(126.9)	–	(126.9)	31.9	(95.0)
Bank loans and overdrafts	(45.1)	39.0	(6.1)	–	(6.1)
	(405.2)	63.2	(342.0)	41.2	(300.8)

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2013					
Trade and other receivables	12.6	(5.0)	7.6	(7.6)	–
Derivative financial assets	81.8	–	81.8	(26.8)	55.0
Cash and cash equivalents	54.5	(17.9)	36.6	–	36.6
	148.9	(22.9)	126.0	(34.4)	91.6

Trade and other payables	(152.3)	5.0	(147.3)	7.6	(139.7)
Derivative financial liabilities	(26.8)	–	(26.8)	26.8	–
Bank loans and overdrafts	(49.9)	17.9	(32.0)	–	(32.0)
	(229.0)	22.9	(206.1)	34.4	(171.7)

Notes to the financial statements continued

20 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 Group's level 2 financial instruments include OTC derivatives, and

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

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

	2014				2013			
	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	–	1 6	–	1 6	–	3 6	–	3 6
Derivatives used for hedging	–	30 3	–	30 3	–	78 3	–	78 3
Embedded derivatives (note 5)	–	–	22 4	22 4	–	–	25 9	25 9
Available-for-sale financial assets								
– Equity securities	–	–	3 0	3 0	–	–	3 0	3 0
Short term investments	–	12 4	–	12 4	–	10 7	–	10 7
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	–	(0.6)	–	(0 6)	–	(0 9)	–	(0 9)
Derivative used for hedging	–	(126 3)	–	(126 3)	–	(25 9)	–	(25 9)

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

The following table presents the changes in Level 3 instruments.

	2014 £m	2013 £m
Opening balance	28 9	23 1
Gains recognised in the income statement	(3 5)	5 8
Closing balance	25 4	28 9

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £3.5m (last year £5.8m) is treated as adjustment to reported profit (see note 5).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt 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 was £1,605.9m (last year £2,076.5m), the fair value of this debt was £1,780.3m (last year £2,196.6m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £568.7m (last year £622.6m) and the fair value of this liability is £555.8m (last year £606.0m).

Notes to the financial statements continued

Capital policy

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

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 26) and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was nine years (last year eight years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's

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

21 Provisions

	2014 £m	2013 £m
At start of year	35 2	32 4
Provided in the year	71 8	13 9
Released in the year	(4 3)	(1 3)
Utilised during the year	(25 6)	(9 8)
Exchange differences	(0 9)	–
At end of year	76 2	35 2
Analysis of provisions		
Current	44 8	19 2
Non-current	31 4	16 0
Total provisions	76 2	35 2

The provisions primarily comprise of one-off costs related to the strategic restructure in the UK in 2008/09 (including onerous leases), costs in relation to the current restructure of the logistics distribution network, costs relating to the restructure in Ireland (including the closure of four stores, redundancy and other employee related costs) and onerous leases within China and Czech Group

The current element of the provision primarily relates to onerous leases and redundancies. The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of 10 years

22 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 20% (last year 23%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7

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

Deferred tax (liabilities)/assets

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences (restated) ¹ £m	Other short-term temporary differences £m	Total UK deferred tax (restated) ¹ £m	Overseas deferred tax £m	Total (restated) ¹ £m
At 1 April 2012	(58 2)	(100 6)	(38 9)	6 5	(191 2)	(14 9)	(206 1)
Credited/(charged) to the income statement	5 7	10 0	(2 6)	0 7	13 8	1 3	15 1
(Charged)/credited to equity/other comprehensive income	–	–	(55 1)	(0 7)	(55 8)	6 2	(49 6)
At 30 March 2013	(52 5)	(90 6)	(96 6)	6 5	(233 2)	(7 4)	(240 6)
At 31 March 2013	(52 5)	(90 6)	(96 6)	6 5	(233 2)	(7 4)	(240 6)
Credited/(charged) to the income statement	3 2	(9 3)	(0 8)	(12 5)	(19 4)	(1 9)	(21 3)
(Charged)/credited to equity/other comprehensive income	–	–	0 1	20 9	21 0	(1 7)	19 3
At 29 March 2014	(49 3)	(99 9)	(97 3)	14 9	(231 6)	(11 0)	(242 6)

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

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

Notes to the financial statements continued

22 Deferred tax continued

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a tax value of £46.5m (last year £62.0m). Due to uncertainty over their future use, no benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £38.7m (last year £30.8m).

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

23 Ordinary share capital

	2014		2013	
	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

	2014 £m	2013 £m
Commitments in respect of properties in the course of construction	86.1	9.5

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

B Other material contracts

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

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

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.

	2014 £m	2013 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows		
Within one year	296.9	276.9
Later than one year and not later than five years	1,034.1	1,064.5
Later than five years and not later than ten years	1,020.1	1,053.7
Later than ten years and not later than 15 years	672.0	695.1
Later than 15 years and not later than 20 years	358.3	366.8
Later than 20 years and not later than 25 years	236.3	247.0
Later than 25 years	1,064.1	1,143.0
Total	4,681.8	4,847.0

The total future sublease payments to be received are £44.9m (last year £50.6m).

