Marks and Spencer plc financial statements 2018

REGISTERED NUMBER

00214436

Marks and Spencer plc

STRATEGIC REPORT

Review of the business and future developments

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. The Group employs over 84,000 people and has around 1,463 stores including Simply Food franchised stores. The Group also trades in wholly-owned stores in the Republic of Ireland and the Czech Republic, through partly-owned stores in a number of European countries and India and in franchises within Asia, Europe and the Middle East.

In 2016/17 the Group announced its intention to close its owned stores in ten international markets, resulting in the recognition of a cost of £132.5m in the prior period. As at 31 March 2018 the Group had closed all of the stores planned for closure.

In November 2017 we announced the beginning of a five-year transformation programme. The first phase is about restoring the basics, getting the organisational structure and infrastructure of the business fit for the future.

We are well on the way to closing at least 25% of our Clothing & Home space. The website is being improved and we are investing at Castle Donington and building a single-tier distribution network. We aim to almost double our online share of Clothing & Home sales to over 33%. We have established a technology partnership with TCS to improve our IT base. Teams have been established to address the supply chain issues in both main businesses. We are taking steps to recover our appeal to family-age customers in clothing, reduce the number of product lines and buy more stylish product in greater depth. The expansion in Food space has been slowed while we concentrate on refreshing the format and driving sustainable growth. Our International business has already been rationalised and we are now creating a competitive network of mainly franchise-led businesses in territories where we can grow. These are basic enabling steps which should provide a platform for restoration of growth in later stages.

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

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 52 weeks ended 31 March 2018 (the 'year'). The prior financial year was the 52 weeks ended 1 April 2017.

Further information that fulfils the strategic review requirements of the Companies Act 2006 can be found in the following sections of the Marks and Spencer Group plc Annual Report 2018, which does not form part of this report:

Strategic Report on pages 1 – 24

Chairman's statement on pages 2 – 3

Chief Executive's statement on pages 4 – 5

Our people on page 9.

Results

	Notes	**52 weeks ended 31 March 2018** Before Adjusting Items £m	Adjusting Items £m	Total £m	52 weeks ended 1 April 2017 Before Adjusting Items £m	Adjusting Items £m	Total £m
Revenue	2, 3	**10,698.2**	**–**	**10,698.2**	10,622.0	–	10,622.0
Operating profit	2, 3, 5	**670.6**	**(468.3)**	**202.3**	690.6	(483.2)	207.4
Finance income	6	**24.1**	**–**	**24.1**	36.2	–	36.2
Finance costs	6	**(113.8)**	**–**	**(113.8)**	(113.0)	–	(113.0)
Profit before tax	4, 5	**580.9**	**(468.3)**	**112.6**	613.8	(483.2)	130.6
Income tax expense	7	**(125.4)**	**86.6**	**(38.8)**	(122.4)	61.9	(60.5)
Profit for the year		**455.5**	**(381.7)**	**73.8**	491.4	(421.3)	70.1
Attributable to:							
Owners of the parent		**452.1**	**(381.7)**	**70.4**	492.8	(421.3)	71.5
Non-controlling interests		**3.4**	**–**	**3.4**	(1.4)	–	(1.4)
		455.5	**(381.7)**	**73.8**	491.4	(421.3)	70.1

Group revenue increased to £10,698.2m compared with £10,662.0m last year. Group revenues increased as a result of new Food store openings, offset by a reduction in International revenues due to the exit from ten loss-making markets being completed during the year.

Group operating profit before adjusting items decreased by 2.9% to £670.6m. The Group recognised adjusting items of £468.3m during the year (last year £483.2m) in relation to our strategic programmes which include: impairment of assets, accelerated depreciation and estimated onerous lease and closure costs for the UK store closure programme; charges relating to the consolidation of our central London Head Office buildings; costs associated with our technology transformation programme; the transition to a single tier Clothing & Home UK distribution network; the disposal of the retail business in Hong Kong and Macau, the closure to future accrual of the UK defined benefit scheme and the closure of international stores (refer to Note 5).

Net finance costs were £89.7m compared with £76.8m last year largely due to reduced pension net finance income as a result of the lower UK defined benefit scheme surplus at the start of the year and the unwinding of the discount on property provisions. Group profit before tax was £112.6m compared with £130.6m last year.

Key performance indicators

Financial

Group revenue

£10.7bn +0.01%

Group revenues increased as a result of new Food store openings, offset by a reduction in International revenues as we completed the exit from ten loss-making markets.

Group profit before tax (PBT) & adjusting items

£580.9m -5.4%

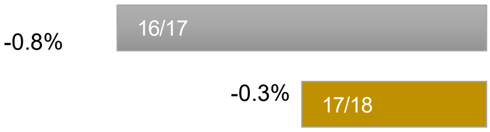
Group PBT before adjusting items was down on last year, largely due to the reduction in Food gross margin and the increase in operating costs associated with new space, volume growth and channel shift.

Strategic KPIs

Food

Like-for-like sales

Like-for-like performance was down. While performance in key events was strong, our everyday performance was poor, with intense competition reflecting the progressive decline in value competitiveness in core ranges.



-0.3%

Value for money perception

There was a marginal improvement in customer feedback on the value for money of M&S Food. As part of our transformation we are re-establishing our value for money credentials.

+1%

Availability

A project team with outside help has been set up to address the problems in our supply chain, including improving our availability.

92.4% -0.3%

Quality perception

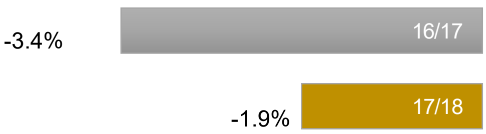
Customer feedback on the quality of M&S Food continued to improve in the year.

+3%

Clothing & Home

Like-for-like sales

Like-for-like performance was down, as we eliminated two clearance sales.



-1.9%

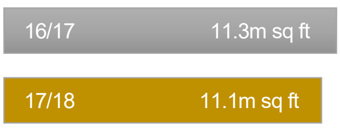
Value for money perception

There was a slight improvement in customer feedback on the value for money of M&S Clothing & Home. We have taken initial steps to sharpen our value credentials in promotions and investment into lower ‘first price.’

+2%

Clothing & home space

We are accelerating our UK store closure programme, which will result in the reduction of around 25% of our 2016/17 Clothing & Home space.



-1.3%

Style perception

Customer feedback on the style of M&S Clothing improved but we have much more to do to restore our style credentials to broaden our appeal to a younger family-age customer.

+3%

Key performance indicators (continued)

Stores

We are accelerating our UK store closure programme, which will result in the reduction of around 25% of our 2016/17 Clothing & Home space.

Footfall (average per week)

-0.3%

19.5m

Transactions (average per week)

+0.3%

11.1m

Net promoter score*

+5

* Net promoter score (NPS) equals 'fans' (those scoring 9-10 out of 10) minus 'critics' (those scoring 0-6) on a 11-point scale question of 0-10.

ONLINE

We aim for a third of Clothing & Home sales to be online by 2022.

Percentage of sales online

+1.3%

18.5%

Traffic (visits per week)

+1.1%

8.3m

Net promoter score*

+8

International

Retained markets sales

+2.8%

Sales from the International business including sales from owned business and sales to franchisees. Excludes sales from owned exit markets and Hong Kong following transition to franchise. At constant exchange rates.

Customer satisfaction scores

+6%

71%

Overall satisfaction score provided by customers as part of the customer satisfaction survey conducted across the International business, including both owned and franchise stores.

People

Engagement

+2%

82%

Our annual Your Say Survey was completed by over 70,000 colleagues, with engagement scores slightly higher than last year at 82%.

Empowerment

82%

Enablement

78%

We introduced two new measures to our annual Your Say Survey: whether our people feel they are supported and trusted in their role (empowerment) and whether our colleagues have the right tools and environment to do their job (enablement). Feedback showed colleagues wanted us to increase the speed of decision making and change.

Plan A

Products with a plan a quality

+4%

83%

This is the proportion of M&S products sold worldwide that have additional social or environmental benefits built into their specifications. This represents an improvement of 4% on last year. Our target is to have at least one Plan A quality in all M&S products by 2020, and by 2025 every product will have attributes which address all priority social, ethical and environmental impacts.

Operational greenhouse gas emissions (co$_2$e)

-10%

430,000

The gross carbon dioxide emissions resulting from M&S stores, offices, warehouses and vehicles worldwide are down 10% on last year.

In addition, we purchase renewable energy and carbon offsets to match these emissions, making us the only major carbon neutral retailer in the world.

Volunteering hours

+31%

30,500

In 2017/18, we provided at least 30,500 hours of work-time volunteering, including our Making Every Moment Special in the Community event, which was run across the UK and Republic of Ireland in June 2017.

Between 2017 and 2025, we are committed to supporting M&S colleagues worldwide to provide one million hours of work-time community volunteering.

STRATEGIC REPORT

Financial review

Full year review

	52 weeks ended		
	31 March 2018	1 April 2017	Change
	£m	£m	%
Group revenue	**10,698.2**	**10,622.0**	**0.7**
Food	**5,869.9**	5,649.0	3.9
Clothing & Home	**3,741.1**	3,792.7	-1.4
UK	**9,611.0**	9,441.7	1.8
International	**1,087.2**	1,180.3	-7.9
Group operating profit before adjusting items	**670.6**	690.6	-2.9
UK	**535.4**	626.2	-14.5
International	**135.2**	64.4	109.9
Net finance costs	**(89.7)**	(76.8)	16.8
Profit before tax & adjusting items	**580.9**	**613.8**	**-5.4**
Adjusting items	**(468.3)**	(483.2)	-3.1
Profit before tax	**112.6**	**130.6**	**-13.8**

Consumer and retail environment

In 2017/18, consumer confidence remained broadly stable according to data from GFK. However, there continued to be a divergence between consumers' views on their personal financial situation which remained strong and their views on the economy as a whole, which were more fragile. Against this backdrop the clothing market declined 1.5% (Kantar Worldpanel, 52 w/e 9 April 2018), with a more challenging trend in the second half of the year. The grocery market returned to growth of 4% (Kantar Worldpanel, 52 w/e 25 March 2018), although this was largely driven by inflation.

