

Marks and Spencer plc financial statements 2013

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Group directors' report

Business review and principal activities

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. We employ over 82,000 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, Hong Kong and China, through partly-owned stores in a number of European countries and in franchises within Asia, Europe and the Middle East.

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

Chairman's statement on pages 2 – 3

Chief Executives review on pages 8 – 15

Financial review on pages 34 – 37

Strategic review on pages 16 – 33

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

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.

	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Summary of Group results		
Revenue	10,026.8	9,934.3
Operating profit before non-underlying operating profit items	781.6	810.0
Underlying net finance costs	(116.4)	(104.1)
Underlying profit before tax	665.2	705.9
Strategic programme costs	(6.6)	(18.4)
Restructuring costs	(9.3)	-
IAS 36 Impairment of assets	-	(44.9)
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	-	15.6
IAS 39 Fair value movement of embedded derivative	5.8	(0.2)
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	(15.5)	-
Profit before tax	564.3	658.0

Group revenue increased by 0.9% to £10,026.8m. Group operating profit (before adjustments to underlying operating profit) decreased by 3.5% to £781.6m.

Underlying net finance costs, were £116.4m compared with £104.1m last year. The average interest rate of borrowings during the period was 5.6% (last year 5.8%). Profit before tax was £564.3m compared with £658.0m last year.

Group profit and dividends

The profit for the financial year, after taxation, amounts to £474.7m (last year £489.6m). The directors have declared dividends as follows:

	2013 £m	2012 £m
Ordinary shares		
Paid interim dividend 3.5p (last year 3.5p)	99.7	99.7
Proposed final dividend 6.1p (last year 6.1p)	173.9	173.9
Total ordinary dividend 9.6p per share (last year 9.6p)	273.6	273.6

Principal risks and uncertainties

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

Group directors' report

Directors

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

Marc Bolland	Amanda Mellor
Alan Stewart	Steven Sharp (resigned 19 August 2013)

Directors' responsibilities

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

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

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

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

Disclosure of information to auditor

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

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors 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 30 March 2013 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company or of any associated company.

Employee involvement

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

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

The eighteenth meeting of the European Works Council ('EWC') (established in 1995) took place in September 2013. 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, as well as representatives from Greece, Bulgaria, France, 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 Business Involvement Group (BIG) meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific

Group director's report

listening groups and informal discussions. The business has continued to engage with employees and drive involvement through a scheme called the BIG idea. On a quarterly basis the Company poses a question to gather ideas and initiatives on a number of areas including how we better serve customers. Several thousand ideas are put forward each time and the winning employee receives an award and the chance to see how their idea is then implemented by the Company.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 25,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 25 to 27 in this report.

We have a well established interactive Wellbeing website called planahealth.com, a completely bespoke wellbeing website and service designed exclusively for M&S employees which was updated and re-launched in October 2012. 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. New this year is access to free physiotherapy, an enhanced counselling service and an improved wellbeing personal coach service.

The response has been excellent, with 13,000 employees making personal pledges to improve a specific health or wellbeing issue. Employees are able to interact with one another, post information about clubs and groups in their area and gain access to information about corporate projects which link to their personal health pledges.

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

Equal opportunities

The Group is committed to an active equal opportunities Policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and one where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 86 years old and joined the business at age 80. The Company once again featured in The Times Top 50 places

for Women to work in April 2013 and considers this to highlight 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. This year we have focused on introducing this scheme into our new distribution centre in Castle Donington, where we are working with Remploy to support people with disabilities and health conditions into work.

Essential contracts or arrangements

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

Groceries supply code of practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') impose obligations on M&S relating to relationships with its suppliers of groceries. 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;
- The Company has a Code Compliance Officer as required under the Order, supported by our in-house legal department; and
- Employee training on GSCOP is provided, including annual refresher programmes and new starter training.

Under the Order and GSCOP, the Company is required to submit an annual report detailing its compliance with GSCOP to the Audit Committee for approval and to the office of Fair Trading. The Company submitted its report to the Group Audit Committee on 10 May 2013 covering the period from 1 April 2012 to 30 March 2013. In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. Only two suppliers alleged breaches of the Order/GSCOP. One of the allegations led to a dispute, which is detailed below, and the other was withdrawn by the supplier and the issue resolved to the satisfaction of both parties.

Group director's report

One formal dispute has arisen under the Order/GSCOP between M&S and a grocery supplier in the reporting period M&S completely denies any breach and arbitration proceedings have not yet been initiated by the supplier

Creditor payment policy

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

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

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

- general merchandise payments are received between 25 and 60 days after the stock was invoiced,
- food payments are received between 19 and 54 days after the stock was invoiced, and
- distribution suppliers are paid monthly, for costs incurred in that month, based on estimates, and payments are adjusted quarterly to reflect any variations to estimate

Trade creditor days for Marks and Spencer plc for the year ended 30 March 2013 were 24 days, or 16 working days (last year 26 days, or 17 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors

Market value of properties

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

Charitable donations

During the year, and in line with our Plan A commitments, the Group made charitable donations to support the community of £11.0m (last year £11.4m), excluding management costs and memberships. These principally comprised cash donations of £6.2m (last year £6.9m) which included UNICEF, WWF, MCS, Breakthrough Breast Cancer, Macmillan Cancer Support, Royal British Legion, our Marks & Start and school work experience, and stock donations of £3.6m (last year £3.2m) to a variety of charities, including Shelter and The Newlife Foundation

We also had another particularly successful year supporting a number of our charity partners in raising funds of £8.2m (last year £8.5m). This principally consisted of funds raised from customer clothing donations to Oxfam through 'Shwopping' our clothes recycling initiative, funds raised by our Marks & Start charities as a result of M&S support and other employee and customer donations

Events after the reporting period

The details and impacts of events after the reporting period can be found in note 28 on page 41

Political donations

No political donations were made during the year ended 30 March 2013. Marks & Spencer has a policy of not making donations to political organisations or independent election

candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000

Significant agreements – change of control

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

–the £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 issued by the Company on 12 December 2012 to various institutions ('MTN') and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN,

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

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

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

–the amended and restated Relationship Agreement dated 1 February 2012 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company relating to M&S 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

Group director's report

termination rights (exercisable at its election) in respect of the Relationship Agreement,

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

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 of the Marks and Spencer Group plc Annual Report as well as the Group's principal risks and uncertainties as set out on pages 45 to 48 of the Marks and Spencer Group plc Annual Report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements

Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company was proposed and agreed at the Marks and Spencer Group plc Annual General Meeting on the 9 July 2013

On behalf of the Board



Amanda Mellor, Executive Director

London, 25 September 2013

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

We have audited the Group and parent company financial statements (the "financial statements") of Marks and Spencer plc for the 52 weeks ended 30 March 2013 which comprise the Consolidated income statement, the Consolidated and Company statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Marks and Spencer plc financial statements 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 March 2013 and of the Group's profit and Group's and parent company's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Stuart Watson (Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London, 25 September 2013

Consolidated income statement

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Revenue	2, 3	10,026 8	9,934 3
Operating profit	2, 3	756 0	746 5
Finance income	6	26 5	48 3
Finance costs	6	(218 2)	(136 8)
Profit before tax	4	564 3	658 0
Income tax expense	7	(89 6)	(168 4)
Profit for the year		474 7	489 6
Attributable to			
Equity shareholders of the Company		483 4	513 1
Non-controlling interests		(8 7)	(23 5)
		474 7	489 6
Non-GAAP measures Underlying profit before tax			
Profit before tax		564 3	658 0
Adjusted for			
Strategic programme costs	5	6 6	18 4
Restructuring costs	5	9 3	—
IAS 36 Impairment of assets	5	—	44 9
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	5	—	(15 6)
IAS 39 Fair value movement of embedded derivative	5	(5 8)	0 2
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	15 5	—
Underlying profit before tax	1	665 2	705 9

Consolidated statement of comprehensive income

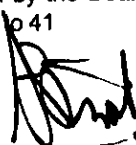
	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit for the year		474 7	489 6
Other comprehensive income			
Foreign currency translation differences		7 9	(15 1)
Actuarial gains/(losses) on retirement benefit schemes	10	90 7	(189 9)
Tax on retirement benefit schemes		(19 9)	50 4
Fair value movement on available-for-sale assets		(8 5)	(2 8)
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		33 6	53 0
– reclassified and reported in net profit		(26 0)	(23 0)
– amount recognised in inventories		(13 6)	13 7
Tax on cash flow hedges and net investment hedges		(0 4)	(7 3)
Other comprehensive income/(loss) for the year, net of tax		63 8	(121 0)
Total comprehensive income for the year		538 5	368 6
Attributable to			
Equity shareholders of the Company		547 2	392 1
Non-controlling interests		(8 7)	(23 5)
		538 5	368 6

Consolidated statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Intangible assets	13	695 0	584 3
Property, plant and equipment	14	5,033 7	4,789 9
Investment property		15 8	15 9
Investment in joint ventures		15 5	14 4
Other financial assets	15	34 4	43 2
Retirement benefit asset	10	206 1	91 3
Trade and other receivables	16	265 4	270 2
Derivative financial instruments	20	65 3	44 2
		6,331 2	5,853 4
Current assets			
Inventories		767 3	681 9
Other financial assets	15	2,533 7	2,802 2
Trade and other receivables	16	245 0	253 0
Derivative financial instruments	20	42 5	67 0
Current tax receivable		3 1	1 6
Cash and cash equivalents	17	193 1	196 1
		3,784 7	4,001 8
Total assets		10,115 9	9,855 2
Liabilities			
Current liabilities			
Trade and other payables	18	1,503 8	1,449 1
Borrowings and other financial liabilities	19	558 7	327 7
Partnership liability to the Marks & Spencer UK Pension Scheme	11	71 9	71 9
Derivative financial instruments	20	13 7	60 5
Provisions	21	19 2	8 4
Current tax liabilities		54 3	87 8
		2,221 6	2,005 4
Non-current liabilities			
Retirement benefit deficit	10	13 1	13 3
Trade and other payables	18	292 1	280 8
Partnership liability to the Marks & Spencer UK pension scheme		550 7	-
Borrowings and other financial liabilities	19	1,727 3	1,948 1
Derivative financial instruments	20	13 1	27 2
Provisions	21	16 0	24 0
Deferred tax liabilities	22	230 7	195 7
		2,843 0	2,489 1
Total liabilities		5,064 6	4,494 5
Net assets		5,051 3	5,360 7
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		9 2	14 8
Other reserve		-	427 9
Retained earnings		3,954 5	3,822 8
Total shareholders' equity		5,070 3	5,372 1
Non-controlling interests in equity		(19 0)	(11 4)
Total equity		5,051 3	5,360 7

The financial statements were approved by the Board and authorised for issue on 25 September 2013. The financial statements also comprise the notes on pages 12 to 41.