Notes to the financial statements continued

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

Cash flows from operating activities

	2014 £m	2013 (restated) ¹ £m
Profit on ordinary activities after taxation	489 3	461 5
Income tax expense	91 1	85 7
Finance costs	139 1	218 2
Finance income	(25 0)	(12 4)
Operating profit	694 5	753 0
Increase in inventories	(86 4)	(91 2)
(Increase)/decrease in receivables	(45 8)	9 5
Increase in payables	107 7	77 0
Non-underlying operating cash outflows	(68 2)	(21 4)
Depreciation, amortisation and asset write-offs	504 7	467 4
Share-based payments	21 3	25 8
Pension costs charged against operating profit	92 4	71 4
Cash contributions to pension schemes	(92 1)	(70 9)
Non-underlying operating profit items	47 4	25 6
Cash generated from operations	1,175 5	1,246 2

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note 1)

Non-underlying operating cash outflows relate to the utilisation of the provisions for restructuring of the logistics network and in Ireland, strategic programme costs and 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 31 March 2013 £m	Cash flow £m	Exchange and other non-cash movements £m	At 29 March 2014 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (note 19)	(152 1)	(295 7)	2 1	(445 7)
Less amounts treated as financing (see below)	119 7	321 7	(2 1)	439 3
	(32 4)	26 0	–	(6 4)
Cash and cash equivalents (note 17)	193 1	(9 4)	(1 6)	182 1
Net cash per statement of cash flows	160 7	16 6	(1 6)	175 7
Current financial assets (see note 15)	2,533 7	(44 2)	–	2,489 5
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(119 7)	(321 7)	2 1	(439 3)
Medium-term notes	(2,008 8)	400 0	(1 0)	(1609 8)
Finance lease liabilities (note 19)	(57 4)	7 3	(2 1)	(52 2)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 11)	(606 0)	50 3	–	(555 7)
Debt financing	(2,791 9)	135 9	(1 0)	(2,657 0)
Net debt	(97 5)	108 3	(2 6)	8 2

Notes to the financial statements continued

26 Analysis of net debt continued

B Reconciliation of net debt to statement of financial position

	2014 £m	2013 £m
Statement of financial position and related notes		
Cash and cash equivalents (note 17)	182.1	193.1
Current financial assets (note 15)	2,489.5	2,533.7
Bank loans and overdrafts (note 19)	(445.7)	(152.1)
Medium-term notes – net of hedging derivatives	(1,649.0)	(2,040.2)
Finance lease liabilities (note 19)	(52.2)	(57.4)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 11)	(568.7)	(622.6)
	(44.0)	(145.5)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK pension scheme	52.2	48.0
Total net debt	8.2	(97.5)

27 Related party transactions

A Parent company and Subsidiaries

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc, of £273.6m (last year £273.6m) and decreased its loan to its parent company by £45.0m (last year £24.9m)

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

On 28 March 2014 the Group acquired the remaining 49% shareholding of Marks and Spencer Czech Republic a.s. for £6.0m taking its share in the Czech Group (Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Poland) to 100%. This transaction has been accounted for through equity as the Group already controlled these entities and consolidated them as subsidiaries

B Hedge End joint venture

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

C Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008. At 29 March 2014, £24.0m (last year £21.7m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.6m (last year £4.6m) of rental charges were incurred. There was no outstanding balance at March 2014

D Marks & Spencer Pension Scheme

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

E Key management compensation

	2014 £m	2013 £m
Salaries and short-term benefits	3.8	5.5
Share-based payments	2.1	1.1
Total	5.9	6.6

Key management comprises Board directors only. Further information about the remuneration of individual directors of the Company who are also a director for Marks and Spencer Group plc is provided in the Remuneration Report on pages 52 to 77 of the Marks and Spencer Group plc Annual Report, which does not form part of this report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK

F Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of Marks and Spencer Group plc. These transactions amounted to £1.8m during the year (last year £2.4m) with an outstanding trade payable of £0.4m at 29 March 2014 (last year £0.2m)

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, a former executive director of the Group. These transactions amounted to £6.5m from 1 April 2012 to 1 October 2012, the date of Kate Bostock's resignation. The company was a supplier prior to Kate's employment by the Group

Company statement of comprehensive income

	52 weeks ended 29 March 2014	52 weeks ended 30 March 2013 (restated) ¹
Notes	£m	£m
Profit for the year	149 6	549 8
Other comprehensive (expense)/income		
Items that will not be classified to profit or loss		
Remeasurements of retirement benefit schemes	(97 2)	113 0
Tax credit/(charge) on retirement benefit schemes	39 0	(21 8)
	(58 2)	91 2
Items that may be reclassified subsequently to profit or loss		
Fair value movement on available-for-sale assets	(19 6)	(8 5)
Cash flow and net investment hedges		
– fair value movements in other comprehensive income	(140 3)	55 3
– reclassified and reported in net profit	43 1	(41 4)
– amount recognised in inventories	14 9	(1 4)
Tax credit/(charge) on cash flow hedges and net investment hedges	16 1	(3 2)
	(85 8)	0 8
Other comprehensive (expense)/income for the year, net of tax	(144 0)	92 0
Total comprehensive income for the year	5 6	641 8

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

The profit attributable to shareholders of the Company for the year is £149.6m (last year £549.8m)

Company statement of financial position

		As at 29 March 2014	As at 30 March 2013 (restated) ¹
	Notes	£m	£m
Assets			
Non-current assets			
Intangible assets	C6	646 2	530 4
Property, plant and equipment	C7	3,335 7	3,195 9
Investments in group undertakings	C8	1,083 5	1,192 6
Investment in joint ventures		6 4	10 4
Other financial assets	C9	16 3	34 4
Retirement benefit asset	C3	595 1	649 6
Trade and other receivables	C10	108 8	110 7
Derivative financial instruments	C14	40 6	65 3
		5,832 6	5,789 3
Current assets			
Inventories		773 6	692 6
Other financial assets	C9	1 8	0 3
Trade and other receivables	C10	3,209 7	3,194 4
Derivative financial instruments	C14	21 7	55 3
Cash and cash equivalents		126 6	157 1
		4,133 4	4,099 7
Total assets		9,966 0	9,889 0
Liabilities			
Current liabilities			
Trade and other payables	C12	3,016 3	2,729 0
Borrowings and other financial liabilities	C13	420 7	525 0
Derivative financial instruments	C14	72 1	19 5
Provisions	C15	25 5	15 7
Current tax liabilities		17 9	12 6
		3552 5	3,301 8
Non-current liabilities			
Retirement benefit deficit	C3	11 0	12 4
Trade and other payables	C12	486 4	422 4
Borrowings and other financial liabilities	C13	1,648 3	1,720 2
Derivative financial instruments	C14	75 4	13 1
Provisions	C15	18 1	10 5
Deferred tax liabilities	C16	226 4	222 9
		2,465 6	2,401 5
Total liabilities		6,018 1	5,703 3
Net assets		3,947 9	4,185 7
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		(44 8)	21 4
Retained earnings		2,886 1	3,057 7
Total equity		3,947 9	4,185 7