UK: Clothing & Home

Clothing & Home revenue declined 1.4% with like-for-like revenue down 1.9%, as we removed two clearance sales. Full-price sales were broadly level. Revenue declined in the second half in a more challenging market with unseasonal weather conditions. We delivered solid growth in strategic focus areas such as Kidswear, bras and footwear.

Gross margin was in line with expectations, up 50bps year-on-year. We offset significant currency headwinds by working with our supply base and through our direct sourcing programme. We put approximately 8% less stock into sale across the year as a result of the planned removal of two clearance sales. However, challenging trading conditions in the second half resulted in an increased depth of cut.

M&S.com revenues increased by 5.2% at constant currency. Performance was adversely impacted by the reduction in the number of clearance sales and capacity remained constrained at our Castle Donington warehouse in quarter three.

In the year ahead, we are building on early improvements in Clothing & Home by further focusing our ranges and building our style credentials, our offer in wardrobe essentials and our appeal to family-age customers. We are also investing selectively in value as we buy fewer items in greater depth.

We are undertaking enabling actions including fixing core elements of our website, improving our delivery proposition and investing to increase the capacity of Castle Donington at peak periods.

We have accelerated the reshaping of our store portfolio to address the decline of the legacy estate and move to a more cohesive, modern space and layout, resulting in a charge to adjusting items of £321.1m. We anticipate further charges of up to £150m as we complete this programme. We continue to expect cash costs of the programme to be approximately £200m. We have been encouraged by the proportion of sales transferred to nearby stores from those which have closed.

UK: Food

Food revenue increased 3.9% as we opened 62 new Simply Food stores; however, like-for-like revenue was down 0.3%. While performance in key events was strong, our everyday performance was poor, with intense competition and reflecting a progressive decline in competitiveness in the core ranges. Market share was level year-on-year. (Kantar Worldpanel, 52 w/e 25 March 2018).

The decline in gross margin of 140bps year-on-year was due to the absorption of input cost inflation.

In the year ahead, our focus is on repositioning the business to be more relevant, more often to our customers and to drive sustainable sales growth. We are changing our approach to product development to ensure we shift back to our strength in key shopping missions, with new lines which have a broad appeal to family-age customers and everyday occasions.

Our repositioning will require renewed investment in trusted value. We believe however that this will be offset by cost reduction, volume optimisation opportunities, removing excessive packaging costs, and tackling issues which impact availability and waste.

As indicated at the Marks and Spencer Group PLC half year report we have reviewed our Simply Food opening programme to limit future store expansion to only the highest returning locations. In addition, our accelerated UK store estate closure programme will result in a further reduction in the number of Full Line stores.

Financial review (continued)

UK operating costs

	52 weeks ended		
	31 March 2018 £m	1 April 2017 £m	Change %
Store staffing	**1,070.6**	1,010.3	6.0
Other store costs	**992.1**	1,000.7	-0.9
Distribution & warehousing	**538.0**	519.6	3.5
Marketing	**151.6**	162.7	-6.8
Central costs	**698.0**	697.1	0.1
Total	**3,450.3**	**3,390.4**	**1.8**

UK operating cost growth was 1.8%, which was below expectations. Costs associated with new space and volume drove a c.2% increase overall. Wage and other inflation-related increases and investment in store staffing were largely offset by marketing and retail efficiencies.

Other store costs reduced because of favourable rates settlements, lower depreciation and reduced charges for utilities, all helping to offset the costs of new space.

The growth in distribution and warehousing costs was largely driven by inflation, volume and the costs of channel shift. In Clothing & Home we delivered improved costs per single as we increased utilisation of our Bradford warehouse.

Central costs increased in several areas including IT and the introduction of the Government's apprentice levy. However, these were offset by reduced costs following the head office restructuring and lower incentive costs year-on-year.

M &S Bank

M&S Bank income before adjusting items was down £9.9m to £40.3m. This was as a result of changes to the assumed effective interest rate in both years and the implementation of IFRS 9, which resulted in higher bad debt provisioning. There was also a modest reduction in underlying interest-bearing balances.

International

	52 weeks ended				
	31 March 2018 £m	1 April 2017 £m	Change %	Change CC%	Change CC% excl. Hong Kong
Franchise	**360.6**	314.0	14.8	13.3	9.3
Owned Retained	**660.2**	674.0	-2.0	-4.8	-1.1
Total Retained	**1,020.8**	988.0	3.3	0.9	2.8
Owned Exit	**66.4**	192.3	-65.5	-66.7	-66.7
Total	**1,087.2**	**1,180.3**	**-7.9**	**-10.2**	**-10.4**
Operating profit before adjusting items					
Franchise	**86.1**	81.9	5.1		
Owned Retained[1]	**53.1**	16.8	216.1		
Total Retained	**139.2**	98.7	41.0		
Owned Exit	**(4.0)**	(34.3)	88.3		
Total	**135.2**	**64.4**	**109.9**		

1. Last year restated for closure of our online business in China. Hong Kong results reported in owned retained until the business was sold to our franchise partner.

Reported International revenue decreased 7.9%. This was driven by the exit from loss-making owned markets and the sale of our operations in Hong Kong to our franchise partner.

Excluding these effects, revenue at a constant currency was up 2.8%. We generated strong growth in franchise revenue, with an improved performance in the Middle East, Russia and Turkey and from expansion of our Food business. Revenue in owned retained markets was down 1.1% with a strong performance in India where we opened seven new stores, offset by difficult trading conditions in the Republic of Ireland.

International operating profit before adjusting items more than doubled. We completed the planned exit of loss-making markets and generated improved margins in owned retained markets, largely driven by transactional currency gains.

Financial review (continued)

Net finance cost

	52 weeks ended		
	31 March 2018	1 April 2017	Change
	£m	£m	£m
Interest payable	**(95.4)**	(100.2)	4.8
Interest income	**6.0**	6.6	(0.6)
Net interest payable	**(89.4)**	**(93.6)**	**4.2**
Pension net finance income	**17.7**	29.3	(11.6)
Unwind of discount on Scottish Limited Partnership liability	**(10.9)**	(12.6)	1.7
Unwind of discount on provisions	**(5.2)**	(0.2)	(5.0)
Hedge ineffectiveness on financial instruments	**(1.9)**	0.3	(2.2)
Net finance cost	**(89.7)**	**(76.8)**	**(12.9)**

Net finance cost increased by £12.9m to £89.7m, largely due to reduced pension net finance income as a result of the lower UK defined benefit scheme surplus at the start of the year and the unwinding of the discount on property provisions. Net interest payable reduced by £4.2m primarily due to the repayment of the US$500m bond which matured in December 2017.

Group profit before tax and adjusting items

Group profit before tax and adjusting items was £580.9m, down 5.4% on last year. The decrease was due to the reduction in UK gross profit and the increase in operating costs in the year.

Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. For further detail on adjusting items and the Group's policy for adjusting items please see Note 5 and Note 1 to the financial statements respectively.

	52 weeks ended		
	31 March 2018	1 April 2017	Change
	£m	£m	£m
Strategic programmes			
– UK store estate	**(321.1)**	(51.6)	(269.5)
– UK organisation	**(30.7)**	(24.0)	(6.7)
– IT restructure	**(15.5)**	-	(15.5)
– UK logistics	**(13.1)**	9.8	(22.9)
– Changes to pay and pensions	**(12.9)**	(156.0)	143.1
– International store closures and impairments	**(5.0)**	(132.5)	127.5
UK store impairments, asset write-offs and onerous lease charges	**(17.6)**	(94.6)	77.0
M&S Bank charges incurred in relation to the insurance mis-selling provision	**(34.7)**	(44.1)	9.4
Other	**(17.7)**	9.8	(27.5)
Adjusting items	**(468.3)**	**(483.2)**	**14.9**

We have recognised several charges in the period relating to the implementation of our strategic programmes:

- A charge of £321.1m in relation to the impairment of assets, accelerated depreciation and estimated onerous lease and closure costs relating to our UK store estate programme;
- A charge of £30.7m primarily relating to the consolidation of our central London Head Office buildings;
- A charge of £15.5m in relation to our technology transformation programme reflecting costs associated with the simplification and consolidation of our technology supplier base;
- A net charge of £13.1m as we continue to transition to a single tier Clothing & Home UK distribution network;
- A charge of £12.9m for the first year of transitional payments to employees impacted by the closure of the UK defined benefit scheme to future accrual; and
- A charge of £5.0m relating to the International exit programme.

UK store impairment testing (excluding those stores which have been captured as part of the UK store estate programme) has identified certain stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £12.6m has been incurred primarily in respect of the impairment of assets associated with these stores. Additionally, the Group has recognised a charge of £5.0m relating to the write-off of store environment assets that are no longer in use.

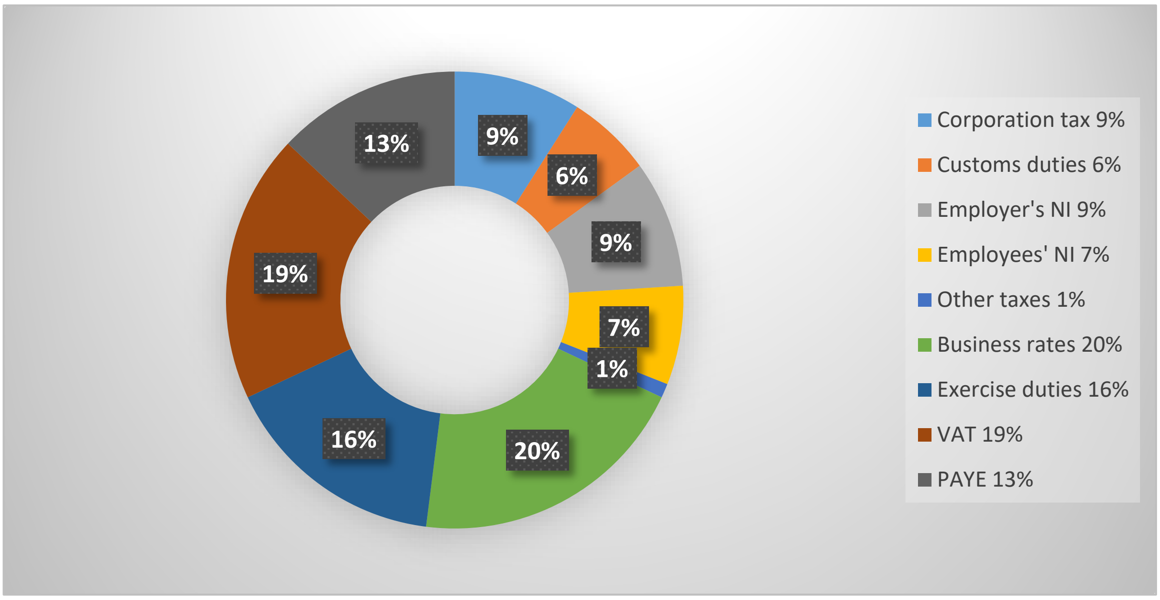
We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a reduction in profit of £34.7m during the year. On 30 December 2017, we completed the disposal of the retail business in Hong Kong and Macau to the Al-Futtaim Group resulting in a net profit on disposal of £5.8m. We also incurred charges for potential liabilities for certain employee-related matters.