Alan Stewart Chief Finance Officer



Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve ¹ £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total £m
At 3 April 2011	712.5	386.1	8.0	(11.3)	499.8	3,700.0	5,295.1	3.9	5,299.0
Profit/(loss) for the year	-	-	-	-	-	513.1	513.1	(23.5)	489.6
Other comprehensive income	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	(1.1)	-	(14.0)	(15.1)	-	(15.1)
Actuarial losses on retirement benefit schemes	-	-	-	-	-	(189.9)	(189.9)	-	(189.9)
Tax on retirement benefit schemes	-	-	-	-	-	50.4	50.4	-	50.4
Fair value movement in equity on available for sale assets	-	-	-	-	-	(2.8)	(2.8)	-	(2.8)
Cash flow and net investment hedges	-	-	-	-	-	-	-	-	-
- fair value movements in other comprehensive income	-	-	-	43.8	-	9.2	53.0	-	53.0
- reclassified and reported in net profit ³	-	-	-	(23.0)	-	-	(23.0)	-	(23.0)
- amount recognised in inventories	-	-	-	13.7	-	-	13.7	-	13.7
Tax on cash flow hedges and net investment hedges	-	-	-	(7.3)	-	-	(7.3)	-	(7.3)
Other comprehensive income	-	-	-	26.1	-	(147.1)	(121.0)	-	(121.0)
Total comprehensive income/(expenses)	-	-	-	26.1	-	366.0	392.1	(23.5)	368.6
Transactions with owners	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(273.6)	(273.6)	-	(273.6)
Transactions with non-controlling shareholders	-	-	-	-	-	(6.4)	(6.4)	8.2	1.8
Recognition of financial liability	-	-	-	-	(71.9)	-	(71.9)	-	(71.9)
Credit for share-based payments	-	-	-	-	-	32.5	32.5	-	32.5
Deferred tax on share schemes	-	-	-	-	-	4.3	4.3	-	4.3
At 31 March 2012	712.5	386.1	8.0	14.8	427.9	3,822.8	5,372.1	(11.4)	5,360.7
At 1 April 2012	712.5	386.1	8.0	14.8	427.9	3,822.8	5,372.1	(11.4)	5,360.7
Profit/(loss) for the year	-	-	-	-	-	483.4	483.4	(8.7)	474.7
Other comprehensive income	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	(1.5)	-	9.4	7.9	-	7.9
Actuarial gain on retirement benefit schemes	-	-	-	-	-	90.7	90.7	-	90.7
Tax on retirement benefit schemes	-	-	-	-	-	(19.9)	(19.9)	-	(19.9)
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 ³	-	-	-	(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 income	-	-	-	(5.6)	-	69.4	63.8	-	63.8
Total comprehensive income/(expenses)	-	-	-	(5.6)	-	552.8	547.2	(8.7)	538.5
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
At 30 March 2013	712.5	386.1	8.0	9.2	-	3,954.5	5,070.3	(19.0)	5,051.3

1 Last year the reserve included discretionary distributions to the Marks & Spencer UK Pension Scheme which following the Group's payment of an interim dividend in relation to 2011/12 and the resultant recognition of the annual distribution of £71.9m as a financial liability was £427.9m. On 21 May 2012 the Group changed the terms of the Marks and Spencer Scottish Limited 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).

2 The Retained earnings reserve includes a cumulative £14.5m gain (last year £5.1m gain) in the currency reserve.

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

Consolidated cash flow information

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from operating activities			
Cash generated from operations	25	1,246 2	1,352 1
Income tax paid		(106 0)	(149 1)
Net cash generated from operating activities		1,140 2	1,203 0
Cash flows from investing activities			
Purchase of property, plant and equipment		(642 6)	(564 3)
Purchase of intangible assets		(187 1)	(156 4)
Sale/(purchase) of current financial assets		243 4	(44 8)
Interest received		5 9	7 7
Net cash used in investing activities		(580 4)	(757 8)
Cash flows from financing activities			
Interest paid		(135 2)	(135 9)
Cash inflow/(outflow) from borrowings		0 5	(41 4)
Drawdown of syndicated loan notes		81 0	—
Movement in parent company loan		25 2	50 1
Issue of medium-term notes		395 6	295 5
Redemption of medium-term notes		(606 4)	(307 6)
Decrease in obligations under finance leases		(11 0)	(13 0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(71 9)	(71 9)
Equity dividends paid		(273 6)	(273 6)
Purchase of own shares by employee trust		—	(13 2)
Net cash used in financing activities		(595 8)	(511 0)
Net cash outflow from activities		(36 0)	(65 8)
Effects of exchange rate changes		0 9	(1 9)
Opening net cash		195 8	263 5
Closing net cash	26	160 7	195 8

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		684 6	690 9
Net cash outflow from activities		(36 0)	(65 8)
Decrease in current financial assets		(268 5)	(5 3)
Decrease in debt financing		132 7	138 4
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(606 0)	(71 9)
Exchange and other non-cash movements		(4 3)	(1 7)
Movement in net debt		(782 1)	(6 3)
Closing net debt	26	(97 5)	684 6

Notes to the financial statements

1 Accounting policies

Basis of preparation

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

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

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

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

IAS 19, 'Employee Benefits' has been revised and was endorsed by the EU in June 2012. It is effective for periods beginning on or after 1 January 2013. The revised standard will change the amounts recognised in the income statement and in other comprehensive income. The expected return on plan assets and the interest cost on liabilities are replaced by a new component of the income statement charge – interest on the net retirement benefit asset/liability calculated by applying the discount rate to the net defined benefit asset/liability. The revised standard has retrospective application. Had the revised standard been applied to the 2012/13 results the underlying profit for the year would have been £17m lower, with a compensating credit in other comprehensive income

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a 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. IFRS 13 is not expected to have a material impact on the Group

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

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

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

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, 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

Subsidiaries

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

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

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

Revenue

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

Dividends

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

Pensions

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

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

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

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

Notes to the financial statements continued

1 Accounting policies continued

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

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

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

Intangible assets

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

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. Were this method applied in the prior year, in place of the previously adopted retail method, there would have been no change in the value of inventory. 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.

Notes to the financial statements continued

1 Accounting policies continued

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.

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.

Notes to the financial statements continued

1 Accounting policies continued

The Group designates certain hedging derivatives as either

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

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

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

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

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

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

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

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

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

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

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

Embedded derivatives

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

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

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.

Notes to the financial statements continued

1 Accounting policies continued

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.

Non-GAAP performance measures

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business

performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

profits and losses on the disposal of properties,

significant and one-off impairment charges that distort underlying trading,

costs relating to strategy changes that are not considered normal operating costs of the underlying business,

restructuring costs,

fair value movement in financial instruments, and

reduction in income received 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.

	2013			2012		
	Management £m	Adjustment ² £m	Statutory £m	Management (Restated) ³ £m	Adjustment (Restated) ³ £m	Statutory £m
General Merchandise	4,090.3	3.6	4,093.9	4,197.3	(2.2)	4,195.1
Food	4,857.5	–	4,857.5	4,673.1	–	4,673.1
UK revenue	8,947.8	3.6	8,951.4	8,870.4	(2.2)	8,868.2
Franchised	392.6	–	392.6	379.4	–	379.4
Owned	682.8	–	682.8	689.4	(2.7)	686.7
International revenue	1,075.4	–	1,075.4	1,068.8	(2.7)	1,066.1
Group revenue	10,023.2	3.6	10,026.8	9,939.2	(4.9)	9,934.3
UK operating profit	661.4	(25.6)	635.8	676.6	(18.6)	658.0
International operating profit	120.2	–	120.2	133.4	(44.9)	88.5
Group operating profit	781.6	(25.6)	756.0	810.0	(63.5)	746.5
Finance income	26.5	–	26.5	32.7	15.6	48.3
Finance costs	(142.9)	(75.3)	(218.2)	(136.8)	–	(136.8)
Profit before tax	665.2	(100.9)	564.3	705.9	(47.9)	658.0

1 UK statutory profit includes £35.6m (last year £50.7m) 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 £51.1m (last year £50.7m) which reflects a non-GAAP adjustment of £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 Following a change in the presentation of internal reporting, management revenue and the corresponding adjustments that reconcile to statutory revenue have been re-presented. Certain revenue deductions (such as staff discounts and loyalty points) that were previously recognised in management cost of sales are now recognised in management revenue to align with statutory accounting. There have been no changes to the reported segments.

Other segmental information

	2013			2012		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	761.6	59.7	821.3	671.4	66.1	737.5
Depreciation and amortisation	421.7	28.8	450.5	435.8	34.3	470.1
Impairment and asset write-offs	9.6	7.2	16.8	7.3	50.5	57.8
Total assets	8,668.6	1,447.3	10,115.9	8,828.9	1,026.2	9,855.2
Non-current assets	4,995.5	1,335.7	6,331.2	4,934.8	918.6	5,853.4

Notes to the financial statements continued

3 Expense analysis

	2013			2012		
	Underlying £m	Adjustments £m	Total £m	Underlying £m	Adjustments £m	Total £m
Revenue	10,026.8	–	10,026.8	9,934.3	–	9,934.3
Cost of sales	(6,230.3)	–	(6,230.3)	(6,179.1)	–	(6,179.1)
Gross profit	3,796.5	–	3,796.5	3,755.2	–	3,755.2
Selling and administrative expenses	(3,107.0)	–	(3,107.0)	(3,021.9)	–	(3,021.9)
Other operating income	92.1	–	92.1	76.7	–	76.7
Non-GAAP adjustments to underlying profit (see note 5)	–	(25.6)	(25.6)	–	(63.5)	(63.5)
Operating profit	781.6	(25.6)	756.0	810.0	(63.5)	746.5

The selling and administrative expenses are further analysed below

	2013 £m	2012 £m
Employee costs (see note 9A)	1,320.2	1,252.6
Occupancy costs	651.2	637.9
Repairs, renewals and maintenance of property	96.7	101.4
Depreciation, amortisation and asset write-offs	463.2	479.7
Other costs	575.7	550.3
Selling and administrative expenses	3,107.0	3,021.9

4 Profit before taxation

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

	2013 £m	2012 £m
Net foreign exchange gains	–	0.1
Cost of inventories recognised as an expense	5,639.6	6,127.0
Depreciation of property, plant, and equipment		
– owned assets	364.2	393.5
– under finance leases	9.9	11.3
Amortisation of intangible assets	76.4	65.3
Operating lease rentals payable		
– property	293.9	278.7
– fixtures, fittings and equipment	4.2	7.8

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

	2013 £m	2012 £m
Annual audit of the Company and consolidated financial statements, and subsidiaries	1.0	1.0
Other assurance services	0.2	0.3
Tax compliance services	0.3	0.3
Tax advisory services	0.3	0.1
Other non-audit services	0.5	0.1
	2.3	1.8

Notes to the financial statements continued

5 Non-GAAP performance measures

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

Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business.