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

The financial statements were approved by the Board and authorised for issue on 23 September 2014. The financial statements also comprise of the notes on pages 49 to 67.


John Dixon, 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 1 April 2012 (restated) ¹	712 5	386 1	8 0	12 1	2,668 1	3,786 8
Profit for the year (restated) ¹	–	–	–	–	549 8	549 8
Other comprehensive income						
Remeasurements of retirement benefit schemes (restated) ¹	–	–	–	–	113 0	113 0
Tax charge on retirement benefit schemes (restated) ¹	–	–	–	–	(21 8)	(21 8)
Fair value movement in equity on available-for-sale assets	–	–	–	–	(8 5)	(8 5)
Cash flow and net investment hedges						
– fair value movements in other comprehensive income	–	–	–	55 3	–	55 3
– reclassified and reported in net profit	–	–	–	(41 4)	–	(41 4)
– amount recognised in inventories	–	–	–	(1 4)	–	(1 4)
Tax on cash flow hedges and net investment hedges	–	–	–	(3 2)	–	(3 2)
Other comprehensive income (restated) ¹	–	–	–	9 3	82 7	92 0
Total comprehensive income (restated) ¹	–	–	–	9 3	632 5	641 8
Transactions with owners						
Dividends	–	–	–	–	(273 6)	(273 6)
Credit for share-based payments	–	–	–	–	27 9	27 9
Deferred tax on share schemes	–	–	–	–	2 8	2 8
At 30 March 2013 (restated) ¹	712 5	386 1	8 0	21 4	3,057 7	4,185 7
At 31 March 2013 (restated) ¹	712 5	386 1	8 0	21 4	3,057 7	4,185 7
Profit for the year	–	–	–	–	149 6	149 6
Other comprehensive income						
Remeasurements of retirement benefit schemes	–	–	–	–	(97 2)	(97 2)
Tax charge on retirement benefit schemes	–	–	–	–	39 0	39 0
Fair value movement in equity on available-for-sale assets	–	–	–	–	(19 6)	(19 6)
Cash flow and net investment hedges						
– fair value movements in other comprehensive income	–	–	–	(140 3)	–	(140 3)
– reclassified and reported in net profit	–	–	–	43 1	–	43 1
– amount recognised in inventories	–	–	–	14 9	–	14 9
Tax on cash flow hedges and net investment hedges	–	–	–	16 1	–	16 1
Other comprehensive income	–	–	–	(66 2)	(77 8)	(144 0)
Total comprehensive income	–	–	–	(66 2)	71 8	5 6
Transactions with owners						
Dividends	–	–	–	–	(273 6)	(273 6)
Credit for share-based payments	–	–	–	–	21 2	21 2
Deferred tax on share schemes	–	–	–	–	9 0	9 0
At 29 March 2014	712 5	386 1	8 0	(44 8)	2,886 1	3,947 9

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

Company statement of cash flows

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Cash flows from operating activities			
Cash generated from operations	C19	896 6	1,288 9
Income tax paid		(37 0)	(90 8)
Net cash inflow from operating activities		859 6	1,198 1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		–	77 5
Purchase of property, plant and equipment		(379 1)	(590 2)
Purchase of intangible assets		(198 7)	(183 6)
Proceeds from sale of shares in group companies		25 5	–
(Purchase)/sale of current financial assets		(1 5)	48 9
Interest (paid)/received		(0 2)	2 0
Net cash used in investing activities		(554 0)	(645 4)
Cash flows from financing activities			
Interest paid		(107 6)	(133 0)
Cash inflow from borrowings		171 2	–
Drawdown of syndicated bank facility		154 1	81 0
Movement in intercompany loans treated as financing		152 9	(0 1)
Issue of medium-term notes		–	395 6
Redemption of medium-term notes		(400 0)	(606 4)
Decrease in obligations under finance leases		(7 1)	(10 7)
Equity dividends paid		(273 6)	(273 6)
Net cash used in financing activities		(310 1)	(547 2)
Net cash inflow from activities		(4 5)	5 5
Opening net cash		125 0	119 5
Closing net cash	C11	120 5	125 0

Company notes to the financial statements

C1 Accounting policies

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

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

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement.