Financial review (continued)

Taxation

The effective tax rate on profit before tax and adjusting items was 21.6% (last year 19.9%). This is higher than the UK statutory rate of 19.0% (last year 20.6%) due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 34.4% (last year 46.3%) due to the impact of the SLP structure and disallowable items.

Total tax contribution



In 2018 our total cash tax contribution to the UK Exchequer was £921m (2017: £881m), split between taxes ultimately borne by the Company of £421m (2017: £423m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity and which are collected on behalf of the Government of £500m (2017: £458m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

Capital expenditure

	52 weeks ended		
	31 March 2018 £m	1 April 2017 £m	Change £m
UK store environment	**26.6**	22.6	4.0
New UK stores	**72.1**	75	(2.9)
International	**11.6**	13.4	(1.8)
Supply chain	**23.8**	34.0	(10.2)
IT& M&S.com	**91.9**	122.9	(31.0)
Property & maintenance	**72.9**	90.3	(17.4)
Capital expenditure before disposals	**298.9**	**358.2**	**(59.3)**
Proceeds from property disposals	**(3.2)**	(27.0)	23.8
Capital expenditure	**295.7**	**331.2**	**(35.5)**

Group capital expenditure remains well controlled resulting in a further 17% reduction year-on-year, before disposal proceeds.

UK store environment spend reflects the rebalancing of in-store layouts towards strategic growth priorities such as Kidswear and the rebranding of several Foodhalls.

Spend on UK store space was slightly down. Whilst we opened 40 new owned stores compared with 35 last year, the reduction reflects a freehold purchase in the prior year and higher landlord contributions.

Supply chain expenditure reduced, reflecting the completion of larger projects such as the Bradford distribution centre in the prior year. During the second half of the year we began investment in the new Welham Green distribution centre as we move towards completing our single tier distribution network for Clothing & Home.

The decline in IT and M&S.com expenditure reflects the ongoing move towards more cloud-based software solutions, the investment in handheld devices and store technology in Retail in the prior year. We are also investing to migrate from our mainframe system.

Lower property disposal proceeds reflect the receipt of the final instalment from the sale of the White City warehouse received in the prior year.

Financial review (continued)

CASHFLOW & NET DEBT

	52 weeks ended		
	31 March 2018 £m	1 April 2017 £m	Change £m
Adjusted operating profit	**670.6**	**690.6**	**(20.0)**
Depreciation and amortisation before adjusting items	**580.6**	589.5	(8.9)
Working capital	**(96.8)**	(7.5)	(89.3)
Defined benefit scheme pension funding	**(41.4)**	(36.6)	(4.8)
Capex and disposals	**(345.9)**	(383.1)	37.2
Interest and taxation	**(200.5)**	(202.6)	2.1
Non-cash share based payment charges	**18.9**	10.6	8.3
Share transactions	**(3.1)**	-	(3.1)
Free cash flow before adjusting items	**582.4**	**660.9**	**(78.5)**
Adjusting items cash outflow	**(164.9)**	(80.9)	(84.0)
Free cash flow	**417.5**	**580.0**	**(162.5)**
Ordinary dividends paid	**(305.0)**	(305.0)	0.0
Special dividend	**-**	(74.1)	74.1
Free cash flow after shareholder returns	**112.5**	**200.9**	**(88.4)**
Opening net debt	**617.5**	**420.9**	**196.6**
Exchange and other non-cash movements	**(6.9)**	(4.3)	(2.6)
Closing net debt	**723.1**	**617.5**	**105.6**

The business generated free cash flow before adjusting items of £582.4m, down £78.5m on last year primarily because of lower adjusted operating profit and a higher cash outflow on working capital partially offset by lower capex. The working capital outflow is driven by the impact of International market exits, a lower incentive accrual year-on-year and higher Clothing & Home stock at year end.

Defined benefit scheme pension funding in the year reflects the £36.4m second limited partnership interest distribution to the pension scheme in the current year and the final contribution for the defined benefit scheme paid after the prior year end.

Adjusting items in the cash flow during the year include amounts relating to the closure of stores in international markets of £85.7m, the transition payments in respect of pensions and pay premia of £36.7m and M&S Bank of £34.7m. These were partially offset by the cash inflow associated with the disposal of the Hong Kong retail business of £22.9m.

Despite the significant cash outflows associated with our strategic programmes, net debt was down £105.6m on last year.

PENSION

At 31 March 2018, the IAS 19 net retirement benefit surplus was £948.2m (last full year £692.8m). The increase in the surplus is largely due to an increase in the discount rate and a change in mortality assumptions.

In March 2018, the UK defined benefit pension scheme entered into pensioner buy-in policies with two insurers for £1.4bn which reduced its longevity exposure to around one third of the pensioner cash flow liabilities.

STRATEGIC REPORT

Principal risks and uncertainties and financial risk management

The key business risks and uncertainties affecting the Company are considered to relate to competition from other retailers, the economic outlook, employee retention, new stores and distribution centres and the modernisation of the existing portfolio. The details of our principal risks and uncertainties and the key mitigating activities can be found below. In addition, the directors have taken into consideration the potential impact of the strategic review of the UK store estate announced by the ultimate parent, Marks and Spencer Group plc as part of its full year results announcement in November 2016. Copies of the Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Waterside House, 35 North Wharf Road, London W2 1NW or are available on the website www.marksandspencer.com/thecompany.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
1	**TRADING ENVIRONMENT** **The performance of our business will be impacted if we fail to meet customer expectations or respond to the continued pressures of a changing retail environment.** Aggressive competition, cost pressures and the consumer impact of the UK's departure from the European Union all contribute to the challenge that is faced. Our Clothing & Home business must respond to the continued shift in customer preferences towards online and mobile shopping. Consequently, our strategy is focused on the creation of a seamless, relevant customer experience and the need to be 'Digital First'. We must also continue to strengthen capability across all areas of our Clothing & Home business to ensure we deliver contemporary, wearable style and wardrobe essentials that our customers want. Food consumers continue to be driven by value and we need to ensure our product ranges resonate and are available at the right price. While we have limited influence over a number of contributory factors, for example raw material prices and the impact of Brexit, we recognise the need to manage costs, driving efficiencies and delivering savings in areas such as packaging and waste. This new risk is a consolidation of a number of risks, which were disclosed separately in the prior year, to better reflect the increasingly challenging conditions facing our business.	- Development of, and delivery against, the five-year transformation plan. - Targeted recruitment to strengthen capabilities of our senior leadership teams in both Clothing & Home and Food. - Full strategic reviews and setting of clear short- and medium-term priorities for our businesses. - Delivery of our International strategy. - Refining our operating model to eliminate silos and create devolved, accountable businesses. - Revised disciplines around store prices, ranges and promotions across our business. - Implementation of our Digital First initiatives. - Improved alignment of business needs and engagement with the UK store estate team, and changes to our Property leadership. - Completion of a forensic review of costs and commencement of our cost delivery plan.
2	**BUSINESS TRANSFORMATION** **As we build a platform for change, the successful delivery of our business transformation programme is critical – a failure to execute faultlessly and at pace will hinder progression.** Our business is undertaking a number of transformation projects; many of these are significant in their own right but the level of interdependency also requires careful alignment. Transforming our business will generate cost savings but also underpins the delivery of our strategic objectives. - The reshaping of our UK store estate continues at an accelerated pace. We need to ensure that the programme delivers against agreed targets and that we incorporate changes in customer preferences into decision making on a timely basis. - We must deliver on our Digital First ambitions – improving customer experience, reducing costs and working smarter across the business. - Our supply chain must be fit for purpose. It is currently slow, outdated and expensive, and must be improved. This new risk is an expansion of the prior year's specific risk around our store estate programme and now incorporates a far broader range of transformational projects.	- Acceleration of our plan to operate from fewer, larger Clothing & Home stores. - Reassessment of the Simply Food store opening programme. - Implementation of a Technology Transformation Programme, - leveraging the support of key third-party relationships. - Improvements to our website. - Commencement of an end-to-end review of our supply chain and logistics network across both businesses to deliver improved - efficiency of picking, improved trade utilisation and a faster, more reliable service for stores and customers. - Operational improvements at Castle Donington. - Strong programme governance to track progress against plan, resourcing and capability and to monitor critical interdependencies. - High levels of cross functional engagement to ensure consistency and collaboration in setting and achieving objectives. - Independent audit reviews of key programme delivery.