Restructuring costs relating to the commencement of the Group's strategy to transition to a one tier distribution network and the closure costs of legacy logistics sites.

IAS 36 Impairment of assets – last year, the carrying value of the Marks and Spencer Marinopolous B V goodwill was fully impaired to reflect its recoverable value and the net book value of property, plant and equipment in loss making stores in the Greece group was impaired due to the continuing decline of the Greek economy.

IAS 39 Fair value movement on put option over non-controlling interest in Czech business – the put option value has been revised to zero to reflect the latest three year business plan.

IAS 39 Fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%.

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 charge is the fair value movement of the bond net of any immaterial associated unamortised bond costs and fees. It is not considered a normal finance cost of the business, and

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 obligated to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. In the current year, the fee income has been impacted by the deduction of the estimated liability for providing redress to customers in respect of possible mis-selling of financial products. This estimated liability has been recognised by M&S Bank in its audited financial statements for the year ended 31 December 2012, the Group's share of which reduces the overall income due to it (under the Relationship Agreement) and 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. The Group expects there to be a further reduction in fee income of c £45m in the year to 29 March 2014. The effect of the significant, one-off adjustments to the Group's income received from HSBC in the prior year was not material. We are discussing with M&S Bank 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 before tax are:

	Note	2013 £m	2012 £m
Strategic programme costs		(6.6)	(18.4)
Restructuring costs		(9.3)	–
IAS 36 Impairment of assets	13, 14	–	(44.9)
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	6, 20	–	15.6
IAS 39 Fair value movement of embedded derivative	20	5.8	(0.2)
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	(15.5)	–
Total adjustments		(100.9)	(47.9)

6 Finance income/costs

	2013 £m	2012 £m
Bank and other interest receivable	5.3	7.1
Pension net finance income (see note 10E)	21.2	25.6
Underlying finance income	26.5	32.7
Fair value movement of put option over non-controlling interest in Czech business (see note 5)	–	15.6
Finance income	26.5	48.3
Interest on bank borrowings	(2.1)	(5.5)
Interest payable on syndicated bank facility	(6.1)	(3.0)
Interest payable on medium-term notes	(114.3)	(126.4)
Interest payable on finance leases	(2.8)	(0.7)
Unwind of discount on financial instruments	(1.0)	(1.2)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	(16.6)	–
Underlying finance costs	(142.9)	(136.8)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes (see note 5)	(75.3)	–
Finance costs	(218.2)	(136.8)
Net finance costs	(191.7)	(88.5)

Notes to the financial statements continued

7 Income tax expense

A Tax charge

	2013 £m	2012 £m
Current tax		
UK corporation tax on profits for the year		
– current year	125.5	175.9
– adjustments in respect of prior years	(41.3)	(9.3)
UK current tax	84.2	166.6
Overseas current tax	12.8	11.6
Adjustments in respect of prior years	3.8	–
Total current tax	100.8	178.2
Deferred tax		
– origination and reversal of temporary differences	(2.7)	(10.5)
– adjustments in respect of prior years	(2.8)	14.0
– changes in tax rate	(5.7)	(13.3)
Total deferred tax (see note 22)	(11.2)	(9.8)
Total income tax expense	89.6	168.4

B Tax reconciliation

	2013 £m	2012 £m
Profit before tax	564.3	658.0
Tax at the standard UK corporation tax rate of 24% (last year 26%)	135.4	171.1
Depreciation, charges and other amounts on non-qualifying fixed assets	3.0	3.6
Other income and expenses not taxable or deductible	(8.1)	(11.1)
Deferred tax rate change benefit	(5.4)	(13.1)
Overseas profits taxed at rates different to those of the UK	(4.0)	(8.6)
Benefit of current year losses not recognized	9.3	14.3
Adjustments to tax charge in respect of prior periods	(12.4)	4.7
Adjustments to underlying profit		
IAS 36 Impairment of assets	–	11.7
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	–	(4.0)
Deferred tax rate change benefit	(0.3)	(0.2)
Non-underlying adjustment to tax charge in respect of prior periods	(27.9)	–
Total income tax expense	89.6	168.4

The effective tax rate was 15.9% (last year 25.6%) and the underlying effective tax rate was 21.1% (last year 24.5%)

The non-underlying adjustment to the tax charge in respect of prior periods relates to the reassessment of historic tax liabilities following agreement with the tax authorities

On 3 July 2012, the Finance Bill received its third reading in the House of Commons and so the previously announced reduced rate of corporation tax of 23% from 1 April 2013 was substantively enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 23%, which has resulted in the recognition of a deferred tax credit of £5.7m in the income statement (reducing the total effective tax rate by 1%), and the recognition of a deferred tax credit of £4.0m in other comprehensive income. The Chancellor has further stated his intention to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have not been substantively enacted at the date of the statement of financial position. Had these changes been enacted, then the cumulative effects would have been a credit to the income statement of £11.5m (21%) or £17.3m (20%) and a credit to other comprehensive income of £7.9m (21%) or £11.9m (20%).

8 Dividends

	2013 per share	2012 per share	2013 £m	2012 £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 30 March 2013 of 6.1p per share amounting to a dividend of £173.9m. In line with the requirements of IAS 10 – 'Events after the reporting period', this dividend has not been recognised within these results.

Notes to the financial statements continued

9 Employees

A Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were

	2013 Total £m	2012 Total £m
Wages and salaries	1,135.7	1,060.4
Social security costs	75.8	77.7
Pension costs	68.4	57.7
Share-based payments (see note 12)	25.8	32.5
Employee welfare and other personnel costs	51.0	46.0
Capitalised staff costs	(36.5)	(21.7)
Total aggregate remuneration	1,320.2	1,252.6

Details of key management compensation are given in note 27

B Average monthly number of employees

	2013	2012
UK stores		
– management and supervisory categories	5,511	5,784
– other	65,053	63,003
UK head office		
– management and supervisory categories	3,033	2,782
– other	922	718
Overseas	7,215	6,450
Total average monthly number of employees	81,734	78,737

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 57,518 (last year 54,984)

C Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 55 to 70 of the Marks and Spencer Group plc Annual Report

	2013 £000	2012 £000
Highest paid director	1,919	1,682
Aggregate emoluments	2,730	2,386

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

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

The highest paid director was awarded 851,737 options during the current year (last year 849,463) in relation to the Group's long-term incentive plans

10 Retirement benefits

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

The defined benefit section operates on a final salary basis and at the year end had some 13,000 active members (last year 14,000), 55,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 33,000 active members (last year 9,000) and some 3,000 deferred members (last year 2,000).

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

Within the total Group retirement benefit cost of £47.2m (last year £32.1m), £23.0m (last year £12.0m) relates to the UK defined benefit section, £20.3m (last year £15.9m) to the UK defined contribution section and £3.9m (last year £4.2m) to other retirement benefit schemes.

Notes to the financial statements continued

10 Retirement benefits continued

A Pensions and other post-retirement liabilities

	2013 £m	2012 £m
Total market value of assets	6,930 0	6,186 4
Present value of scheme liabilities	(6,723 9)	(6,095 1)
Net funded pension plan asset	206 1	91 3
Unfunded retirement benefits	(0 8)	(0 8)
Post-retirement healthcare	(12 3)	(12 5)
Net retirement benefit asset	193 0	78 0
Analysed in the statement of financial position as		
Retirement benefit asset	206 1	91 3
Retirement benefit deficit	(13 1)	(13 3)
	193 0	78 0

B Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

	2013 %	2012 %
Rate of increase in salaries	1 0	1 0
Rate of increase in pensions in payment for service	2 4 – 3 2	2 3 – 3 1
Discount rate	4 3	4 6
Inflation rate	3 4	3 1
Long-term healthcare cost increases	7 1	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 1%) 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 1% the IAS 19 surplus would increase/decrease by c £115m (last year £110m). If the inflation rate increased by 0 1%, the IAS 19 surplus would decrease by c £50m and if the inflation rate decreased by 0 1%, the IAS 19 surplus would increase by c £75m.

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:

	2013 £m	2012 £m
Current pensioners (at age 65) – males	22 4	22 1
– females	24 1	23 4
Future pensioners (at age 65) – males	21 8	23 2
– females	24 5	24 3

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c £230m.

Notes to the financial statements continued

10 Retirement benefits continued

D Analysis of assets and expected rates of return

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

	2013 £m	2012 £m	2013 %	2012 %
Scottish Limited Partnership interest (see note 11)	645.7	664.8	9	11
UK equities	224.0	232.6	3	4
Overseas equities	736.3	777.4	11	13
Government bonds	3,188.3	1,750.9	46	28
Corporate bonds	1,388.5	1,455.7	20	23
Swaps ¹	471.1	275.9	7	4
Cash and other	276.1	1,029.1	4	17
Total market value of assets	6,930.0	6,186.4	100	100

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

The expected long-term rates of return are

	2013 %	2012 %
Scottish Limited Partnership interest (see note 11)	2.3	3.5
UK equities	7.8	7.8
Overseas equities	7.8	7.8
Government bonds	3.2	3.3
Corporate bonds	4.3	4.9
Swaps	3.0	3.3
Cash and other	3.0	3.3
Overall expected return	4.4	4.9

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment. At year end, the UK scheme indirectly held 150,955 (last year 107,216) ordinary shares in the Company through its investment in UK Equity Index Funds.

E Analysis of amount charged against profits

	2013 £m	2012 £m
Operating cost		
Current service cost	68.8	56.7
Curtailment charge	1.0	1.0
Past service cost	(1.4)	—
	68.4	57.7
Finance cost		
Expected return on scheme assets	(298.0)	(307.4)
Interest on scheme liabilities	276.8	281.8
Net finance income	(21.2)	(25.6)
Total	47.2	32.1

F Scheme assets

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

	2013 £m	2012 £m
Fair value of scheme assets at start of year	6,186.4	5,398.1
Expected return on scheme assets ¹	298.0	307.4
Employer contributions	70.9	131.9
Benefits paid	(235.0)	(230.4)
Actuarial gain	607.3	581.0
Exchange movement	2.4	(1.6)
Fair value of scheme assets at end of year	6,930.0	6,186.4

1 The actual return on scheme assets was £905.3m (last year return of £888.4m)

Notes to the financial statements continued

10 Retirement benefits continued

Future contributions to the UK scheme will be made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c £28m to the UK defined benefit scheme for the year ended 29 March 2014.