IAS 19 (revised) 'Employee Benefits' has been adopted in the financial year. The revised standard replaces the expected return on plan assets and the interest cost on liabilities with a net interest expense calculated by applying the discount rate to the net defined benefit asset or liability. In addition, administration costs on pension funds are now recognised in the profit or loss when the administration services are performed. Previously the Company included an expense reserve in the defined benefit obligation. The revised standard has retrospective application. The adoption of the revised standard has resulted in the following changes:

Statement of Financial Position (total net asset increase of £33.1m)

- Net retirement benefit asset increased by £43.0m, and
- Deferred tax liability increased by £9.9m

Retained Earnings (total increase of £33.1m)

- Opening retained earnings increased by £34.6m,
- Profit after tax decreased by £13.2m,
- Remeasurements of retirement benefit assets recognised in other comprehensive income (OCI) increased by £15.1m, and
- Tax on retirement benefit scheme recognised in OCI increased by £3.4m

C2 Dividends

	2014 per share	2013 per share	2014 £m	2013 £m
Dividends on equity ordinary shares				
Paid final dividend	6.1p	6.1p	173.9	173.9
Paid interim dividend	3.5p	3.5p	99.7	99.7
	9.6p	9.6p	273.6	273.6

In addition, the directors have proposed a final dividend in respect of the year ended 29 March 2014 of 6.2p per share amounting to a dividend of £176.7m.

C3 Retirement benefits

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

The defined contribution plan is a pension plan under which the 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 investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The defined benefit arrangement operates on a final salary basis and at the year end had some 13,000 active members (last year 13,000), 55,000 deferred members (last year 55,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution arrangement had some 38,000 active members (last year 33,000) and some 5,000 deferred members (last year 3,000). The scheme is governed by a Trustee board which is independent of the Group.

Within the total retirement benefit cost of £69.1m (last year restated £64.0m), £27.0m (last year restated £40.0m) relates to the UK defined benefit section, £41.7m (last year restated £20.3m) to the UK defined contribution section and £0.4m (last year restated £3.7m) to other retirement benefit schemes.

Company notes to the financial statements

C3 Retirement benefits continued

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result a funding plan of £112m cash contributions was agreed with the Trustees. The Group will contribute c £28m to the UK defined benefit scheme on 31 March 2014 and expects to contribute an additional c £28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by investment better than expected investment returns on the scheme's assets. Future contributions to meet the cost of accruing benefits to the UK scheme are made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation.

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

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

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

A Pensions and other post-retirement liabilities

	2014 £m	2013 (restated) ¹ £m
Total market value of assets	7,039.1	7,240.6
Present value of scheme liabilities	(6,444.0)	(6,591.0)
Net funded pension plan asset	595.1	649.6
Unfunded retirement benefits	–	(0.1)
Post-retirement healthcare	(11.0)	(12.3)
Net retirement benefit asset	584.1	637.2
Analysed in the statement of financial position as		
Retirement benefit asset	595.1	649.6
Retirement benefit deficit	(11.0)	(12.4)
	584.1	637.2

¹ Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note C1)

B Financial assumptions

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

	2014 %	2013 %
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment for service	2.2 – 3.3	2.4 – 3.2
Discount rate	4.45	4.30
Inflation rate	3.4	3.4
Long-term healthcare cost increases	7.4	7.1

The inflation rate of 3.4% 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 2.4% (last year 2.4%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.5% the surplus would increase/decrease by c £50m. If the inflation rate increased by 0.25%, the surplus would decrease by c £50m.

Company notes to the financial statements continued

C3 Retirement benefits continued

C Demographic assumptions

Apart from post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2012. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2012 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows

	2014	2013
Current pensioners (at age 65) – males	22.4	22.4
– females	24.1	24.1
Future pensioners (at age 65) – males	21.8	21.8
– females	24.6	24.5
Deferred pensioners (at age 65) – males	22.6	22.5
– females	25.4	25.4

An increase of one year in the life expectancies would decrease the surplus by c £230m

D Analysis of assets

The investment strategy of the UK defined benefit pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note C4), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 80% of interest rate movements and 84% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

	2014 £m	2013 (restated) ¹ £m
Debt investments		
– Government	2,292.6	2,531.0
– Corporate Bonds	1,255.7	1,232.3
– Asset backed securities and structured debt	232.0	207.8
Scottish Limited Partnership interest (see note C4)	971.9	1,035.4
Equity investments – quoted	940.9	906.7
Equity investments – unquoted	110.1	89.0
Property	275.2	205.8
Derivatives		
– Interest and inflation rate swap contracts	51.3	324.3
– Foreign exchange contracts and other derivatives	123.3	167.9
Hedge and reinsurance funds	329.8	323.9
Cash and cash equivalents	444.1	159.9
Other	12.2	56.6
	7,039.1	7,240.6

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

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

At year end, the UK scheme indirectly held 199,523 (last year 150,955) ordinary shares in the Company through its investment in UK Equity Index Funds.

Company notes to the financial statements continued

C3 Retirement benefits continued

E Analysis of amount charged against profits

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

	2014 £m	2013 (restated) ¹ £m
Current service cost	86 6	66 4
Administration costs	3 0	3 0
Past service costs – curtailment charge	1 0	1 0
One-off UK pension credit	(10.0)	–
Net interest income	(34.8)	(6 4)
Total	45 8	64 0
Remeasurement on the net defined benefit surplus		
Actual return on scheme assets excluding amounts included in net interest income	(343.8)	627 4
Actuarial (loss) – experience	(17 4)	(11 0)
Actuarial (loss) – demographic assumptions	–	(80 0)
Actuarial gain/(loss) – financial assumptions	264 0	(400 5)
Components of defined benefit cost recognized in other comprehensive income	(97 2)	135 9
Total	(51 4)	199 9

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits' (see note C1)

F Scheme assets

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

	2014 £m	2013 (restated) ¹ £m
Fair value of scheme assets at start of year	7,240 6	6,503 2
Interest income based on discount rate	314 3	278 0
Actual return on scheme assets excluding amounts included in net interest income ²	(343 8)	627 5
Employer contributions	89 9	67 5
Benefits paid	(258 9)	(232 6)
Administration costs	(3.0)	(3 0)
Fair value of scheme assets at end of year	7,039 1	7,240 6

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits' (see note C1)