Principal risks and uncertainties and financial risk management (continued)

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
3	**FOOD SAFETY & INTEGRITY** **A food safety or integrity related incident occurs or is not effectively managed.** Food safety and integrity remains vital for our business. We need to manage the potential risk to customer health and confidence that faces all food retailers, while also considering how external pressures facing the food industry could influence the integrity of our food, our reputation and shareholder value. Many of these pressures, including inflationary costs, labour quality and availability, increased regulatory scrutiny and the as yet unknown impact of Brexit are outside of our control. We also recognise the criticality of internal influences including the level of change underway in our Food business and the significant levels of new product development. This all places greater demand on the technical team and suppliers to complete required raw material testing and product safety checks to guarantee provenance, safety and integrity.	- Clearly defined requirements through Terms of Trade, Codes of Practice, Standard Operating Procedures and Specifications from farm to fork, including in-store processes. - Qualified and capable technical team. Professional status maintained through training and Technologist Continual Professional Development programme (independently validated by Institute of Food Science and Technology). - Clear accountabilities for policy and standard development at technical leadership level coupled with individual accountability for product safety at technologist level. - Long established store, supplier and depot auditing programme in place, including unannounced audits and raw material testing. - Quarterly review of control framework by the technical leadership. - Clear and tested crisis management plan in place to respond to incidents. - Sector-leading initiatives, such as over the provenance of our beef. - Membership of Food Industry Intelligence Forum.
4	**CORPORATE COMPLIANCE & RESPONSIBILITY** **Failure to deliver against our regulatory obligations, social commitments or stakeholder expectations undermines our reputation as a responsible retailer.** Responsible corporate behaviour is a basic expectation of all businesses, especially those that are consumer facing. Public sentiment can shift rapidly, especially as the traditional influencers of public perception evolve and issues can escalate rapidly through social media. There are also many examples of where ‘good’ corporate behaviour has, over time, become a legal or regulatory requirement. Human Rights, Modern Slavery, Anti-Bribery and Data Protection are just a few examples impacting our business. The mandatory nature of an increasingly broad and stringent legal and regulatory framework creates pressure on both business performance and market reaction. While our business operates appropriate controls, we recognise that potential noncompliance is a risk for all businesses and that there can be no room for complacency. Given the high level of trust we have with customers and stakeholders, coupled with our high media profile, we must get this right.	- Clear policies and procedures in place, including Human Rights, Modern Slavery and Global Sourcing Principles. - Mandatory induction briefings and annual training for relevant colleagues for key regulations. - Oversight from established committees where necessary, including Data Protection, Fire Health & Safety and Plan A. - Experienced in-house regulatory legal team with external expertise sought as needed. - Dedicated regulatory officers in place across the business responsible for driving compliance. - Strong and transparent engagement with regulators. - Forward looking Plan A 2025 commitments with associated governance to anticipate future environmental and social issues. - Established audit and monitoring systems in place. - Customer contact centre insight and analysis of live social media issues.
5	**INFORMATION SECURITY (INCLUDING CYBER)** **Failure to adequately prevent or respond to a data breach resulting in business disruption, brand damage or loss of information for our customers, stakeholders or our business.** The increasing sophistication of potential cyber-attacks, coupled with the General Data Protection Regulation, highlight the escalating information security risk facing all businesses. Our reliance on a number of third-parties to host and hold data also means the risk profile of our information security is changeable. We recognise the importance of ongoing education and vigilance within M&S to reduce the likelihood of attack or breach in (i) an internal environment that is undergoing significant transformation and (ii) an external environment that is changing at pace. We must ensure that our control environment evolves and that our systems operate effectively. A data protection breach would not only impact our reputation, but would also cause business disruption and could result in a significant fine.	- Established security controls, including policies, procedures and use of security technologies. - Head of Data Governance and Data Governance Group in place. - Dedicated Corporate Security team with ongoing focus on improving the physical security environment. - Dedicated Head of Cyber Security, leading a team of cyber security experts and analysts, with 24/7 monitoring and defence tools. - Third-party cyber maturity assessments performed and refreshed. - Ongoing monitoring of developments in cyber security threats, engaging with third-party specialists as appropriate. - Periodic testing by Internal Audit. - Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security. - Dedicated workstream focused on information security as part of the Technology Transformation Programme.

Principal risks and uncertainties and financial risk management (continued)

RISK DESCRIPTION & CONTEXT		MITGATING ACTIVITIES
6	**TECHNOLOGY** **To support future profitable growth, we need to keep pace and develop our technology and innovation capability.** The digital world continues to evolve at an unprecedented rate, influencing consumer behaviours and setting a high bar in terms of IT infrastructure requirements. We have clearly communicated our aim to be Digital First, and recognise the need to invest to achieve this. Our existing IT infrastructure needs to be more flexible to lower costs, leverage developments and enable us to move with pace to meet customer and colleague needs. In addition to developing our technology, we must develop the skills and capabilities of our people. This will be critical to providing a top quartile, seamless customer experience.	- Technology Transformation Programme in place, supported by strong governance principles, to enable the Digital First ambitions and to deliver improved customer experience. - New Technology Operating Model to drive clear accountabilities and efficiencies, including the adoption of industry standard agile methods. - Appointment of a leading technology company as our principal partner, coupled with simplification and consolidation of the technology supplier base. - Proactive simplification of IT infrastructure through clearly defined technology roadmaps for all business areas and strong governance processes. - Cross channel technology investment strategy in place and aligned to the family of businesses to mutually agreed priorities. - Quarterly reviews to ensure benefits are being delivered.
7	**TALENT & CAPABILITY** **We need to attract, develop, motivate and retain the right individuals to achieve our operational and strategic objectives to transform the culture and the business.** As we transform our business, the calibre of our people is integral to delivering operational and strategic objectives, and is especially important in our drive to be Digital First. Attracting, developing and retaining quality individuals is influenced by many factors, a number of which are outside of our control. Growing market labour shortages, which may be further compounded by Brexit, and the perceived fragility of UK retail could influence our ability to attract external talent. However, our focus cannot solely be outwards looking – our existing workforce is one of our greatest assets. We need to ensure that our colleagues and culture are developed to drive a Digital First and customer centric mindset, colleagues need to feel empowered to drive change at pace.	- Talent identified as a critical component of our People Strategy and a key enabler in the delivery of our overall business strategy. - People KPIs in place supported by talent review at all levels of the organisation. - Established biannual employee engagement survey, enhanced during the year to provide additional insight. - Clear focus and transparent action on fair pay, including gender, ethnicity, disability and age. - Launch of a new diversity forum. - Simplified, outputs focused framework introduced for performance management. - Commencement of externally facilitated culture assessment. - Active engagement with our Business Involvement Group.
8	**BRAND AND CUSTOMER EXPERIENCE** **Our brand and underpinning customer experience need to evolve with consumer lifestyles and attitudes for us to remain relevant and successfully attract and retain customers.** Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. We are proud of our strong brand recognition, but external pressures make it more difficult for all businesses to drive brand relevance and attract and retain customers, failure to do so creates the very real risk of a decline in market share. We must attract and retain our core customer segments. Our intention to be a customer-centric, Digital First business has been clearly communicated. We need to ensure that our organisational design and operating model support this aim and that we put the customer at the forefront of all our decision making. Our Sparks loyalty programme, marketing strategies and cross functional ways of working will be key enablers in achieving this, supported by meaningful measurement of customer experience.	- Targeted external hires to strengthen capability. - Revised operating model to better align brand and marketing with the specific needs of our two businesses. - Investment in capability to measure customer experience through introduction of an end-to-end and multichannel Net Promoter Score programme, supported by third party expertise. - Established Customer Insight Unit and focus groups in place. - Review of Sparks loyalty programme underway, supported by proposition improvements to strengthen member engagement. - Increasing our relevance and proactive monitoring of social media to observe and respond to trends in customer experience.

Principal risks and uncertainties and financial risk management (continued)

RISK DESCRIPTION & CONTEXT		MITGATING ACTIVITIES
9	**THIRD PARTY MANAGEMENT** **To drive value for our business we need to successfully manage and leverage our third-party relationships and partners.** Our business is increasingly engaged in significant third-party partnerships. These span our full operating model, from products and services to franchise management and our international joint ventures. To fully leverage these relationships, we need to have clear, consistently applied processes to track performance, ensuring commercial expectations are delivered. We also recognise the importance of managing the business interruption risk conferred by such dependencies, and of maintaining appropriate contingency plans in response. We cannot lose sight of the expertise and effort that is required to effectively manage third-parties, especially as we move through our transformation programme.	- Clear procurement and supplier management policies in place, including specific requirements for strategic suppliers. - Defined service level agreements and key performance indicators in place for key contracts. - Defined contract governance and oversight standards, including dedicated ‘supplier owners’ managing key contracts. - Strong engagement with in-house legal and procurement teams. - Key supplier business contingency planning . - Internal audit engagement.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and strategic report as set out on pages 1 – 12 as well as the Group’s principal risks and uncertainties as set out on pages 9 -12. Based on the Group’s cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements.

The Strategic Report was approved by the Board on 25th September 2018 and signed on its behalf by

Amanda Mellor
Director

REPORT OF THE DIRECTORS

Profit and dividends

The profit for the financial year, after taxation, amounts to £73.8m (last year £70.1m). The directors have declared dividends as follows:

		2018 £m	2017 £m
Ordinary shares:			
Paid interim dividend	3.9p (last year 3.9p)	**111.2**	111.2
Paid final interim dividend	6.8p (last year 6.8p)	**193.8**	193.8
Total ordinary dividend	10.7 per share (last year 10.7p)	**305.0**	305.0

Share capital

The Company's issued ordinary share capital, as at 31 March 2018 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note C17 to the financial statements.

Significant agreements

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

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 to various institutions (MTN) and under the Group's £3bn euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment grade level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- 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 grade level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest;
- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (while not being required to do anything that would breach such a third party arrangement).
- Where a third party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate the Relationship Agreement.

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

Directors

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

Amanda Mellor

Stephen Rowe

Helen Weir (resigned on 31 March 2018)

Scilla Grimble (appointed on 31 March 2018, resigned 12 September 2018)

Humphrey Singer (appointed on 10 August 2018)

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 31 March 2018 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.

Colleague involvement

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement are highlighted throughout the Marks and Spencer Group plc Annual Report 2018 and specifically on page 9.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all employee Save As You Earn Scheme and Share Incentive Plan. Approximately 23,000 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 99 and 100 of the Marks and Spencer Group plc Annual Report 2018.

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

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

M&S was one of the first major companies to remove the default retirement age in 2001 and has continued to see an increase in employees wanting to work past the state retirement age.

Employees with disabilities

The Company is clear in its policy that people with disabilities should have full and fair consideration for all vacancies.

M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

Financial instruments

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

Essential contracts or arrangements

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

Groceries Supply Code of Practice

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

M&S submitted its report, covering the period from 2 April 2017 to 31 March 2018, to the Audit Committee on 17 May 2018.