G Retirement benefit obligations

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

	2013 £m	2012 £m
Present value of obligation at start of year	6,108.4	5,229.6
Current service cost	68.8	56.7
Curtailment charge	1.0	1.0
Past service cost	(1.4)	–
Interest cost	276.8	281.8
Benefits paid	(235.0)	(230.4)
Actuarial loss	516.6	770.9
Exchange movement	1.8	(1.2)
Present value of obligation at end of year	6,737.0	6,108.4
Analysed as		
Present value of pension scheme liabilities	6,723.9	6,095.1
Unfunded pension plans	0.8	0.8
Post-retirement healthcare	12.3	12.5
Present value of obligation at end of year	6,737.0	6,108.4

H Cumulative actuarial gains and losses recognised in equity

	2013 £m	2012 £m
Loss at start of year	(1,412.8)	(1,222.9)
Net actuarial gains/(losses) recognised in the year	90.7	(189.9)
Loss at end of year	(1,322.1)	(1,412.8)

I History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustments arising on scheme assets	607.3	581.0	124.1	867.7	(1,280.3)
Experience (losses)/gains arising on scheme liabilities	(5.3)	(85.3)	(8.4)	36.2	81.2
Changes in assumptions underlying the present value of scheme liabilities	(511.3)	(685.6)	170.3	(1,155.5)	272.0
Actuarial gains/(losses) recognised in equity	90.7	(189.9)	286.0	(251.6)	(927.1)
Fair value of scheme assets	6,930.0	6,186.4	5,398.1	4,948.6	3,977.0
Present value of scheme liabilities	(6,723.9)	(6,095.1)	(5,215.5)	(5,298.6)	(4,112.4)
Pension scheme asset/(deficit)	206.1	91.3	182.6	(350.0)	(135.4)

Notes to the financial statements continued

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

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

The Partnership holds £1.6bn (last year £1.5bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

In 2009 it was agreed with the Trustee that this distribution was discretionary at the instance of Marks and Spencer plc. The discretionary right was exercisable if the Group did not pay a dividend or make any other form of return to its shareholders. On this basis, the future value of total discretionary scheduled payments was an equity instrument, disclosed within other reserves.

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 has been reflected by the derecognition of the related equity instruments and recognition of a financial liability. The financial liability has been initially measured at fair value of £606.0m, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument of £427.9m and the fair value of the liability has been recognised in equity in accordance with IAS 32. The change has no impact on the cash flows of the Group.

During the year to 30 March 2013 an interest charge of £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 £645.7m (last year £664.8m). The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

12 Share-based payments

The charge for share-based payments for the year was £25.8m (last year £32.5m). Of the total share-based payments charge, £13.4m (last year £15.0m) 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 60 to 62 of the Marks and Spencer Group plc Annual Report.

A Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in 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.

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	47,245,342	259 3p	54,295,921	249 9p
Granted	9,977,206	312 0p	18,366,990	258 0p
Exercised	(7,369,406)	266 0p	(19,345,308)	205 6p
Forfeited	(3,575,404)	273 3p	(4,327,447)	285 6p
Expired	(1,004,451)	418 0p	(1,744,814)	481 8p
Outstanding at end of the year	45,273,287	265 2p	47,245,342	259 3p
Exercisable at end of year	1,700,575	366 9p	2,803,103	278 9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 370 4p (last year 325 0p).

Notes to the financial statements continued

12 Share-based payments continued

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

	2013	2012
	3 year plan	3 year plan
Grant date	Nov 12	Nov 11
Share price at grant date	389p	322p
Exercise price	312p	258p
Option life in years	3 years	3 years
Risk-free rate	0.3%	0.5%
Expected volatility	25.2%	31.4%
Expected dividend yield	4.4%	5.4%
Fair value of option	74p	67p

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

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

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2013	2012	2013	2012	
January 2007	–	583,961	–	0.2	559p
January 2008	617,258	655,213	0.3	1.2	517p
January 2009	12,912,056	15,727,797	1.3	1.9	203p
January 2010	941,711	6,349,388	0.3	1.2	292p
January 2011	5,315,855	6,016,473	1.3	2.2	319p
January 2012	15,817,394	17,912,510	2.3	3.2	258p
January 2013	9,669,013	–	3.3	–	312p
	45,273,287	47,245,342	2.0	2.3	265p

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 underlying basic earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 61. Awards under this scheme have been made in each year since 2005.

During the year, 9,333,652 shares (last year 7,887,169) were awarded under the Plan. The weighted average fair value of the shares awarded was 329.7p (last year 350.8p). As at 30 March 2013, 21,492,589 shares (last year 19,651,115) 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, 1,181,637 shares (last year 2,366,847) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 325.1p (last year 378.4p). As at 30 March 2013, 6,576,038 shares (last year 6,396,018) 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.

Notes to the financial statements continued

12 Share-based payments continued

During the year, 1,257,044 shares (last year 1,356,046) have been awarded under the plan. The weighted average fair value of the shares awarded was 371.0p (last year 356.9p). As at 30 March 2013, 3,177,564 shares (last year 2,364,183) 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, 147,557 (last year 97,270) options were granted, at a fair value of 73.8p (last year 67.3p).

F Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 8,046,847 shares (last year 10,621,823) with a book value of £26.9m (last year £34.4m) and a market value of £31.4m (last year £40.2m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. The Trust used funds provided by 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 2 April 2011					
Cost or valuation	127 6	80 0	427 1	58 2	692 9
Accumulated amortisation	–	(34 6)	(130 6)	–	(165 2)
Net book value	127 6	45 4	296 5	58 2	527 7
Year ended 31 March 2012					
Opening net book value	127 6	45 4	296 5	58 2	527 7
Additions	–	32 4	72 9	52 9	158 2
Transfers	–	–	37 0	(37 0)	–
Disposals	–	–	(1 0)	–	(1 0)
Impairment	(34 4)	–	–	–	(34 4)
Amortisation charge	–	(5 3)	(60 0)	–	(65 3)
Exchange difference	(0 6)	–	(0 3)	–	(0 9)
Closing net book value	92 6	72 5	345 1	74 1	584 3
Cost	127 0	112 4	535 4	74 1	848 9
Accumulated amortisation and impairment	(34 4)	(39 9)	(190 3)	–	(264 6)
Net book value	92 6	72 5	345 1	74 1	584 3
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	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

Goodwill relates to the following business units

	per una £m	Marks and Spencer Czech Republic a s £m	Supreme Tradelinks Private Limited £m	Total £m
Net book value at 31 March 2012	69 5	15 4	7 7	92 6
Exchange difference	–	–	–	–
Net book value at 30 March 2013	69 5	15 4	7 7	92 6

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made: per una discount rate 10.7% (last year 10.6%), Marks and Spencer Czech Republic a s 12.2% (last year 12.3%) and Supreme Tradelinks Private Limited 17.4% (last year 12.7%).

The valuations use cash flows based on detailed financial budgets prepared by management covering a three year period. Cash flows beyond this three year period are extrapolated for Marks and Spencer Czech Republic a s at a growth rate of 1.5% (last year 1.5%) and Supreme Tradelinks Private Limited at a growth rate of 6% (last year 1.5%). To stress test, nil growth has been assumed for per una. These rates do not exceed the long-term average growth rate for the Group's retail businesses.

If a zero per cent growth rate is assumed or the discount rate is increased by a pre-tax rate of 3%, per una, Marks and Spencer Czech Republic a s and Supreme Tradelinks Private Limited goodwill would not be impaired.

Last year, due to the economic environment in Greece and neighbouring countries, the Marks and Spencer Mannopoulos B V goodwill was impaired in full giving rise to a charge of £34.4m.

Notes to the financial statements continued

13 Intangible assets continued

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. No brand impairment charge has been recognised in 2012/13.

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 2 April 2011				
Cost	2,730 0	5,263 2	200 9	8,194 1
Accumulated depreciation	(244 0)	(3,287 9)	–	(3,531 9)
Net book value	2,486 0	1,975 3	200 9	4,662 2
Year ended 31 March 2012				
Opening net book value	2,486 0	1,975 3	200 9	4,662 2
Additions	17 1	279 5	282 7	579 3
Transfers	25 3	127 9	(153 2)	–
Disposals	(0 8)	(6 8)	–	(7 6)
Asset write-offs	(13 0)	(10 4)	–	(23 4)
Depreciation charge	(16 4)	(388 4)	–	(404 8)
Exchange difference	(9 4)	(6 1)	(0 3)	(15 8)
Closing net book value	2,488 8	1,971 0	330 1	4,789 9
At 31 March 2012				
Cost	2,759 4	5,612 9	330 1	8,702 4
Accumulated depreciation	(270 6)	(3,641 9)	–	(3,912 5)
Net book value	2,488 8	1,971 0	330 1	4,789 9
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	(305 5)	(3,988 4)	–	(4,293 9)
Net book value	2,511 6	2,209 7	312 4	5,033 7

The net book value above includes land and buildings of £41 0m (last year £43 6m) and equipment of £11 1m (last year £26 4m) where the Group is a lessee under a finance lease

Additions to property, plant and equipment during the year amounting to £nil (last year £6 0m) were financed by new finance leases

Notes to the financial statements continued

15 Other financial assets

	2013 £m	2012 £m
Non-current		
Unlisted investments	3 0	3 0
Other investments ¹	31 4	40 2
	34 4	43 2
Current		
Amounts owed by parent company	2,516 8	2,541 7
Short-term investments ²	10 7	254 4
Unlisted investments	6 2	6 1
	2,533 7	2,802 2

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

2 Includes £0 3m (last year £179 4m) and £0 3m (last year £49 2m) 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

	2013 £m	2012 £m
Non-current		
Other receivables	30 4	33 8
Prepayments and accrued income	235 0	236 4
	265 4	270 2
Current		
Trade receivables	113 7	115 8
Less: Provision for impairment of receivables	(5 4)	(1 2)
Trade receivables – net	108 3	114 6
Other receivables	29 1	23 9
Prepayments and accrued income	107 6	114 5
	245 0	253 0

Trade receivables that were past due but not impaired amounted to £1 8m (last year £1 3m) 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 £193 1m (last year £196 1m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.03% (last year 0.36%). These deposits have an average maturity of three days (last year four days).