2 The actual return on scheme assets was a loss of (£28m) (last year restated return of £907m) Restatement relates to the adoption of the revised IAS 19 Employee Benefits' (see note C1)

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

	2014 £m	2013 (restated) ¹ £m
Present value of obligation at start of year	6,603 4	6,005 5
Current service cost	86 6	66 4
Curtailment charge	1 0	1 0
One-off UK pension credit	(10 0)	–
Interest cost	279 5	271 6
Benefits paid	(258 9)	(232 6)
Actuarial loss – experience	17 4	11 0
Actuarial loss – demographic assumptions	–	80 0
Actuarial (gain)/loss – financial assumptions	(264 0)	400 5
Present value of obligation at end of year	6,455 0	6,603 4
Analysed as		
Present value of pension scheme liabilities	6,444 0	6 591 0
Unfunded pension plans	–	0 1
Post-retirement healthcare	11 0	12 3
Present value of obligation at end of year	6,455 0	6,603 4

1 Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

The average duration of the defined benefit obligation at 29 March 2014 is 18 years (last year 18 years)

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

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

The Marks and Spencer Scottish Limited Partnership holds £1 6bn (last year £1 6bn) of properties which have been leased back to the Company at market rates

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £971 9m (last year £1,035 4m). For further details see note C3. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads

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

C5 Share-based payments

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

Company notes to the financial statements continued

C6 Intangible assets

	Computer software £m	Computer software under development £m	Total £m
At 31 March 2012			
Cost or valuation	530 5	73 9	604 4
Accumulated amortisation	(187 9)	–	(187 9)
Net book value	342 6	73 9	416 5
Year ended 30 March 2013			
Opening net book value	342 6	73 9	416 5
Additions	46 7	136 9	183 6
Transfers	27 8	(27 8)	–
Amortisation charge	(69 7)	–	(69 7)
Closing net book value	347 4	183 0	530 4
At 30 March 2013			
Cost	605 0	183 0	788 0
Accumulated amortisation	(257 6)	–	(257 6)
Net book value	347 4	183 0	530 4
Year ended 29 March 2014			
Opening net book value	347 4	183 0	530 4
Additions	126 1	72 6	198 7
Transfers	137 4	(137.4)	–
Amortisation charge	(82 9)	–	(82 9)
Closing net book value	528 0	118 2	646 2
At 29 March 2014			
Cost	868 5	118 2	986 7
Accumulated amortisation	(340 5)	–	(340 5)
Net book value	528 0	118 2	646 2

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 31 March 2012				
Cost	992.6	5,143.0	321.3	6,456.9
Accumulated depreciation	(88.9)	(3,352.6)	–	(3,441.5)
Net book value	903.7	1,790.4	321.3	3,015.4
Year ended 30 March 2013				
Opening net book value	903.7	1,790.4	321.3	3,015.4
Additions	15.4	420.4	145.3	581.1
Transfers	14.8	148.7	(163.5)	–
Disposals	(54.2)	(3.1)	–	(57.3)
Asset write-offs	(0.2)	(9.4)	–	(9.6)
Depreciation charge	(6.7)	(327.0)	–	(333.7)
Closing net book value	872.8	2,020.0	303.1	3,195.9
At 30 March 2013				
Cost	965.4	5,681.3	303.1	6,949.8
Accumulated depreciation	(92.6)	(3,661.3)	–	(3,753.9)
Net book value	872.8	2,020.0	303.1	3,195.9
Year ended 29 March 2014				
Opening net book value	872.8	2,020.0	303.1	3,195.9
Additions	33.1	348.8	107.9	489.8
Transfers	41.5	155.8	(197.3)	–
Disposals	(0.5)	(4.2)	–	(4.7)
Asset write-offs	(1.8)	(3.6)	(5.7)	(11.1)
Depreciation charge	(8.2)	(326.0)	–	(334.2)
Closing net book value	936.9	2,190.8	208.0	3,335.7
At 29 March 2014				
Cost	1,037.7	6,164.4	208.0	7,410.1
Accumulated depreciation	(100.8)	(3,973.6)	–	(4,074.4)
Net book value	936.9	2,190.8	208.0	3,335.7

The net book value above includes land and buildings of £37.1m (last year £37.4m) and equipment of £4.2m (last year £11.1m) where the Company is a lessee under a finance lease

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

Company notes to the financial statements continued

C8 Investments

A Investments in Group undertakings

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
At 31 March 2012			
Cost or valuation	1,439.4	0.5	1,439.9
Provision for impairment	(177.5)	–	(177.5)
Net book value	1,261.9	0.5	1,262.4
Year ended 30 March 2013			
Opening net book value	1,261.9	0.5	1,262.4
Additions	7.8	–	7.8
Disposals	(77.6)	–	(77.6)
Closing net book value	1,192.1	0.5	1,192.6
At 30 March 2013			
Cost	1,369.6	0.5	1,370.1
Provision for impairment	(177.5)	–	(177.5)
Net book value	1,192.1	0.5	1,192.6
Year ended 29 March 2014			
Opening net book value	1,192.1	0.5	1,192.6
Additions	–	–	–
Disposals	(44.4)	–	(44.4)
Provision for impairment	(64.7)	–	(64.7)
Closing net book value	1,083.0	0.5	1,083.5
At 29 March 2014			
Cost	1,325.2	0.5	1,325.7
Provision for impairment	(242.2)	–	(242.2)
Net book value	1,083.0	0.5	1,083.5

During the year, the Company struck off 14 non-principal subsidiary undertakings as a result of the corporate rationalisation programme. In addition, the Company disposed of its investment in Turkey as part of a restructuring arrangement with another related party in the Group.