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 the Code and the Order during the relevant period.
- No formal disputes have arisen during the reporting period.

Groceries Supply Code of Practice (continued)

- There have been eight instances in which suppliers have either alleged a breach of the Code or made an express or implicit reference to potential non-compliance with the Code. M&S does not believe that any breaches took place and has worked with suppliers to address the issues raised.

Total Global M&S Greenhouse gas emissions 2017/2018

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance, see the 2018 Plan A Report.

	2017/18 000 tonnes	2016/17 000 tonnes	% change
Direct emissions (scope 1)	182	246	-26
Indirect emissions from energy (scope 2)	248	394	-37
Total gross/location-based emissions (scope 1 and 2)	**430**	**640**	**-33**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**23**	**40**	**-42**
Green tariffs and bio-methane procured	273	0	-
Remaining market-based emissions	**157**	**640**	**-75**
Carbon offsets	157	0	-
Total net operational emissions	**0**	**640**	**-**

Emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2017 BEIS conversion factors. As these emissions account for less than 10% of M&S's total carbon footprint, we also engage with suppliers to address the most significant sources. M&S has an approved Science Based Target for reducing emissions.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 31 March 2018. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Statement of directors' responsibilities

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

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

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

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

Corporate governance statement

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

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

Further information about the Group's corporate governance is provided in the Chairman's Governance Overview set out on pages 25 and 26 in the Marks and Spencer Group plc Annual Report, which does not form part of this report.

REPORT OF THE DIRECTORS

Disclosure of information to auditor

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

Independent auditor

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

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 25th September 2018 and signed on its behalf by

AMANDA MELLOR
Director
London, 25th September 2018

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

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Marks and Spencer plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the 52 weeks then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the 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.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;
- the reconciliation of net cash flow to movement in net debt;
- the related notes 1 to 27;
- the parent statement of comprehensive income;
- the parent statement of financial position;
- the parent statement of changes in equity;
- the parent statement of cash flows; and
- the related notes C1 to C21.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Reporting financial performance; • Accounting for the UK store rationalisation programme; • Impairment of UK store assets; • UK Clothing & Home inventory provision; • Retirement benefits; and • Manual adjustments to reported revenue. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was £24.5 million which was determined on the basis of 5% adjusted profit before tax excluding certain items based on their nature.
Scoping	We performed a full scope audit on three components of the business (UK, India and Ireland) representing 97% of the Group's revenue, 99% of the Group's adjusted profit before tax, 95% of the Group's profit before tax and 84% of the Group's net assets.

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

Conclusions relating to going concern, principal risks and viability statement

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

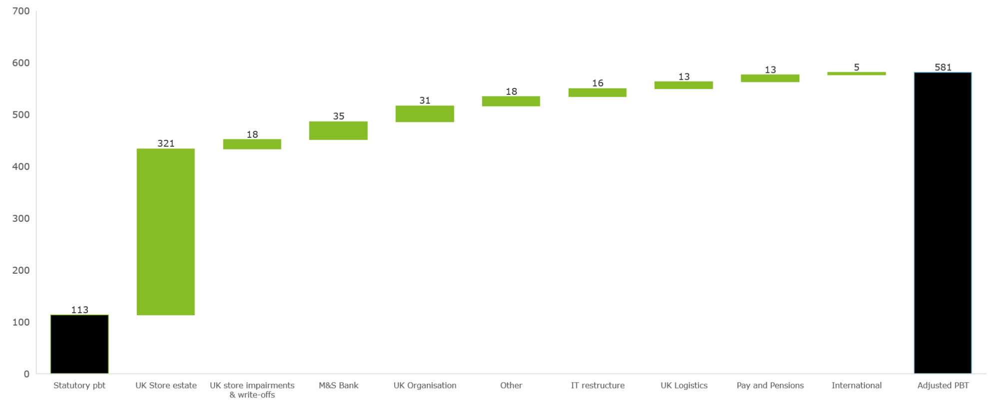
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reporting financial performance

Key audit matter description

The Group has reported adjusted profits of £581 million, which is derived from statutory profit before tax of £113 million and a number of adjustments for items which the company considers meet their definition of an adjusting item. Judgement is exercised by management in determining the classification of items as 'adjusting items'.

Explanations of each adjustment are set out in note 5 to the financial statements and are summarised in the graphic below:



In calculating adjusted profit, we consider that there is a risk of:

- items being included in the adjustments inappropriately, distorting the reported adjusted earnings; and
- items being omitted from the adjustments which are material, one-off or significant in nature which distort the reported adjusted earnings.

How the scope of our audit responded to the key audit matter

For adjusted profits, we evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusting items, including assessing the consistency of items included year on year and ensuring adherence to IFRS requirements and latest Financial Reporting Council ("FRC") guidance. We also agreed a sample of these items to supporting evidence.

We assessed all items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature or value, but included within adjusted profit to determine whether these are not material either individually or in aggregate. For all adjustments recorded in calculating profits before adjusting items, we discussed the appropriateness of the item with the Marks and Spencer Group plc Audit Committee and any disclosure considerations.

Key observations

We are satisfied that the items excluded from adjusted profit, and the related disclosure of these items in the financial statements, are appropriate.

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

Accounting for the UK store rationalisation programme

Key audit matter description

On 8 November 2017, as part of the Marks and Spencer Group plc interim results statement, the Group announced the acceleration of the UK store rationalisation programme, including closures, space reduction and relocations. At 31 March 2018, the Group had identified a number of stores for potential closure, space reduction or relocation, and recognised a charge of £321 million for impairments, accelerated depreciation and associated provisions. Further detail of the charge is set out in note 5.

For each of the stores expected to be impacted by the programme, the company prepared a discounted cash flow model to determine the required impairments and provisions to reflect the shortened economic lives of the store assets and, for certain stores, the closure of the store prior to lease expiry. Where the affected store has been formally approved or publicly announced, all associated restructuring provisions (including any lease exit and redundancy costs) have been recognised. Where the closure of the affected store has not been formally approved or publicly announced, impairment charges are recognised to the extent that the store's cash flows do not support the carrying value, with an onerous contract provision being recognised where appropriate.

We pinpointed our key audit matter to the following elements of accounting for the UK store rationalisation programme:

- The accuracy and completeness of the list of affected stores and anticipated closure dates;
- The appropriateness of specific assumptions in the discounted cash flow models, including sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs;
- The mechanical accuracy of the discounted cash flow models and integrity of source data (such as lease terms and rental values); and
- The accuracy and completeness of associated provisions, including provisions for dilapidations and strip out costs, onerous contracts for loss-making stores, and restructuring where closures have been publicly announced.

How the scope of our audit responded to the key audit matter

We focused our audit work on assessing the company's store exit model and evaluating the appropriateness of the key assumptions used in calculating the charge of £321 million. As part of our audit procedures, we:

- Made inquiries of management and reviewed property board minutes to evaluate the accuracy and completeness of the store closure list, and considered the commercial rationale for exiting certain stores whilst excluding other poor performing stores from the store closure list;
- Inspected the minutes of Board meetings and relevant sub-committees;
- Inspected supporting documentation for each assumption in the store exit model which included lease agreements, agent valuations, surveyor plans and rent invoices;
- Evaluated the company's judgements for a sample of properties in consultation with retail real estate experts and with reference to benchmarked external data;
- Tested the mechanical accuracy of the cash flow models and other key calculations;
- Checked the integrity of lease data to original lease agreements for a sample of properties;
- Recalculated the provisions required for a sample of stores and checked the mechanical accuracy of provision calculations; and
- Evaluated the completeness of required provisions for a sample of stores based on the status of the store in the closure programme.

Key observations

We are satisfied with the company's estimate of the impairment charge but note that this is at the prudent end of our acceptable range. The disclosure of the closure provisions recorded in the financial statements is appropriate.

We have reported to the Marks and Spencer Group plc Audit Committee where improvements are required to key internal review controls over store closures and significant property transactions.

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

Impairment of UK store assets

Key audit matter description

The Group held £2,979 million of UK store assets at 31 March 2018 in respect of stores not considered for closure in the UK store rationalisation programme. The company has undertaken an annual assessment of indicators of impairment in respect of these stores and has recognised an impairment charge in the year of £12 million.

As described in note 14 of the financial statements, the company has estimated the recoverable amount of store assets based on value in use calculations. These rely on certain assumptions and estimates of future trading performance which involve a high degree of estimation uncertainty (as disclosed in Note 1) particularly in light of current retail market conditions.

The key assumptions applied by the directors in the impairment reviews are:

- forecast periods in the context of strategic decisions made to exit a location;
- future revenue growth;
- gross margin;
- store costs, including the impact of the National Living Wage; and
- discount rate.

The company considers that each retail store constitutes its own cash generating unit ('CGU'), with the exception of the outlet stores which are used to clear old season Clothing and Home inventories stock at a discount. The outlet stores are considered to represent one CGU in aggregate and strategic stores are evaluated as part of a country-wide impairment review.

The group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during initial years of trading to enable the store to establish itself in the market.

How the scope of our audit responded to the key audit matter

We considered the appropriateness of the methodology applied by the company in calculating the impairment charges, and the judgements applied in determining the CGUs of the business. In addition, we assessed the design and implementation of controls in respect of the impairment review process, and considered the adequacy of disclosures made in the financial statements.

We assessed the impairment models and calculations by:

- checking the mechanical accuracy of the impairment models;
- assessing the discount rates applied to the impairment reviews with support from our internal valuations specialist and comparing the rates to our internal benchmark data;
- comparing forecast growth rates to economic data; and
- evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, minutes of property board and investment committee meeting minutes, and meeting with regional store managers and senior trading managers from key product categories and our retail industry knowledge.

We assessed the appropriateness of the shelter period for each store opened within that time frame, and compared the original investment case for the store against its current trading performance. Where stores were trading significantly below the original case, we considered the evidence available to support future improvements in performance, specifically by assessing the trading plans and actions being taken on an individual store basis.