18 Trade and other payables

	2013 £m	2012 £m
Current		
Trade and other payables	972 7	959 5
Social security and other taxes	56 4	71 5
Accruals and deferred income	474 7	418 1
	1,503 8	1,449 1
Non-current		
Other payables	292 1	280 8

Notes to the financial statements continued

19 Borrowings and other financial liabilities

	2013 £m	2012 £m
Current		
Bank loans and overdrafts ¹	151.8	38.4
5.875% £267m medium-term notes 2012 ²	–	280.6
5.625% £400m medium term notes 2014 ²	400.2	–
Finance lease liabilities	6.7	8.7
	558.7	327.7
Non-current		
Bank loans	0.3	0.3
5.625% £400m medium term notes 2014 ²	–	399.9
6.250% US\$500m medium-term notes 2017 ³	335.7	317.8
6.125% £400m medium-term notes 2019 ²	436.9	428.5
6.125% £300m medium-term notes 2021 ²	301.6	301.6
4.75% £400m medium term notes 2025 ²	401.4	–
7.125% US\$300m medium-term notes 2037 ³	200.7	189.9
6.875% £250m puttable callable reset medium-term notes 2037 ²	–	253.3
Finance lease liabilities	50.7	56.8
	1,727.3	1,948.1
Total	2,286.0	2,275.8

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

On 12 December 2012, the Group issued £400m of 12.5 year medium-term notes at a coupon rate of 4.75%

In December 2007, the Group issued £250m of 6.875% 30 year Puttable Callable Reset medium-term notes (PCR notes). These 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 for £330.0m. This resulted in a one-off finance charge of £75.3m representing the difference between the cost of the buy back and the carrying value of the PCR notes, offset by associated unamortised bond costs and fees (see note 5).

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 29 September 2017. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £81m (last year £nil) was drawn under the committed facilities and £nil (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1 5bn (last year £1 6bn) was in issuance as at the balance sheet date.

The 5 875% £267m bond was repaid in May 2012. A new 4 75% £400m bond was issued under the programme in December 2012 maturing in June 2025.

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	Total borrowings and other financial	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(38 4)	—	(398 5)	(11 8)	(71 9)	(520 6)	1,540 1	(1,529 4)	10 7
Between one and two years	(0 3)	—	(517 1)	(8 8)	—	(526 2)	163 6	(161 9)	1 7
Between two and five years	—	—	(283 8)	(9 2)	—	(293 0)	110 5	(103 3)	7 2
More than five years	—	—	(2,310 9)	(192 1)	—	(2,503 0)	804 6	(841 8)	(37 2)
	(38 7)	—	(3,510 3)	(221 9)	(71 9)	(3,842 8)	2,618 8	(2,636 4)	(17 6)
Effect of discounting and foreign	—	—	1,338 7	156 4	—	1,495 1			
At 31 March 2012	(38 7)	—	(2,171 6)	(65 5)	(71 9)	(2,347 7)			
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)			

The present value of finance lease liabilities is as follows

	2013 £m	2012 £m
Within one year	(6 7)	(8 7)
Later than one year and not later than five years	(9 1)	(8 7)
Later than five years	(41 6)	(48 1)
Total	(57 4)	(65 5)

(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.

Notes to the financial statements continued

20 Financial instruments continued

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

	Credit rating of counterparty ³							Total
	AAA £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	
Short-term investments ¹	198.5	–	2.0	42.8	27.1	20.0	–	290.4
Derivative assets ²	–	–	1.9	9.8	–	18.2	7.6	37.5
At 31 March 2012	198.5	–	3.9	52.6	27.1	38.2	7.6	327.9

	Credit rating of counterparty ³							Total
	AAA £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £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

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

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £114m (last year £115m), other receivables £60m (last year £58m), cash and cash equivalents £193m (last year £196m) and derivatives £108m (last year £111m)

(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 £1,342m (last year £1,221m) with a weighted average maturity date of seven months (last year seven months)

Gains and losses in equity on forward foreign exchange contracts as at 30 March 2013 will be released to the income statement at various dates over the following 15 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 €200m (last year €242m) and HK\$484m (last year HK\$291m) 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 £307m (last year £187m)

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 as put option, is set out below

	2013			2012		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,929.9	318.1	2,248.0	2,030.4	205.2	2,235.6
Euro	3.9	6.7	10.6	6.8	5.1	11.9
Other	–	27.4	27.4	–	28.3	28.3
	1,933.8	352.2	2,286.0	2,037.2	238.6	2,275.8

Notes to the financial statements continued

20 Financial instruments continued

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.6% (last year 5.8%) and the weighted average time for which the rate is fixed is nine years (last year nine years).

(d) Interest rate risk

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

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

At the balance sheet date, fixed rate borrowings amounted to £1,933.8m (last year £2,037.2m) representing the public bond issues and finance leases, amounting to 85% (last year 90%) of the Group's gross borrowings.

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

	2013 %	2012 %
Committed and uncommitted borrowings	1.2	0.5
Medium-term notes	5.6	5.8
Finance leases	4.3	4.5

Derivative financial instruments

		2013		2012	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options	– held for trading	–	–	53.6	(53.6)
Forward foreign exchange contracts	– cash flow hedges	34.0	(12.8)	13.3	(5.1)
	– held for trading	3.6	(0.9)	0.1	(1.3)
	– net investment hedges	4.9	–	–	(0.5)
		42.5	(13.7)	67.0	(60.5)
Non-current					
Cross currency swaps	– cash flow hedges	3.2	(12.4)	–	(26.5)
Forward foreign exchange contracts	– cash flow hedges	3.8	(0.7)	0.1	(0.7)
Interest rate swaps	– fair value hedge	32.4	–	24.0	–
Embedded derivative (see note 5)		25.9	–	20.1	–
		65.3	(13.1)	44.2	(27.2)

Last year, the amounts reported as options held for trading in derivatives assets and liabilities represented the fair value of the call option with the Puttable Callable reset notes mirrored by the fair value of the sold option to have this call assigned. In January 2013 the Group bought back and cancelled these notes. 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 £nil (last year £0.2m loss) as the loss on the hedged item was £8.0m (last year £23.6m loss) and the gain on the hedging instrument was £8.0m (last year £23.8m gain). The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Notes to the financial statements continued

20 Financial instruments continued

Sensitivity analysis

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2012				
Impact on income statement gain	1.5	0.8	–	–
Impact on other comprehensive income (loss)/gain	(5.3)	3.0	70.2	(46.8)
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)

Fair value hierarchy

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

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

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

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

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

	2013				2012			
	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	–	3.6	–	3.6	–	53.7	–	53.7
Derivatives used for hedging	–	78.3	–	78.3	–	37.4	–	37.4
Embedded derivatives (note 5)	–	–	25.9	25.9	–	–	20.1	20.1
Available-for-sale financial assets								
– Equity securities	–	–	3.0	3.0	–	–	3.0	3.0
Short term investments	–	10.7	–	10.7	–	–	–	–
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	–	(0.9)	–	(0.9)	–	(54.9)	–	(54.9)
Derivative used for hedging	–	(25.9)	–	(25.9)	–	(32.8)	–	(32.8)

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

Notes to the financial statements continued

20 Financial instruments continued

The following table presents the changes in Level 3 instruments

	2013 £m	2012 £m
Opening balance	23 1	8 7
Gains recognised in the income statement	5 8	14 4
Closing balance	28 9	23 1

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. A discount unwind on the put option over a non-controlling interest of £nil (last year £1 0m) has been recorded within underlying interest charges, with the fair value movement of the put option of £nil (last year £15 6m) and the fair value movement of the embedded derivative of £5 8m (last year £0 2m) treated as adjustment to reported profit (see note 5)

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt 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 £2,076 5m (last year £2,171 6m), the fair value of this debt was £2,196 6m (last year £2,121 7m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £622 6m and the fair value of this liability is £606 0m

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 and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was eight years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's

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

21 Provisions

	2013 £m	2012 £m
At start of year	32 4	44 7
Provided in the year	13 9	7 8
Released in the year	(1 3)	(3 4)
Utilised during the year	(9 8)	(16 5)
Exchange differences	-	(0 2)
At end of year	35 2	32 4
Analysis of provisions		
Current	19 2	8 4
Non-current	16 0	24 0
Total provisions	35.2	32 4

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

Notes to the financial statements continued

22 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 23% (last year 24%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

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

Deferred tax (liabilities)/assets

	Non-current assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 3 April 2011	(63.8)	(104.8)	(27.8)	10.0	(186.4)	(10.1)	(196.5)
Credited/(charged) to the income statement	5.6	4.2	4.4	(2.9)	11.3	(1.5)	9.8
(Charged)/credited to equity	–	–	(5.1)	(0.6)	(5.7)	(3.3)	(9.0)
At 31 March 2012	(58.2)	(100.6)	(28.5)	6.5	(180.8)	(14.9)	(195.7)
At 1 April 2012	(58.2)	(100.6)	(28.5)	6.5	(180.8)	(14.9)	(195.7)
Credited/(charged) to the income statement	5.7	10.0	(6.5)	0.7	9.9	1.3	11.2
(Charged)/credited to equity	–	–	(51.7)	(0.7)	(52.4)	6.2	(46.2)
At 30 March 2013	(52.5)	(90.6)	(86.7)	6.5	(223.3)	(7.4)	(230.7)

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £62.0m (last year £71.4m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £30.8m (last year £26.8m).

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

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

23 Ordinary share capital

	2013		2012	
	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

	2013 £m	2012 £m
Commitments in respect of properties in the course of construction	9.5	71.4

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.