The provision for impairment relates to the impairment of the investment in per una Group Limited following transfer of trade and assets into the Company, less reversal of provisions related to three of the entities struck off during the year.

Company notes to the financial statements continued

C8 Investments continued

B Principal subsidiary undertakings

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

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

1 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.

2 Marks and Spencer plc is the general partner.

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

C9 Other financial assets

	2014 £m	2013 £m
Non-current		
Unlisted investments	30	30
Other investments ¹	133	314
	163	344
Current		
Other investments	18	03

1 Non-current other investments are £13.3m (last year £31.4m) shares in Marks and Spencer Group plc held for employee share schemes.

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

Company notes to the financial statements continued

C10 Trade and other receivables

	2014 £m	2013 £m
Non-current		
Prepayments and accrued income	108 8	110 7
	108 8	110 7
Current		
Trade receivables	123 4	110 6
Less Provision for impairment of receivables	(0 7)	(6 4)
Trade receivables – net	122 7	104 2
Other receivables	11 0	11 3
Prepayments and accrued income	117 3	100 5
Amounts owed by parent company	2,471 8	2,516 8
Amounts owed by subsidiary companies	486 9	461 6
	3,209 7	3,194 4

Trade receivables that were past due but not impaired amounted to £1 5m (last year £1 8m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 29 March 2014, £404 2m (last year £399 0m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £10 4m (last year £7 6m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,554 5 (last year £2,579 4m) of intercompany receivables are interest-free.

C11 Cash and cash equivalents

Cash and cash equivalents are £120 5m (last year £125 0m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0 03% (last year is 0 03%). These deposits have an average maturity of two days (last year three days).

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

	2014 £m	2013 £m
Cash at bank and in hand	126 6	157 1
Bank loans and overdrafts	(417 5)	(118 1)
Syndicated bank facility	233 9	81 0
Bank loans and overdrafts treated as financing	177 5	5 0
	120 5	125 0

C12 Trade and other payables

	2014 £m	2013 £m
Current		
Trade and other payables	1,112 5	958 3
Social security and other taxes	58 4	52 7
Accruals and deferred income	420 7	367 8
Amounts owed to subsidiaries	1,424 7	1,350 2
	3,016 3	2,729 0
Non-current		
Other payables	486 4	422 4

As at 29 March 2014, £1,057 3m (last year £1,165 7m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £7 1m (last year £14 7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £367 4 (last year £184 5m) of intercompany payables are interest-free.

Cost of inventories recognised as an expense during the year is £4,916 3m (last year £5,261 2m).

Company notes to the financial statements continued

C13 Borrowings and other financial liabilities

	2014 £m	2013 £m
Current		
Bank loans and overdrafts ¹	417.5	118.1
5.625% £400m medium-term notes 2014 ⁴	—	400.2
Finance lease liabilities	3.2	6.7
	420.7	525.0
Non-current		
6.250% US\$500m medium-term notes 2017 ³	306.3	335.7
6.125% £400m medium-term notes 2019 ²	422.3	436.9
6.125% £300m medium-term notes 2021 ²	302.1	301.6
4.75% £400m medium-term notes 2025 ²	392.3	401.4
7.125% US\$300m medium-term notes 2037 ³	182.9	200.7
Finance lease liabilities	42.4	43.9
	1,648.3	1,720.2
Total	2,069.0	2,245.2

- 1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note C20)
2 These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually
3 Interest on these bonds is payable semi-annually
4 On 24 March 2014 the Group repaid £400m of 5.625% medium term notes

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on page 60. It is the Company's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years (last year five years) and 125 years (last year 125 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Company's obligations under finance leases are secured by the lessors' charges over the leased assets.

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.

Company notes to the financial statements continued

C14 Financial instruments continued

Financial risk management

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

(a) Liquidity/funding risk

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

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

At year end, the Company had a committed syndicated bank revolving credit facility of £1 325bn set to mature on 28 September 2018 and a facility of £150m set to mature on 16 May 2014 (with an option to extend to a facility of £100 0m maturing on 16 May 2015). 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 £80m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £233 9m (last year £81m) was drawn under the committed facilities and £22 5m (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Company has a euro medium-term note programme of £3bn, of which £1 1bn (last year £1 5bn) was in issuance as at the balance sheet date.

The 5 625% £400m bond was repaid in March 2014.

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

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(37 1)	(81 0)	(509 6)	(8 7)	(636 4)	2,378 9	(2,336 3)	42 6
Between one and two years	–	–	(96 6)	(3 8)	(100 4)	201 7	(192 0)	9 7
Between two and five years	–	–	(619 5)	(5 6)	(625 1)	449 3	(431 1)	18 2
More than five years	–	–	(1,854 3)	(162 9)	(2,017 2)	485 6	(468 1)	17 5
	(37 1)	(81 0)	(3,080 0)	(181 0)	(3,379 1)	3,515 5	(3,427 5)	88 0
Effect of discounting and foreign exchange	–	–	1,003 5	130 4	1,133 9			
At 30 March 2013	(37 1)	(81 0)	(2,076 5)	(50 6)	(2,245 2)			
Timing of cash flows								
Within one year	(183 6)	(233 9)	(93 5)	(5 0)	(516 0)	2,629 9	(2,674 8)	(44 9)
Between one and two years	–	–	(93 5)	(2 4)	(95 9)	207 4	(203 8)	3 6
Between two and five years	–	–	(562 6)	(5 4)	(568 0)	383 4	(414 4)	(31 0)
More than five years	–	–	(1,737 4)	(161 0)	(1,898 4)	425 5	(478 8)	(53 3)
	(183 6)	(233 9)	(2,487 0)	(173 8)	(3,078 3)	3,646 2	(3,771 8)	(125 6)
Effect of discounting and foreign exchange	–	–	881 1	128 2	1,009 3			
At 29 March 2014	(183 6)	(233 9)	(1,605 9)	(45 6)	(2,069 0)			