Key observations

We assessed the level of impairment recorded in respect of the UK business and are satisfied that the judgements applied by the company and the level of impairments recorded in the year are appropriate

UK Clothing & Home inventory provision

Key audit matter description

At 31 March 2018, the Group held UK Clothing & Home inventories of £591 million. As described in the Accounting Policies in note 1 to the Financial Statements, inventories are carried at the lower of cost and net realisable value. As a result, the directors apply judgement in determining the appropriate provisions for obsolete stock and stock below cost based upon a detailed analysis of old season inventory and net realisable value below cost based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the increase in gross inventory.

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

UK Clothing & Home inventory provision (continued)

How the scope of our audit responded to the key audit matter

We obtained assurance over the appropriateness of the company's assumptions applied in calculating the value of the inventory provisions by:

- performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn and post-period negative margin sales;
- assessing the validity, accuracy and completeness of the information used by management in computing the provision;
- verifying the mathematical accuracy and logic of the models underpinning the respective provisions;
- meeting with buyers to validate the assumptions applied by the company compared to the current purchasing strategy and ranging plans; and
- testing the validity and completeness of the stock flags and season codes applied to individual inventory items.

Key observations

The results of our testing were satisfactory and we concur that the level of UK inventory provisions is appropriate.

Retirement benefits

Key audit matter description

As described in the Accounting Policies in note 1 and in note 10 to the Financial Statements, the Group has a defined benefit pension plan for its UK employees. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred members on 1 April 2017.

At 31 March 2018, the Group recorded a net retirement benefit asset of £959 million, being the net of scheme assets of £9,989 million and scheme liabilities of £9,030 million. £8,908m of this liability relates to the UK scheme.

Our key audit matter was pinpointed to the valuation of UK scheme liabilities as it is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates.

The setting of these assumptions is complex and an area of significant judgement; changes in any of these assumptions can lead to a material movement in the net surplus. The increase / (decrease) in scheme surplus caused by a change in each of the key assumptions is set out below:

	2018 £m	2017 £m
A decrease in the discount rate of 0.25%	(70)	(70)
A decrease in the inflation rate of 0.25%	(25)	(20)
A decrease in the average life expectancy of one year	305	370

How the scope of our audit responded to the key audit matter

We evaluated the directors' assessment of the assumptions made in the valuation of the scheme liabilities, and evaluated the information contained within the actuarial valuation reports for each scheme. We assessed the design and implementation of controls in respect of the pension scheme valuation process.

With support from our own actuarial specialists, we considered the process applied by the Group's actuaries, the scope of the valuation performed and the key assumptions applied and evaluated their expertise. We benchmarked and performed a sensitivity analysis on the key variables in the valuation model.

Key observations

We are satisfied that all assumptions applied in respect of the valuation of the liabilities is appropriate.

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

Manual adjustments to reported revenue

Key audit matter description

As described in the Accounting Policies in note 1 to the Financial Statements, the group's revenue recognition policies require the directors to make a number of adjustments and estimates in determining the reported revenue for the period. The most significant adjustments are:

- gift cards and vouchers – the directors apply an expected redemption rate to the total value of gift cards and vouchers in issue based on historic trends.
- returns – customers are entitled to return most products up to 35 days after purchase, giving rise to a risk that sales recognised during the period will be reversed in the next financial period. The directors apply judgement in determining the provision required for returns based on actual sales data and recent product return rates. Returns from online sales are commonly at a higher level than traditional store retailing, resulting in this judgement becoming more significant in determining the level of provision required.

There is the potential for possible manipulation of the rates applied to the company's estimate of gift card and voucher non-redemptions and customer returns given the significant amount of judgement involved.

How the scope of our audit responded to the key audit matter

We have considered each revenue-impacting manual adjustment, and assessed the appropriateness of the assumptions and judgements applied in deriving the material adjustments to revenue. We assessed the design and implementation of controls in respect of these revenue judgements, in addition to testing the effectiveness of key revenue controls operating across the UK business.

For the key assumptions used in the gift card and voucher, and loyalty scheme provisions, we assessed the historic rates of redemption and compared these to the directors' judgements.

We assessed the appropriateness of the methodology and inputs used in calculating the returns provision.

Key observations

We are satisfied that the key assumptions applied in calculating the returns, gift card, voucher and loyalty scheme provisions are appropriate although note management's judgements are at the prudent end of our acceptable range.

Our application of materiality

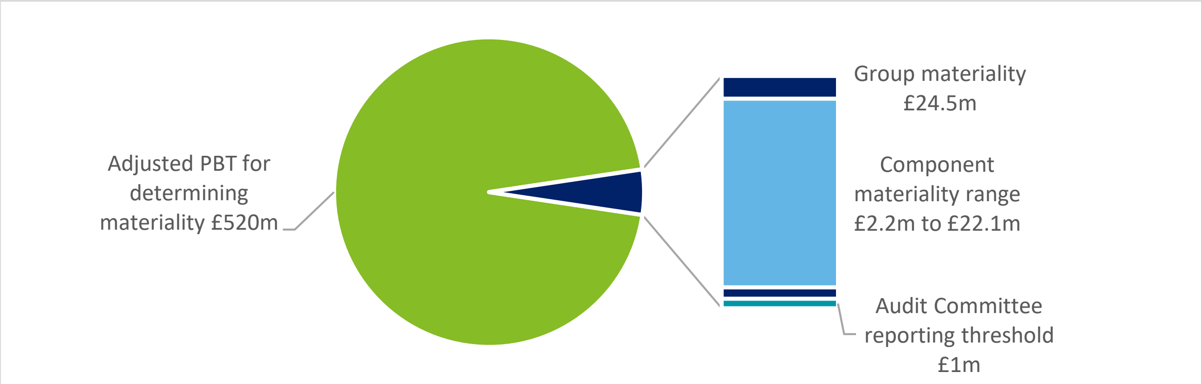
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£24.5 million	£22.1 million
Basis for determining materiality	Group materiality was based on 5% reported adjusted profit before tax of £581 million excluding certain items based on their nature. The profit used in our determination was £520 million. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: • M&S Bank PPI charge - £35 million • Logistics restructuring - £13 million • UK store impairments and associated charges within £18 million adjusting item in note 5 - £13 million We capped materiality to £24.5 million so that it was not higher than the prior period given the group's trading performance in the current period.	We used 5% of reported adjusted profit before tax as the basis of materiality and then further capped this at 90% of Group materiality.

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

Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	Adjusted profit before tax has been used as it is the primary measure of performance used by the group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.



The materiality applied by the component auditors for full scope audits (see below) ranged from £2.2 million to £22.1 million depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the M&S Group plc Audit Committee that we would report to the Committee all audit differences in excess of £1 million for the group and parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on our assessment we focused our group audit scope on the retail businesses in the UK, Republic of Ireland and India, which were subject to a full audit. We also performed audit procedures on specific balances for the remaining store exit provisions in France. This work was performed by the group audit team.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. Whilst we audit the revenues received by the Group from franchise operations, which account for 3% of the Group's revenue, we do not audit the underlying franchise operations as part of our Group audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.

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

The most significant component of the group is its retail business in the United Kingdom, which accounts for 90% of the Group's reported revenue of £10,698 million, and generates operating profit of £23 million. The group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the group audit team, conducted 15 distribution centre and 35 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

We operate a programme of planned visits to overseas locations so that a senior member of the group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year. The programme of visits are set out below, with future years subject to change as the Group's operations continue to evolve.

Component	2017 (Last year)	2018 (This year)	2019 (Next year)
India	✓	✓	✓
Republic of Ireland	✓		✓

In addition to our programme of planned visits, we send detailed instructions to our component audit teams, include them in our team briefings, discuss their risk assessment, attend closing meetings, and review their component reporting.

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

Other information

We have nothing to report in respect of these matters.

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the periods ending 28 March 2015 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Catherine Lucy Newman (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

25th September 2018

CONSOLIDATED INCOME STATEMENT

		52 weeks ended 31 March 2018			52 weeks ended 1 April 2017		
	Notes	**Profit before adjusting items £m**	**Adjusting items £m**	**Total £m**	Profit before adjusting items £m	Adjusting items £m	Total £m
Revenue	2, 3	**10,698.2**	**–**	**10,698.2**	10,622.0	–	10,622.0
Operating profit	2, 3, 5	**670.6**	**(468.3)**	**202.3**	690.6	(483.2)	207.4
Finance income	6	**24.1**	**–**	**24.1**	36.2	–	36.2
Finance costs	6	**(113.8)**	**–**	**(113.8)**	(113.0)	–	(113.0)
Profit before tax	4, 5	**580.9**	**(468.3)**	**112.6**	613.8	(483.2)	130.6
Income tax expense	7	**(125.4)**	**86.6**	**(38.8)**	(122.4)	61.9	(60.5)
Profit for the year		**455.5**	**(381.7)**	**73.8**	491.4	(421.3)	70.1
Attributable to:							
Owners of the parent		**452.1**	**(381.7)**	**70.4**	492.8	(421.3)	71.5
Non-controlling interests		**3.4**	**–**	**3.4**	(1.4)	–	(1.4)
		455.5	**(381.7)**	**73.8**	491.4	(421.3)	70.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**52 weeks ended 31 March 2018 £m**	52 weeks ended 1 April 2017 £m
Profit for the year		**73.8**	70.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	10	**200.9**	(68.9)
Tax (credit)/charge on items that will not be reclassified		**(39.0)**	25.3
		161.9	(43.6)
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(23.4)**	31.0
– reclassified and reported in profit and loss		**(36.2)**	–
Fair value movement on available for sale assets		**2.5**	(9.3)
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		**(208.7)**	56.1
– reclassified and reported in profit or loss		**85.0**	(72.4)
– amount recognised in inventories		**57.5**	(20.1)
Tax credit on cash flow hedges and net investment hedges		**19.7**	4.1
		(103.6)	(10.6)
Other comprehensive income/(expense) for the year, net of tax		**58.3**	(54.2)
Total comprehensive income for the year		**132.1**	15.9
Attributable to:			
Owners of the parent		**128.7**	17.3
Non-controlling interests		**3.4**	(1.4)
		132.1	15.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March 2018 £m	As at 1 April 2017 £m
Assets			
Non-current assets			
Intangible assets	13	**599.2**	709.0
Property, plant and equipment	14	**4,393.9**	4,792.0
Investment property		**15.5**	15.5
Investment in joint ventures		**7.0**	7.0
Other financial assets	15	**16.0**	10.3
Retirement benefit asset	10	**970.7**	706.0
Trade and other receivables	16	**209.0**	234.1
Derivative financial instruments	20	**27.1**	56.8
		6,238.4	6,530.7
Current assets			
Inventories		**781.0**	758.5
Other financial assets	15	**2,564.3**	2,566.7
Trade and other receivables	16	**308.4**	318.6
Derivative financial instruments	20	**7.1**	163.1
Cash and cash equivalents	17	**207.7**	468.6
		3,868.5	4,275.5
Total assets		**10,106.9**	10,806.2
Liabilities			
Current liabilities			
Trade and other payables	18	**1,405.9**	1,553.8
Partnership liability to the Marks & Spencer UK Pension Scheme	11	**71.9**	71.9
Borrowings and other financial liabilities	19	**125.6**	518.0
Derivative financial instruments	20	**73.8**	10.5
Provisions	21	**98.8**	147.2
Current tax liabilities		**50.0**	66.6
		1,826.0	2,368.0
Non-current liabilities			
Retirement benefit deficit	10	**22.5**	13.2
Trade and other payables	18	**333.8**	328.5
Partnership liability to the Marks & Spencer UK Pension Scheme	11	**263.6**	324.6
Borrowings and other financial liabilities	19	**1,670.6**	1,711.7
Derivative financial instruments	20	**30.7**	0.8
Provisions	21	**193.1**	113.5
Deferred tax liabilities	22	**256.6**	281.6
		2,770.9	2,773.9
Total liabilities		**4,596.9**	5,141.9
Net assets		**5,510.0**	5,664.3
Equity			
Issued share capital	23	**712.5**	712.5
Share premium account		**386.1**	386.1
Capital redemption reserve		**8.0**	8.0
Hedging reserve		**(65.3)**	17.3
Retained earnings		**4,471.2**	4,546.3
Total shareholders' equity		**5,512.5**	5,670.2
Non-controlling interests in equity		**(2.5)**	(5.9)
Total equity		**5,510.0**	5,664.3