Notes to the financial statements continued

24 Contingencies and commitments continued

C Commitments under operating leases

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

	2013 £m	2012 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows		
Within one year	276.9	257.8
Later than one year and not later than five years	1,064.5	997.4
Later than five years and not later than ten years	1,053.7	1,029.5
Later than ten years and not later than 15 years	695.1	772.7
Later than 15 years and not later than 20 years	366.8	385.1
Later than 20 years and not later than 25 years	247.0	259.3
Later than 25 years	1,143.0	1,210.1
Total	4,847.0	4,911.9

The total future sublease payments to be received are £50.6m (last year £63.3m)

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

Cash flows from operating activities

	2013 £m	2012 £m
Profit on ordinary activities after taxation	474.7	489.6
Income tax expense	89.6	168.4
Finance costs	218.2	136.8
Finance income	(26.5)	(48.3)
Operating profit	756.0	746.5
Increase in inventories	(91.2)	(0.1)
Decrease/(increase) in receivables	9.5	(17.1)
Payments to acquire leasehold properties	-	(1.2)
Increase in payables	77.0	103.4
Non-underlying operating cash outflows	(21.4)	(22.9)
Depreciation, amortisation and asset write-offs	467.4	479.7
Share-based payments	25.8	32.5
Pension costs charged against operating profit	68.4	57.7
Cash contributions to pension schemes	(70.9)	(89.9)
Non-underlying operating profit items (see note 5)	25.6	63.5
Cash generated from operations	1,246.2	1,352.1

Non-underlying operating cash outflows relate to the utilisation of the provisions for UK restructuring, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

Notes to the financial statements continued

26 Analysis of net debt

A Reconciliation of movement in net debt

	At 1 April 2012 £m	Cash flow £m	Exchange and other non-cash movements £m	At 30 March 2013 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (note 19)	(38 7)	(113 4)	–	(152 1)
Less amounts treated as financing (see below)	38 4	81 3	–	119 7
	(0 3)	(32 1)	–	(32 4)
Cash and cash equivalents (note 17)	196 1	(3 9)	0 9	193 1
Net cash per statement of cash flows	195 8	(36 0)	0 9	160 7
Current financial assets (see note 15)	2,802 2	(268 5)	–	2,533 7
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(38 4)	(81 3)	–	(119 7)
Medium-term notes	(2,137 6)	131 4	(2 6)	(2,008 8)
Finance lease liabilities (note 19)	(65 5)	11 0	(2 9)	(57 4)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 11)	(71 9)	71 9	(606 0)	(606 0)
Debt financing	(2,313 4)	133 0	(611 5)	(2,791 9)
Net debt	684 6	(171 5)	(610 6)	(97 5)

B Reconciliation of net debt to statement of financial position

	2013 £m	2012 £m
Statement of financial position and related notes		
Cash and cash equivalents (note 17)	193 1	196 1
Current financial assets (note 15)	2,533 7	2,802 2
Bank loans and overdrafts (note 19)	(152 1)	(38 7)
Medium-term notes – net of hedging derivatives	(2,040 2)	(2,181 8)
Finance lease liabilities (note 19)	(57 4)	(65 5)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 11)	(622 6)	(71 9)
	(145 5)	640 4
Interest payable included within related borrowing	48 0	44 2
Total net debt	(97 5)	684 6

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 £24 9m (last year decrease of £50 1m)

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

B Hedge End joint venture

A loan of £5 0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 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 30 March 2013, £21 7m (last year £25 4m) was drawn down on this facility. Interest was charged on the loan at 1 1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4 6m (last year £4 5m) of rental charges were incurred. There was no outstanding balance at March 2013.

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

	2013 £m	2012 £m
Salaries and short-term benefits	5 5	4 6
Share-based payments	1 1	3 9
Total	6 6	8 5

Notes to the financial statements continued

27 Related party transactions continued

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

F Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, an executive director of Marks and Spencer Group plc. These transactions amounted to £6.5m during the period to 1 October 2012, the date of Kate Bostock's resignation (last year £12.7m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of Marks and Spencer Group plc. These transactions amounted to £2.4m during the year (last year £1.9m) with an outstanding trade payable of £0.2m at 30 March 2013 (last year £0.5m).

28 Events after the reporting period

On 26 July 2013, Marks and Spencer plc completed the sale of the White City mock shop and warehouse facility to St James Group Ltd for a total consideration of £100m with £25m received on completion and the remaining consideration to be received in three annual instalments. At the sale date, the carrying value of land and buildings on the balance sheet was £15.8m. The property has been leased back to Marks and Spencer plc for a period of five years.

The profit on disposal of £82m has been recognised by Marks and Spencer plc in the year to 29 March 2014.

Company statement of comprehensive income

	52 weeks ended 30 March 2013	52 weeks ended 31 March 2012
Notes	£m	£m
Profit for the year	563 0	514 5
Other comprehensive income		
Actuarial gains/(losses) on retirement benefit schemes	97 9	(128 4)
Tax (credit)/charge on retirement benefit schemes	(18 4)	33 5
Fair value movement on available-for-sale assets	(8 5)	(2 8)
Cash flow and net investment hedges		
– fair value movements in other comprehensive income	55 3	24 3
– reclassified and reported in net profit	(41 4)	(16 9)
– amount recognised in inventories	(1 4)	12 0
Tax on cash flow hedges and net investment hedges	(3 2)	(4 6)
Other comprehensive income/(loss) for the year, net of tax	80 3	(82 9)
Total comprehensive income for the year	643 3	431 6

The profit attributable to shareholders of the Company for the year is £563 0m (last year £514 5m)

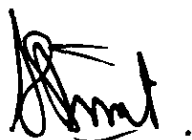
Company statement of financial position

		As at 30 March 2013	As at 31 March 2012
	Notes	£m	£m
Assets			
Non-current assets			
Intangible assets	C6	530 4	416 5
Property, plant and equipment	C7	3,195 9	3,015 4
Investments in group undertakings	C8	1,192 6	1,262 4
Investment in joint ventures		10 4	10 5
Other financial assets	C9	34 4	43 2
Retirement benefit asset	C3	606 6	465 2
Trade and other receivables	C10	110 7	144 5
Derivative financial instruments	C14	65 3	44 2
		5,746 3	5,401 9
Current assets			
Inventories		692 6	611 7
Other financial assets	C9	0 3	49 2
Trade and other receivables	C10	3,194 4	3,295 2
Derivative financial instruments	C14	55 3	68 4
Cash and cash equivalents		157 1	119 8
		4,099 7	4,144 3
Total assets		9,846 0	9,546 2
Liabilities			
Current liabilities			
Trade and other payables	C12	2,729 0	2,819 4
Borrowings and other financial liabilities	C13	525 0	294 6
Derivative financial instruments	C14	19 5	70 3
Provisions	C15	15 7	5 1
Current tax liabilities		12 6	48 0
		3,301 8	3,237 4
Non-current liabilities			
Retirement benefit deficit	C3	12 4	12 6
Trade and other payables	C12	422 4	388 3
Borrowings and other financial liabilities	C13	1,720 2	1,941 1
Derivative financial instruments	C14	13 1	27 2
Provisions	C15	10 5	20 0
Deferred tax liabilities	C16	213 0	167 4
		2,391 6	2,556 6
Total liabilities		5,693 4	5,794 0
Net assets		4,152 6	3,752 2
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		21 4	12 1
Retained earnings		3,024 6	2,633 5
Total shareholders' equity		4,152 6	3,752 2

The financial statements were approved by the Board and authorised for issue on 25 September 2013

The financial statements also comprise the notes on pages 46 to 62

Alan Stewart Chief Finance Officer



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 3 April 2011 (restated)	712 5	386 1	8 0	(2 7)	2,453 6	3,557 5
Profit for the year	—	—	—	—	514 5	514 5
Other comprehensive income						
Actuarial losses on retirement benefit schemes	—	—	—	—	(128 4)	(128 4)
Tax credit on retirement benefit schemes	—	—	—	—	33 5	33 5
Fair value movement in equity on available-for-sale assets	—	—	—	—	(2 8)	(2 8)
Cash flow and net investment hedges						
— fair value movements in other comprehensive income	—	—	—	24 3	—	24 3
— reclassified and reported in net profit	—	—	—	(16 9)	—	(16 9)
— amount recognised in inventories	—	—	—	12 0	—	12 0
Tax on cash flow hedges and net investment hedges	—	—	—	(4 6)	—	(4 6)
Other comprehensive income	—	—	—	14 8	(97 7)	(82 9)
Total comprehensive income	—	—	—	14 8	416 8	431 6
Transactions with owners						
Dividends	—	—	—	—	(273 6)	(273 6)
Credit for share-based payments	—	—	—	—	32 4	32 4
Deferred tax on share schemes	—	—	—	—	4 3	4 3
At 31 March 2012	712 5	386 1	8 0	12 1	2,633 5	3,752 2
At 1 April 2012	712 5	386 1	8 0	12 1	2,633 5	3,752 2
Profit for the year	—	—	—	—	563 0	563 0
Other comprehensive income						
Actuarial gains on retirement benefit schemes	—	—	—	—	97 9	97 9
Tax charge on retirement benefit schemes	—	—	—	—	(18 4)	(18 4)
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	—	—	—	9 3	71 0	80 3
Total comprehensive income	—	—	—	9 3	634 0	643 3
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	712 5	386 1	8 0	21 4	3,024 6	4,152 6

Company statement of cash flows

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Consolidated statement of cash flows			
Cash flows from operating activities			
Cash generated from operations	C19	1,288.9	1,292.1
Income tax paid		(90.8)	(136.9)
Net cash generated from operating activities		1,198.1	1,155.2
Cash flows from investing activities			
Purchase of property, plant and equipment		(590.2)	(530.5)
Proceeds from sale of property, plant and equipment		77.5	-
Purchase of intangible assets		(183.6)	(125.2)
Proceeds from sale/(purchase) of current financial assets		48.9	(5.0)
Interest received		2.0	0.9
Net cash used in investing activities		(645.4)	(659.8)
Cash flows from financing activities			
Interest paid		(133.0)	(129.1)
Drawdown of syndicated bank facility		81.0	-
Issue of medium-term notes		395.6	295.5
Redemption of medium-term notes		(606.4)	(307.6)
Decrease in obligations under finance leases		(10.7)	(12.7)
Movement in intercompany loans treated as financing		(0.1)	50.1
Equity dividends paid		(273.6)	(273.6)
Net purchase of shares in parent company held in employee trust		-	(13.2)
Net cash used in financing activities		(547.2)	(390.6)
Net cash inflow from activities		5.5	104.8
Opening net cash		119.5	14.7
Closing net cash	C11	125.0	119.5

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.

Restatement of 2011 financial information

The balance sheet as at 2 April 2011 has been restated in respect of an adjustment to deferred tax on retirement benefits schemes, resulting in a reclassification of £80.3m between retained earnings and deferred tax liabilities. This has resulted in an increase of £80.3m in opening retained earnings as at 3 April 2011 in the statement of changes in shareholders' equity.

C2 Dividends

	2013 per share	2012 per share	2013 £m	2012 £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 30 March 2013 of 6.1p per share amounting to a dividend of £173.9m.

C3 Retirement benefits

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

The defined benefit section operates on a final salary basis and at the year end had some 13,000 active members (last year 14,000), 55,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 33,000 active members (last year 9,000) and some 3,000 deferred members (last year 2,000).

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

Within the total retirement benefit cost of £23.9m (last year £12.4m), £nil (last year £6.5m income) relates to the UK defined benefit section, £23.3m (last year £18.2m costs) to the UK defined contribution section and £0.6m (last year £0.7m) to other retirement benefit schemes.