The present value of finance lease liabilities is as follows

	2014 £m	2013 £m
Within one year	(3 2)	(6 7)
Later than one year and not later than five years	(0 9)	(2 4)
Later than five years	(41 5)	(41 5)
Total	(45 6)	(50 6)

Company notes to the financial statements continued

C14 Financial instruments continued

Financial risk management continued

(b) Counterparty risk

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

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A-/A3 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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

	Credit rating of counterparty ³							Total
	AAAm £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	0.1	—	1.6	2.0	5.2	—	—	8.9
Derivative assets ²	—	—	15.9	6.4	42.4	16.1	—	80.8
At 30 March 2013	0.1	—	17.5	8.4	47.6	16.1	—	89.7
	AAAm £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments ¹	—	—	2.6	—	7.5	—	—	10.1
Derivative assets ²	—	—	6.4	0.5	11.4	5.5	6.6	30.4
At 29 March 2014	—	—	9.0	0.5	18.9	5.5	6.6	40.5

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

2 Excludes the embedded derivative within the lease host contract

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

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

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 £123m (last year £104m), other receivables £11m (last year £11m), cash and cash equivalents £120.5m (last year £125m), and derivatives £62m (£121m).

(c) Foreign currency risk

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

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

Forward foreign exchange contracts in relation to the Company's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £2,148m (last year £1,711m) with a weighted average maturity date of six months (last year seven months).

Gains and losses in equity on forward foreign exchange contracts as at 29 March 2014 will be released to the income statement at various dates over the following 16 months (last year 15 months) from the balance sheet date.

The Company uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €162m of currency debt (last year €200m of derivatives) and HK\$698m (last year HK\$484m) of derivatives were hedging overseas net assets.

The Company also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Company's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil (last year £nil) impact on the income statement. As at the balance sheet date the gross notional value of intercompany loan hedged was £573m (last year £307m).

Company notes to the financial statements continued

C14 Financial instruments continued

(c) Foreign currency risk continued

After taking into account the hedging derivatives entered into by the Company, the currency and interest rate exposure of the Company's financial liabilities excluding short-term, is set out below

	2014			2013		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,226 5	708 6	1,935 1	1,927 1	318 1	2,245 2
Euro	–	133 9	133 9	–	–	–
	1,226 5	842 5	2,069 0	1,927 1	318 1	2,245 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 5.3% (last year 5.6%) and the weighted average time for which the rate is fixed is nine years (last year eight years).

(d) Interest rate risk

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

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

At the balance sheet date, fixed rate borrowings amounted to £1,226.5m (last year £1,927.1m) representing the public bond issues and finance leases, amounting to 59% (last year 86%) of the Company's gross borrowings.

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

	2014 %	2013 %
Committed and uncommitted borrowings	1.0	1.2
Medium-term notes	5.3	5.6
Finance leases	4.2	4.3

Derivative financial instruments

		2014		2013	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options					
Forward foreign exchange contracts	– cash flow hedges	11.4	(50.9)	34.0	(12.0)
	– cash flow hedges with group	9.6	(20.7)	13.9	(7.0)
	– held for trading	0.7	(0.5)	2.5	(0.5)
	– net investment hedges	–	–	4.9	–
		21.7	(72.1)	55.3	(19.5)
Non-current					
Cross currency swaps	– cash flow hedges	–	(62.3)	3.2	(12.4)
Forward foreign exchange contracts	– cash flow hedges	0.3	(0.9)	3.8	(0.7)
Interest rate swaps	– fair value hedge	17.9	(12.2)	32.4	–
Embedded derivative		22.4	–	25.9	–
		40.6	(75.4)	65.3	(13.1)

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 £0.5m (last year £nil) as the gain on the hedged item was £33.7m (last year £8.0m loss) and the loss on the hedging instrument was £34.2m (last year £8.0m gain). The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Company notes to the financial statements continued

C14 Financial instruments continued

Sensitivity analysis

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 30 March 2013				
Impact on income statement gain/(loss)	6.1	(14.3)	–	–
Impact on other comprehensive income (loss)/gain	(7.6)	3.3	216.8	(144.5)
At 29 March 2014				
Impact on income statement gain/(loss)	1.5	(24.6)	–	–
Impact on other comprehensive income (loss)/gain	(18.7)	11.6	190.9	(200.4)

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 29 March 2014					
Trade and other receivables	33.5	(24.2)	9.3	(9.3)	–
Derivative financial assets	30.4	–	30.4	(30.4)	–
Cash and cash equivalents	45.2	(39.0)	6.2	–	6.2
	109.1	(63.2)	45.9	(39.7)	6.2
Trade and other payables	(233.2)	24.2	(209.0)	9.3	(199.7)
Derivative financial liabilities	(126.9)	–	(126.9)	30.4	(96.5)
Bank loans and overdrafts	(45.1)	39.0	(6.1)	–	(6.1)
	(405.2)	63.2	(342.0)	39.7	(302.3)

Company notes to the financial statements continued

C14 Financial instruments continued

Offsetting of financial assets and liabilities continued

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2013					
Trade and other receivables	12 6	(5 0)	7 6	(7 6)	–
Derivative financial assets	80 9	–	80 9	(25 6)	55 3
Cash and cash equivalents	54 5	(17 9)	36 6	–	36 6
	148 0	(22 9)	125 1	(33 2)	91 9
Trade and other payables	(152 3)	5 0	(147 3)	7 6	(139 7)
Derivative financial liabilities	(25 6)	–	(25 6)	25 6	–
Bank loans and overdrafts	(49 9)	17 9	(32 0)	–	(32 0)
	(227 8)	22 9	(204 9)	33 2	(171 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 International Swaps and Derivatives Association (ISDA) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair value hierarchy