The financial statements were approved by the Board and authorised for issue on 25th September 2018. The financial statements also comprise the notes on pages 31 to 64.

Humphrey Singer Chief Finance Officer

Registered Number: 00214436

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Foreign exchange reserve £m	Retained earnings [1] £m	Total £m	Non-controlling interest £m	Total £m
As at 3 April 2016	712.5	386.1	8.0	32.3	(4.8)	4,887.0	6,021.1	(1.8)	6,019.3
Profit/(loss) for the year	–	–	–	–	–	71.5	71.5	(1.4)	70.1
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(4.3)	35.3	–	31.0	–	31.0
Remeasurements of retirement benefit schemes	–	–	–	–	–	(68.9)	(68.9)	–	(68.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	25.3	25.3	–	25.3
Fair value movement in equity for available for sale assets	–	–	–	–	–	(9.3)	(9.3)	–	(9.3)
Cash flow hedges and net investment hedges									
– fair value movement recognised in other comprehensive income	–	–	–	77.7	–	(21.6)	56.1	–	56.1
– reclassified and reported in profit or loss	–	–	–	(72.4)	–	–	(72.4)	–	(72.4)
– amount recognised in inventories	–	–	–	(20.1)	–	–	(20.1)	–	(20.1)
Tax on cash flow hedges and net investment hedges	–	–	–	4.1	–	–	4.1	–	4.1
Other comprehensive income/(expense)	–	–	–	(15.0)	35.3	(74.5)	(54.2)	–	(54.2)
Total comprehensive income/(expense)	–	–	–	(15.0)	35.3	(3.0)	17.3	(1.4)	15.9
Transactions with owners:									
Dividends	–	–	–	–	–	(379.1)	(379.1)	–	(379.1)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	(2.7)	(2.7)
Credit for share-based payments	–	–	–	–	–	13.5	13.5	–	13.5
Deferred tax on share schemes	–	–	–	–	–	(2.6)	(2.6)	–	(2.6)
As at 1 April 2017	712.5	386.1	8.0	17.3	30.5	4,515.8	5,670.2	(5.9)	5,664.3
As at 2 April 2017	**712.5**	**386.1**	**8.0**	**17.3**	**30.5**	**4,515.8**	**5,670.2**	**(5.9)**	**5,664.3**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**70.4**	**70.4**	**3.4**	**73.8**
Other comprehensive (expense)/income:									
Foreign currency translation									
– movement recognised in other comprehensive income	**–**	**–**	**–**	**0.2**	**(23.6)**	**–**	**(23.4)**	**–**	**(23.4)**
– reclassified and reported in profit and loss	**–**	**–**	**–**	**–**	**(36.2)**	**–**	**(36.2)**	**–**	**(36.2)**
Remeasurements of retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**200.9**	**200.9**	**–**	**200.9**
Tax charge on items that will not be reclassified	**–**	**–**	**–**	**–**	**–**	**(39.0)**	**(39.0)**	**–**	**(39.0)**
Revaluation of available for sale asset	**–**	**–**	**–**	**–**	**–**	**2.5**	**2.5**	**–**	**2.5**
Cash flow hedges and net investment hedges									
– fair value movement recognised in other comprehensive income	**–**	**–**	**–**	**(211.0)**	**–**	**2.3**	**(208.7)**	**–**	**(208.7)**
– reclassified and reported in profit or loss	**–**	**–**	**–**	**51.0**	**–**	**34.0**	**85.0**	**–**	**85.0**
– amount recognised in inventories	**–**	**–**	**–**	**57.5**	**–**	**–**	**57.5**	**–**	**57.5**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**19.7**	**–**	**–**	**19.7**	**–**	**19.7**
Other comprehensive income/(expense)	**–**	**–**	**–**	**(82.6)**	**(59.8)**	**200.7**	**58.3**	**–**	**58.3**
Total comprehensive income/(expense)	**–**	**–**	**–**	**(82.6)**	**(59.8)**	**271.1**	**128.7**	**3.4**	**132.1**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(305.0)**	**(305.0)**	**–**	**(305.0)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**18.6**	**18.6**	**–**	**18.6**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
As at 31 March 2018	**712.5**	**386.1**	**8.0**	**(65.3)**	**(29.3)**	**4,500.5**	**5,512.5**	**(2.5)**	**5,510.0**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flows from operating activities			
Cash generated from operations	25	**944.1**	1,165.7
Income tax paid		**(94.3)**	(98.0)
Net cash inflow from operating activities		**849.8**	1,067.7
Cash flows from investing activities			
Proceeds on property disposals		**3.2**	27.0
Purchase of property, plant and equipment		**(274.9)**	(309.1)
Proceeds on disposal of Hong Kong business		**22.9**	–
Purchase of intangible assets		**(74.3)**	(101.1)
Reduction of current financial assets		**0.8**	4.6
Interest received		**6.0**	6.6
Net cash used in investing activities		**(316.3)**	(372.0)
Cash flows from financing activities			
Interest paid[1]		**(112.2)**	(111.2)
Cash inflow/(outflow) from borrowings		**43.8**	(32.7)
Repayment of syndicated loan		**–**	(215.3)
Decrease in obligations under finance leases		**(2.6)**	(2.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(59.6)**	(57.9)
Equity dividends paid		**(305.0)**	(379.1)
Purchase of shares by employee trust		**(3.1)**	–
(Redemption)/issuance of medium-term notes		**(328.2)**	300.0
Movement in parent company loan		**1.7**	7.1
Net cash used in financing activities		**(765.2)**	(491.1)
Net cash (outflow)/inflow from activities		**(231.7)**	204.6
Effects of exchange rate changes		**(3.5)**	5.6
Opening net cash		**406.2**	196.0
Closing net cash	26	**171.0**	406.2

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

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**617.5**	420.9
Net cash (outflow)/ inflow from activities		**(231.7)**	204.6
Decrease in current financial assets		**(2.4)**	(11.6)
Decrease in debt financing		**346.6**	7.9
Exchange and other non-cash movements		**(6.9)**	(4.3)
Movement in net debt		**105.6**	196.6
Closing net debt	26	**723.1**	617.5

NOTES TO THE FINANICAL 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 24 including the Group's principal risks and uncertainties as set out on pages 22 to 24 of the Marks and Spencer Group plc annual report 2018 which does not form part of this report. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 March 2018.

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

New accounting standards adopted by the Group
There have been no significant changes to accounting under IFRS which have affected the Group's results. The IFRS IC has issued the annual improvements to IFRS: 2014-2016 cycle. The majority of amendments in this cycle are effective for annual periods on or after 1 January 2018 with the exception of the changes to IFRS 12 which have already been implemented and have not impacted the Group.

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

- IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019.

  The standard introduces changes to three key areas:

  – new requirements for the classification and measurement of financial instruments;

  – a new impairment model based on expected credit losses for recognising provisions; and

  – simplified hedge accounting through closer alignment with an entity's risk management methodology.

  The Group has completed an assessment of the impact of IFRS 9 and has concluded that adoption will not have a material impact on either the Consolidated Income Statement or the Consolidated Balance Sheet. The Group will apply all aspects of the new standard at the transition date of 1 April 2018 by adjusting opening retained earnings in the balance sheet and no restatement of comparative periods.

  The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group's share of profits for the period includes the post implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9.

- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards.

  The Group has completed its assessment of the impact of IFRS 15 and based on the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 will not have a material impact on the timing or nature of the Group's revenue recognition.

- IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019 and therefore will be effective in the Group financial statements for the 52 weeks ending 28 March 2020. Transition to IFRS 16 will take place for the Group on 31 March 2019. The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will replace the current lease accounting requirements including IAS 17 Leases and the related interpretations.

  For lessees, IFRS 16 removes distinctions between operating leases and finance leases. These are replaced by a model where a right of use asset and a corresponding liability are recognised for all leases except for short-term leases and low value assets. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

  The Group has established a steering committee to oversee the governance of the implementation project, which regularly reports to the Group Audit Committee. During the current period the Group has made progress in a number of areas including the identification of leases and contracts that could be determined to include a lease; the collation of lease data required for the calculation of the impact assessment; identification of areas of complexity or judgement relevant to the Group; identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with IFRS 16; and development of initial estimates for discount rates.