A Pensions and other post-retirement liabilities

	2013 £m	2012 £m
Total market value of assets	7,240.6	6,503.2
Present value of scheme liabilities	(6,634.0)	(6,038.0)
Net funded pension plan asset	606.6	465.2
Unfunded retirement benefits	(0.1)	(0.1)
Post-retirement healthcare	(12.3)	(12.5)
Net retirement benefit asset	594.2	452.6
Analysed in the statement of financial position as		
Retirement benefit asset	606.6	465.2
Retirement benefit deficit	(12.4)	(12.6)
	594.2	452.6

Company notes to the financial statements continued

C3 Retirement benefits continued

B Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

	2013 %	2012 %
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment for service	2.4-3.2	2.3-3.1
Discount rate	4.3	4.6
Inflation rate	3.4	3.1
Long-term healthcare cost increases	7.1	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 2.1%) 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 0.1% the IAS 19 surplus would increase/decrease by c £115m (last year £110m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c £50m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c £75m.

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:

	2013 years	2012 years
Current pensioners (at age 65)		
– males	22.4	22.1
– females	24.1	23.4
Future pensioners (at age 65)		
– Males	21.8	23.2
– Females	24.5	24.3

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c £230m.

D Analysis of assets and expected rates of return

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

	2013 £m	2012 £m	2013 %	2012 %
Scottish Limited Partnership interest (see note C4)	1,035.4	1,048.0	14	16
UK equities	224.0	232.6	3	4
Overseas equities	682.7	731.9	9	11
Government bonds	3,188.3	1,750.9	44	27
Corporate bonds	1,366.9	1,455.7	19	22
Swaps ¹	471.1	275.9	7	4
Cash and other	272.2	1,008.2	4	16
Total market value of assets	7,240.6	6,503.2	100	100

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

Company notes to the financial statements continued

C3 Retirement benefits continued

The expected long-term rates of return are

	2013 %	2012 %
Scottish Limited Partnership interest (see note C4)	2.3	3.5
UK equities	7.8	7.8
Overseas equities	7.8	7.8
Government bonds	3.2	3.3
Corporate bonds	4.3	4.9
Swaps	3.0	3.3
Cash and other	3.0	3.3
Overall expected return	4.4	4.9

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

At year end, the UK scheme indirectly held 150,955 (last year 107,216) ordinary shares in the Company through its investment in UK Equity Index Funds.

E Analysis of amount charged against profits

	2013 £m	2012 £m
Operating cost		
Current service cost	66.4	54.1
Curtailment charge	1.0	1.0
	67.4	55.1
Finance cost		
Expected return on plan assets	(317.0)	(321.4)
Interest on scheme liabilities	273.4	278.7
Net finance income	(43.6)	(42.7)
Total	23.8	12.4

F Scheme assets

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

	2013 £m	2012 £m
Fair value of scheme assets at start of year	6,503.2	5,641.4
Expected return on scheme assets ¹	317.0	321.4
Employer contributions	67.5	128.4
Benefits paid	(233.5)	(229.4)
Actuarial gain	586.4	641.4
Fair value of scheme assets at end of year	7,240.6	6,503.2

¹ The actual return on scheme assets was £903.4m (last year return of £944.4m)

Future contributions to the UK scheme will be made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation. The Company expects to contribute c £28m to the UK defined benefit scheme for the year ended 29 March 2014.

Company notes to the financial statements continued

C3 Retirement benefits continued

G Retirement benefit obligations

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

	2013 £m	2012 £m
Present value of obligation at start of year	6,050 6	5,176 5
Current service cost	66 4	54 1
Curtailment charge	1 0	1 0
Interest cost	273 4	278 7
Benefits paid	(233 5)	(229 6)
Actuarial loss	488 5	769 9
Present value of obligation at end of year	6,646 4	6,050 6
Analysed as		
Present value of pension scheme liabilities	6,634 0	6,038 0
Unfunded pension plans	0 1	0 1
Post-retirement healthcare	12 3	12 5
Present value of obligation at end of year	6,646 4	6,050 6

H Cumulative actuarial gains and losses recognised in equity

	2013 £m	2012 £m
Loss at start of year	(1,373 3)	(1,244 8)
Net actuarial gains/(losses) recognised in the year	97 9	(128 5)
Loss at end of year	(1,275 4)	(1,373 3)

I History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustments arising on scheme assets	586 4	641 4	117 2	856 2	(1,254 7)
Experience (losses)/gains arising on scheme liabilities	(5 7)	(86 3)	(11 2)	30 0	81 0
Changes in assumptions underlying the present value of scheme liabilities	(482 8)	(683 5)	158 1	(1,142 2)	264 1
Actuarial gains/(losses) recognised in equity	97 9	(128 4)	264 1	(256 0)	(909 6)
Fair value of scheme assets	7,240 6	6,503 2	5,641 4	4,887 9	3,931 6
Present value of scheme liabilities	(6,634 0)	(6,038 0)	(5,163 0)	(5,224 9)	(4,065 2)
Pension scheme asset/(deficit)	606 6	465 2	478 4	(337 0)	(133 6)

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

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

The Marks and Spencer Scottish Limited Partnership holds £1 6bn (last year £1 5bn) of properties which have been leased back to the Company at market rates

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £1,035 4m (last year £1,048 0m). 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 2 April 2011			
Cost or valuation	422.2	58.2	480.4
Accumulated amortization	(128.6)	–	(128.6)
Net book value	293.6	58.2	351.8
Year ended 31 March 2012			
Opening net book value	293.6	58.2	351.8
Additions	72.4	52.6	125.0
Transfers	36.9	(36.9)	–
Disposals	(1.0)	–	(1.0)
Amortisation charge	(59.3)	–	(59.3)
Closing net book value	342.6	73.9	416.5
At 31 March 2012			
Cost	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)	–
Disposals	–	–	–
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

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 2 April 2011				
Cost	952 4	4,811 6	196 3	5,960 3
Accumulated depreciation	(83 5)	(3,033 5)	–	(3,117 0)
Net book value	868 9	1,778 1	196 3	2,843 3
Year ended 31 March 2012				
Opening net book value	868 9	1,778 1	196 3	2,843 3
Additions	15 5	269 4	260 7	545 6
Transfers	26 5	109 2	(135 7)	–
Disposals	(0 8)	(6 8)	–	(7 6)
Asset write-offs	–	(7 1)	–	(7 1)
Depreciation charge	(6 4)	(352 4)	–	(358 8)
Closing net book value	903 7	1,790 4	321 3	3,015 4
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

The net book value above includes land and buildings of £37 4m (last year £37 6m) and equipment of £11 1m (last year £20 7m) 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 2 April 2011			
Cost or valuation	1,439.4	0.5	1,439.9
Provision for impairment	(170.8)	–	(170.8)
Net book value	1,268.6	0.5	1,269.1
Year ended 31 March 2012			
Opening net book value	1,268.6	0.5	1,269.1
Provision for impairment	(6.7)	–	(6.7)
Closing net book value	1,261.9	0.5	1,262.4
At 31 March 2012			
Cost	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

During the year, additions related to capital injections made to four non-principal subsidiary undertakings and disposals related to the repayment of capital in seven non-principal subsidiary undertakings as a result of the corporate rationalisation programme. The provision for impairment in the prior year relates to the impairment of the investment in Simply Food (Property Ventures) Limited.

B Principal subsidiary undertakings

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

	Principal activity	Country of incorporation and operation	Company	Proportion of voting rights and shares held by 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 Mannopoulos BV	Holding company	The Netherlands	–	100%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
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 Mannopoulos 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.

Company notes to the financial statements continued

C9 Other financial assets

	2013 £m	2012 £m
Non-current		
Unlisted investments	3 0	3 0
Other investments ¹	31 4	40 2
	34 4	43 2
Current		
Other investments	0 3	49 2

1 Non-current other investments are £31 4m (last year £40 2m) 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.

C10 Trade and other receivables

	2013 £m	2012 £m
Non-current		
Other receivables	-	1 1
Prepayments and accrued income	110 7	143 4
	110 7	144 5
Current		
Trade receivables	110 6	114 9
Less: Provision for impairment of receivables	(6 4)	(1 9)
Trade receivables – net	104 2	113 0
Other receivables	11 3	8 4
Prepayments and accrued income	100 5	103 0
Amounts owed by parent company	2,516 8	2,541 7
Amounts owed by subsidiary companies	461 6	529 1
	3,194 4	3,295 2

Trade receivables that were past due but not impaired amounted to £1 8m (last year £1 3m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 30 March 2013, £399 0m (last year £452 3m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £7 6m (last year £7 5m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,579 4m (last year £2,618 5m) of intercompany receivables are interest-free.

C11 Cash and cash equivalents

Cash and cash equivalents are £125 0m (last year £119 5m). 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 0.37%). These deposits have an average maturity of three days (last year four days).

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

	2013 £m	2012 £m
Cash at bank and in hand	157 1	119 8
Bank loans and overdrafts	(118 1)	(5 3)
Syndicated bank facility	81 0	-
Bank loans and overdrafts treated as financing	5 0	5 0
	125 0	119 5

Company notes to the financial statements continued

C12 Trade and other payables

	2013 £m	2012 £m
Current		
Trade and other payables	958 3	929 7
Social security and other taxes	52 7	66 8
Accruals and deferred income	367 8	329 6
Amounts owed to subsidiaries	1,350 2	1,493 3
	2,729 0	2,819 4
Non-current		
Other payables	422 4	388 3

As at 30 March 2013, £1,165 7m (last year £1,264 5m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £14 7m (last year £14 5m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £184 5m (last year £228 8m) of intercompany payables are interest-free.

Cost of inventories recognised as an expense during the year is £5,261 2m (last year £5,783 1m).

C13 Borrowings and other financial liabilities

	2013 £m	2012 £m
Current		
Bank loans and overdrafts ¹	118 1	5 3
5 875% £267m medium-term notes 2012 ²	-	280 6
5 625% £400m medium-term notes 2014 ²	400 2	-
Finance lease liabilities	6 7	8 7
	525 0	294 6
Non-current		
5 625% £400m medium-term notes 2014 ²	-	399 9
6 250% US\$500m medium-term notes 2017 ³	335 7	317 8
6 125% £400m medium-term notes 2019 ²	436 9	428 5
6 125% £300m medium-term notes 2021 ²	301 6	301 6
4 75% £400m medium-term notes 2025 ²	401 4	-
7 125% US\$300m medium-term notes 2037 ³	200 7	189 9
6 875% £250m puttable callable reset medium-term notes 2037 ²	-	253 3
Finance lease liabilities	43 9	50 1
	1,720 2	1,941 1
Total	2,245 2	2,235 7

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.