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

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

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

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

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

	2014				2013			
	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	–	0 7	–	0 7	–	2 5	–	2 5
Derivatives used for hedging	–	39 2	–	39 2	–	92 2	–	92 2
Embedded derivatives	–	–	22 4	22 4	–	–	25 9	25 9
Available-for-sale financial assets								
– equity securities	13 3	–	3 0	16 3	31 4	–	3 0	34 4
Short term investments	–	1 8	–	1 8	–	0 3	–	0 3
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	–	(0 5)	–	(0 5)	–	(0 5)	–	(0 5)
Derivative used for hedging	–	(147 0)	–	(147 0)	–	(32 1)	–	(32 1)

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

Company notes to the financial statements continued

C14 Financial instruments continued

The following table presents the changes in Level 3 instruments

	2014 £m	2013 £m
Opening balance	28 9	23 1
Gains/(losses) recognised in the income statement	(3 5)	5 8
Closing balance	25 4	28 9

Fair value of financial instruments

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

The carrying value of the Company's fixed rate bond debt was £1,605 9m (last year £2,076 5m), the fair value of this debt was £1,780 3m (last year £2,196 6m)

Capital policy

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

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 27 of the Marks and Spencer Group plc Annual Report) and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was nine years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's

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

C15 Provisions

	2014 £m	2013 £m
At start of year	26 2	25 1
Provided in the year	40 4	10 7
Released in the year	(1 9)	(2 2)
Utilised during the year	(21 1)	(7 4)
At end of year	43 6	26 2
Analysis of provisions		
Current	25 5	15 7
Non-current	18 1	10 5
Total provisions	43 6	26 2

The provisions primarily comprise of one-off costs related to the strategic restructure in the UK in 2008/09 (including onerous leases) and costs in relation to the current restructure of the logistics distribution network

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

Company notes to the financial statements continued

C16 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 20% (last year 23%)

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 (restated) ¹ £m	Other short-term temporary differences £m	Total UK deferred tax (restated) ¹ £m
At 1 April 2012	(53 9)	(78 5)	(48 6)	13 6	(167 4)
Credited/(charged) to the income statement	5 5	8 6	(14 9)	(0 6)	(1 4)
(Charged)/credited to equity	–	–	(53 7)	(0 4)	(54 1)
At 30 March 2013	(48 4)	(69 9)	(117 2)	12 6	(222 9)
At 31 March 2013	(48 4)	(69 9)	(117 2)	12 6	(222 9)
Credited/(charged) to the income statement	1 1	(21 3)	(0 8)	(10 0)	(31 0)
Charged to equity	–	–	1 2	26 3	27 5
At 29 March 2014	(47 3)	(91 2)	(116 8)	28 9	(226 4)

¹ Restatement relates to the adoption of the revised IAS 19 Employee Benefits (see note C1)

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

The deferred tax liability on fixed asset temporary differences is reduced by the benefit of capital losses with a tax value of £46 5m (last year £62 0m)

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

C17 Ordinary share capital

	2014		2013	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each	2,850,039,477	712 5	2,850,039,477	712 5

C18 Contingencies and commitments

A Capital commitments

	2014 £m	2013 £m
Commitments in respect of properties in the course of construction	63 6	1 7

B Other material contracts

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

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

C Commitments under operating leases

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

	2014 £m	2013 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows		
Within one year	184 4	175 1
Later than one year and not later than five years	698 5	693 3
Later than five years and not later than ten years	800 7	798 9
Later than ten years and not later than 15 years	548 4	568 6
Later than 15 years and not later than 20 years	310 7	313 9
Later than 20 years and not later than 25 years	223 8	226 0
Later than 25 years	981 6	1,014 0
Total	3,748 1	3,789 8

The total future sublease payments to be received are £42 1m (last year £47 0m)

Company notes to the financial statements continued

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

Cash flows from operating activities

	2014 £m	2013 (restated) ¹ £m
Profit on ordinary activities after taxation	149 6	549 8
Income tax expense	76 0	41 2
Finance costs	126 1	213 7
Finance income	(50 5)	(38 9)
Operating profit	301 2	765 8
Increase in inventories	(81 1)	(80 9)
(Increase)/decrease in receivables	(27 3)	50 0
Increase in payables	223 0	131 8
Non-underlying operating cash outflows	(63 2)	(21 4)
Depreciation, amortisation and asset write-offs	428 2	413 0
Share-based payments	21 2	25 6
Pension costs charged against operating profit	90 6	70 4
Cash contributions to pension schemes	(89 9)	(67 5)
Non-underlying operating profit items	93 9	2 1
Cash generated from operations	896 6	1,288 9

1 Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note C1)

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

C20 Related party transactions

A Marks and Spencer Group plc

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £273 6m (last year £273 6m) and has decreased its loan to its parent company by £45 0m (last year decrease of £24 9m). The outstanding balance was £2,471 8m (last year £2,516 8m).

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

	2014 Transactions £m	2013 Transactions £m
Trading sales	(343 3)	(334 4)
Trading purchases	12 9	202 2
Rental expense	(132 8)	(123 6)
Rent receivable	19 6	18 2
Interest	(2 7)	(7 1)

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 Lima (Bradford) joint venture

The Company has entered into a rental agreement with the joint venture and £4 6m (last year £4 6m) of rental charges were incurred. There was no outstanding balance at March 2014.

D Marks & Spencer Pension Scheme

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

E Key management compensation

Payments and benefits relating to key management are set out on page 44.

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 29 March 2014. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.