On 12 December 2012, the Company issued £400m of 12 5 year medium-term notes at a coupon rate of 4 75%.

In December 2007, the Company issued £250m of 6 875% 30 year Puttable Callable Reset medium-term notes (PCR notes). These 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 Company bought back and cancelled these bonds in January 2013 for £330 0m. This resulted in a one-off finance charge of £75 3m representing the difference between the cost of the buy back and the carrying value of the PCR notes, offset by associated unamortised bond costs and fees.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on page 56. 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.

Company notes to the financial statements continued

C14 Financial instruments

Treasury policy and financial risk management

Marks and Spencer plc is the main treasury entity of the Group and as a result the treasury function is managed through this company. The term Company and Group are therefore interchangeable in the risk analysis below. The Company operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

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

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.

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

(a) Liquidity/funding risk

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

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

At year end, the Company had a committed syndicated bank revolving credit facility of £1 325bn set to mature on 29 September 2017. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Company also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £81m (last year £nil) was drawn under the committed facilities and £nil (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Company has a euro medium-term note programme of £3bn, of which £1 5bn (last year £1 6bn) was in issuance as at the balance sheet date. The 5 875% £267m bond was repaid in May 2012. A new 4 75% £400m bond was subsequently issued under the programme in December 2012 maturing in June 2025.

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	(5 3)	–	(398 5)	(11 2)	(415 0)	2,083 7	(2,082 8)	0 9
Between one and two years	–	–	(517 1)	(8 3)	(525 4)	186 1	(184 6)	1 5
Between two and five years	–	–	(283 8)	(7 6)	(291 4)	110 5	(103 3)	7 2
More than five years	–	–	(2,310 9)	(164 7)	(2,475 6)	804 6	(841 8)	(37 2)
	(5 3)	–	(3,510 3)	(191 8)	(3,707 4)	3,184 9	(3,212 5)	(27 6)
Effect of discounting and foreign exchange	–	–	1,338 7	133 0	1,471 7			
At 31 March 2012	(5 3)	–	(2,171 6)	(58 8)	(2,235 7)			
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)			

Company notes to the financial statements continued

C14 Financial instruments continued

The present value of finance lease liabilities is as follows

	2013 £m	2012 £m
Within one year	(6.7)	(8.6)
Later than one year and not later than five years	(2.4)	(8.5)
Later than five years	(41.5)	(41.7)
Total	(50.6)	(58.8)

(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	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	
Short-term investments ¹	49.1	-	-	1.9	11.7	-	5.0	67.7
Derivative assets ²	-	-	1.9	9.8	-	7.6	18.2	37.5
At 31 March 2012	49.1	-	1.9	11.7	11.7	7.6	23.2	105.2
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	Total
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

1 Includes cash on deposit and money market funds held by Marks & Spencer plc

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

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 £104m (last year £113m), other receivables £11m (last year £10m), cash and cash equivalents £125m (last year £120m), and derivatives £121m (£113m)

(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 £1,711m (last year £1,572m) with a weighted average maturity date of seven months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 30 March 2013 will be released to the income statement at various dates over the following 15 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 €200m (last year €242m) and HK\$484m (last year HK\$291m) 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 £307m (last year £187m).

Company notes to the financial statements continued

C14 Financial instruments continued

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

	2013			2012		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,927 1	318 1	2,245 2	2,030 4	205 2	2,235 6
	1,927 1	318 1	2,245 2	2,030 4	205 2	2,235 6

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.6% (last year 5.8%) and the weighted average time for which the rate is fixed is eight years (last year nine 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 £1,927.0m (last year £2,030.4m) representing the public bond issues and finance leases, amounting to 86% (last year 91%) of the Company's gross borrowings.

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

	2013 %	2012 %
Committed and uncommitted borrowings	1.2	0.5
Medium-term notes	5.6	5.8
Finance leases	4.3	4.5

Derivative financial instruments

		2013		2012	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options	held for trading	–	–	53.6	(53.6)
Forward foreign exchange contracts	cash flow hedges	34.0	(12.0)	13.3	(5.1)
	cash flow hedges with group	13.9	(7.0)	1.4	(9.8)
	held for trading	2.5	(0.5)	0.1	(1.3)
	net investment hedges	4.9	–	–	(0.5)
		55.3	(19.5)	68.4	(70.3)
Non-current					
Cross currency swaps	cash flow hedges	3.2	(12.4)	–	(26.5)
Forward foreign exchange contracts	cash flow hedges	3.8	(0.7)	0.1	(0.7)
Interest rate swaps	fair value hedge	32.4	–	24.0	–
Embedded derivative		25.9	–	20.1	–
		65.3	(13.1)	44.2	(27.2)

Last year, the amounts reported as options held for trading in derivatives assets and liabilities represented the fair value of the call option with the Puttable Callable reset notes mirrored by the fair value of the sold option to have this call assigned. In January 2013 the Group bought back and cancelled these notes. 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 £nil (last year £0.2m loss) as the loss on the hedged item was £8.0m (last year £23.6m loss) and the gain on the hedging instrument was £8.0m (last year £23.8m gain). The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Company notes to the financial statements continued

C14 Financial instruments continued

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Company's financial instruments. The Company 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 31 March 2012				
Impact on income statement gain/(loss)	4.0	(13.3)	-	-
Impact on other comprehensive income (loss)/gain	(6.0)	3.0	175.3	(116.8)
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)

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgment around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

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

	2013				2012			
	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	-	2.5	-	2.5	-	53.7	-	53.7
Derivatives used for hedging	-	92.2	-	92.2	-	38.8	-	38.8
Embedded derivatives	-	-	25.9	25.9	-	-	20.1	20.1
Available-for-sale financial assets								
- equity securities	31.4	-	3.0	34.4	40.2	-	3.0	43.2
Short term investments	-	0.3	-	0.3	-	-	-	-
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	-	(0.5)	-	(0.5)	-	(54.9)	-	(54.9)
Derivative used for hedging	-	(32.1)	-	(32.1)	-	(42.6)	-	(42.6)

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

Company notes to the financial statements continued

C14 Financial instruments continued

The following table presents the changes in Level 3 instruments

	2013 £m	2012 £m
Opening balance	23.1	23.3
Gains/(losses) recognised in the income statement	5.8	(0.2)
Closing balance	28.9	23.1

Fair value of financial instruments

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

The carrying value of the Company's fixed rate bond debt was £2,076.5m (last year £2,171.6m), the fair value of this debt was £2,196.6m (last year £2,121.7m)

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

	2013 £m	2012 £m
At start of year	25.1	39.8
Provided in the year	10.7	4.6
Released in the year	(2.2)	(3.1)
Utilised during the year	(7.4)	(16.2)
At end of year	26.2	25.1
Analysis of provisions		
Current	15.7	5.1
Non-current	10.5	20.0
Total provisions	26.2	25.1

The provisions primarily comprise one-off costs relating 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 23% (last year 24%)

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

Deferred tax (liabilities)/assets

	Non-current assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short term temporary differences £m	Total UK deferred tax £m
At 3 April 2011 (restated)	(61 2)	(80 8)	(29 6)	20 0	(151 6)
Credited/(charged) to the income statement	7 3	2 3	-	(6 9)	2 7
(Charged)/credited to equity	-	-	(19 0)	0 5	(18 5)
At 31 March 2012	(53 9)	(78 5)	(48 6)	13 6	(167 4)
At 31 March 2012	(53 9)	(78 5)	(48 6)	13 6	(167 4)
Credited/(charged) to the income statement	5 5	8 6	(11 4)	(0 6)	2 1
Charged to equity	-	-	(47 3)	(0 4)	(47 7)
At 30 March 2013	(48 4)	(69 9)	(107 3)	12 6	(213 0)

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £62 0m (last year £71 4m)

C17 Ordinary share capital

	2013		2012	
	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

	2013 £m	2012 £m
Commitments in respect of properties in the course of construction	1 7	65 5

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

	2013 £m	2012 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows		
Within one year	175 1	184 6
Later than one year and not later than five years	693 3	761 8
Later than five years and not later than ten years	798 9	902 2
Later than ten years and not later than 15 years	568 6	708 1
Later than 15 years and not later than 20 years	313 9	358 7
Later than 20 years and not later than 25 years	226 0	244 0
Later than 25 years	1,014 0	1,105 3
Total	3,789 8	4,264 7

The total future sublease payments to be received are £47 0m (last year £53 1m)

Company notes to the financial statements continued

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

Cash flows from operating activities

	2013 £m	2012 £m
Profit on ordinary activities after taxation	563 0	514 5
Income tax expense	45 1	124 0
Finance costs	213 7	143 4
Finance income	(53 0)	(51 8)
Operating profit	768 8	730 1
Increase in inventories	(80 9)	4 3
Decrease/(Increase) in receivables	50 0	(47 7)
Payments to acquire leasehold properties	-	(1 2)
Increase in payables	131 8	181 6
Non-underlying operating cash outflows	(21 4)	(21 2)
Depreciation, amortisation and asset write-offs	413 0	421 3
Share-based payments	25 6	32 5
Pension costs charged against operating profit	67 4	55 1
Cash contributions to pension schemes	(67 5)	(85 0)
Provision for impairment	-	6 7
Non-underlying operating profit items	2 1	15 6
Cash generated from operations	1,288 9	1,292 1

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 £24 9m (last year decrease of £50 1m). The outstanding balance was £2,516 8m (last year £2,541 7m).

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

	2013 Transactions £m	2012 Transactions £m
Trading sales	(334 4)	(316 2)
Trading purchases	202 2	228 8
Rental expense	(123 6)	(126 9)
Rent receivable	18 2	16 1
Interest	(7 1)	(7 0)

B Hedge End joint venture

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

C Lima (Bradford) joint venture

The Company has entered into a rental agreement with the joint venture and £4 6m (last year £4 5m) of rental charges were incurred. There was no outstanding balance at March 2013.

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 40 and 41.

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 30 March 2013. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

Company notes to the financial statements continued

C22 Events after the reporting period

On 26 July 2013, Marks and Spencer plc completed the sale of the White City mock shop and warehouse facility to St James Group Ltd for a total consideration of £100m with £25m received on completion and the remaining consideration to be received in three annual instalments. At the sale date, the carrying value of land and buildings on the balance sheet was £15.8m. The property has been leased back to Marks and Spencer plc for a period of five years.

The profit on disposal of £82m has been recognised by Marks and Spencer plc in the year to 29 March 2014.