  From the work performed to date and based on the undiscounted lease commitments presented in note 24, it is anticipated that implementation of the new standard will have a significant impact on the reported assets and liabilities of the Group. In addition, the implementation of the standard will impact the income statement and classification of cash flows. A reliable estimate of the financial impact on the Group's consolidated results is dependent on a number of unresolved areas, including; choice of transition option, refinement of approach to discount rates, estimates of lease-term for leases with options to break and renew and conclusion of data collection. In addition, the financial impact is dependent on the facts and circumstances at the time of transition. For these reasons, it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Alternative Performance Measures
In reporting financial information, the Group presents alternative performance measures, “APMs”, which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like sales; gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt; free cash flow; and return on capital employed. Each of these APMs, and others used by the Group, are set out in the Glossary section of this report, including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group’s policy is to exclude items that are considered to be significant in nature and/or quantum or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 31 March 2018:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the previous year’s changes to the UK defined benefit scheme practices.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from adjustments to depreciation of leasehold assets and write-off of assets that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Other adjusting items including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

A. Trade and other payables: The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the legal right to offset these balances.

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

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

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

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

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

The service cost of providing retirement benefits to employees during the year, together with the cost of any curtailment, is charged to operating profit in the year. With effect from 1 April 2017 the Group no longer incurs any service cost or curtailment costs related to the UK defined benefit pension scheme as the scheme is closed to future accrual.

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

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

During the year the UK defined benefit (DB) pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in the statement of comprehensive income.

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

Any impairment in value is recognised within the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group designates certain hedging derivatives as either:

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

Critical accounting judgements
Adjusting items The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the glossary section of this report. These definitions have been applied consistently year on year.

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

Sources of estimation uncertainty
UK store estate The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £321.1m in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- reassessment of the useful lives of store fixed assets;
- estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs;
- estimation of the sale proceeds for freehold stores which is dependent upon location specific factors, timing of likely exit and future changes to the UK retail property market valuations;
- estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property; and
- estimation of future contractual lease costs to be incurred including uncertainty with regards to the cost of termination and/or potential sub-let (including estimation of nature, timing and value including any potential void periods and based on assessment of location specific retail property market factors).

See notes 5 and 14 for further detail.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Useful lives and residual values of property, plant and equipment and intangibles Depreciation and amortisation are provided to write down the cost of property, plant and equipment and intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 13 and 14 for further details. Refer to the UK store estate section above for specific sources of estimation uncertainty in relation to the useful lives and residual values of property, plant and equipment within stores identified as part of the UK store estate programme.

Impairment of property, plant and equipment and intangibles Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite lived brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation uncertainty. A future change to the assumption of trading into perpetuity for any CGU would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles particularly where the store carrying value exceeds fair value less cost to sell. See notes 13 and 14 for further details on the Group's assumptions and associated sensitivities.

Post-retirement benefits The determination of pension net interest income and the 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, pensionable salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is determined using fair value estimates provided by the manager of the investment or fund. See note 10 for further details on the impact of changes in the key assumptions and estimates and note 11 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

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

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

NOTES TO THE FINANICAL 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 Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

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

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

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

	52 weeks ended 31 March 2018				52 weeks ended 1 April 2017			
	Management[2] £m	Logistics Adjustment[1] £m	Adjusting items £m	Statutory £m	Management[2] £m	Logistics Adjustment[1] £m	Adjusting items £m	Statutory £m
Clothing & Home revenue	3,741.1	–	–	3,741.1	3,792.7	–	–	3,792.7
Food revenue	5,869.9	–	–	5,869.9	5,649.0	–	–	5,649.0
UK revenue	9,611.0	–	–	9,611.0	9,441.7	–	–	9,441.7
Franchised	360.6	–	–	360.6	314.0	–	–	314.0
Owned	726.6	–	–	726.6	866.3	–	–	866.3
International revenue	1,087.2	–	–	1,087.2	1,180.3	–	–	1,180.3
Group revenue	10,698.2	–	–	10,698.2	10,622.0	–	–	10,622.0
Clothing & Home gross profit	2,116.7				2,128.7			
Food gross profit	1,828.7				1,837.7			
UK gross profit	3,945.4	(370.0)	–	3,575.4	3,966.4	(360.5)	–	3,605.9
UK operating costs	(3,450.3)	370.0	(434.3)	(3,514.6)	(3,390.4)	360.5	(297.7)	(3,327.6)
M&S Bank	40.3	–	(34.7)	5.6	50.2	–	(44.1)	6.1
UK operating profit	535.4	–	(469.0)	66.4	626.2	–	(341.8)	284.4
International operating profit	135.2	–	0.7	135.9	64.4	–	(141.4)	(77)
Group operating profit	670.6	–	(468.3)	202.3	690.6	–	(483.2)	207.4
Finance income	24.1	–	–	24.1	36.2	–	–	36.2
Finance costs	(113.8)	–	–	(113.8)	(113.0)	–	–	(113.0)
Profit before tax	580.9	–	(468.3)	112.6	613.8	–	(483.2)	130.6

1. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £370.0m (last year £360.5m).
2. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 5). Please refer to the accounting policy in note 1.

Other segmental information

	2018			2017		
	UK[1] £m	International £m	Total £m	UK[1] £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	322.4	13.2	335.6	374.1	12.2	386.3
Depreciation and amortisation	572.5	22.0	594.5	592.3	31.7	624.0
Impairment and asset write-offs	228.3	5.3	233.6	72.7	31.2	103.9
Total assets	9,799.1	307.8	10,106.9	10,433.6	372.6	10,806.2
Non-current assets	6,028.4	210.0	6,238.4	6,288.5	242.2	6,530.7

1. UK assets include centrally held assets largely relating to IT systems that support the International business of £24.9m (last year; £34.0m)

NOTES TO THE FINANICAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2018 Total £m	2017 Total £m
Revenue	**10,698.2**	10,622.0
Cost of sales	**(6,650.9)**	(6,534.2)
Gross profit	**4,047.3**	4,087.8
Selling and administrative expenses	**(3,426.2)**	(3,460.4)
Other operating income	**49.5**	63.2
Operating profit before adjusting items	**670.6**	690.6
Adjusting items (see note 5)	**(468.3)**	(483.2)
Operating profit	**202.3**	207.4

The selling and administrative expenses are further analysed below:

	2018 Total £m	2017 Total £m
Employee costs[1]	**1,521.0**	1,491.4
Occupancy costs	**705.6**	757.2
Repairs, renewals and maintenance of property	**94.7**	95.1
Depreciation, amortisation and asset impairments and write-offs before adjusting items	**580.6**	589.5
Other costs	**524.3**	527.2
Selling and administrative expenses	**3,426.2**	3,460.4

1. There are an additional £57.9m (last year £61.2m) of employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures note 9A.

4 PROFIT BEFORE TAXATION

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

	2018 £m	2017 £m
Net foreign exchange losses/(gains)	**0.8**	(0.2)
Cost of inventories recognised as an expense	**5,904.1**	5,776.1
Write down of inventories to net realisable value	**220.5**	234.9
Depreciation of property, plant, and equipment		
– owned assets	**459.1**	456.1
– under finance leases	**0.5**	0.5
Amortisation of intangible assets	**180.7**	167.4
Impairments and write-offs of assets	**233.6**	103.9
Operating lease rentals payable		
– property	**329.9**	350.1
– fixtures, fittings and equipment	**7.4**	4.3

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

	2018 £m	2017 £m
Annual audit of the Company and the consolidated financial statements	**1.3**	0.9
Audit of subsidiary companies	**0.6**	0.7
Audit-related assurance services	**0.2**	0.3
Total audit and audit-related assurance services fees	**2.1**	1.9
Other services	**–**	–
Other services	**–**	–

NOTES TO THE FINANICAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS

The total adjusting items reported for the 52 week period ended 31 March 2018 is a net charge of £468.3m (last year £483.2).

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

	Notes	2018 £m	2017 £m
Strategic programmes – UK store estate	14, 21	**(321.1)**	(51.6)
Strategic programmes – UK organisation	14, 21	**(30.7)**	(24.0)
Strategic programmes – IT restructure	21	**(15.5)**	-
Strategic programmes – UK logistics	14, 21	**(13.1)**	9.8
Strategic programmes – Changes to pay and pensions	21	**(12.9)**	(156.0)
Strategic programmes – International store closures and impairments	21	**(5.0)**	(132.5)
UK store impairments, asset write-offs and onerous lease charges	14, 21	**(17.6)**	(94.6)
M&S Bank charges incurred in relation to the insurance mis-selling provision		**(34.7)**	(44.1)
Other	21	**(17.7)**	9.8
Adjustments to profit before tax		**(468.3)**	(483.2)

In the prior year, the Group announced a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International which has resulted in the Group recognising significant charges in both the prior and current financial years.

Strategic programmes – UK store estate (£321.1m)
In November 2016, the Group announced a five year strategic programme to transform the UK store estate. During the year the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme has resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £321.1m in the year in relation to those stores identified as part of its transformation plans. The charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous contracts and leases, dilapidations and, where closure has been approved and announced, redundancy costs. Refer to notes 14 and 21 for further detail on these charges.

Whilst costs relating to the closure and re-configuration of the UK store estate will recur across future financial years, the Group considers that they should be treated as an adjusting item given they are part of a strategic programme and are significant in value to the results of the Group.

Strategic programmes – UK organisation (30.7m)
During the year the Group recognised a charge of £28.2m in relation to the centralisation of its London Head Office functions into one building. The remaining £2.5m charge in the period represents redundancy costs associated with changes to the UK Head Office structure. These costs are considered to be an adjusting item as the total programme cost is significant in value and relates to a significant strategic transformation programme of the Group. Treatment of the redundancy costs within adjusting items is consistent with the disclosure of the original UK organisation charges in the prior year.

Strategic programmes – IT restructure (£15.5m)
As part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function that will work with the business to deliver both growth and cost efficiency. The £15.5m of costs incurred in the year relate primarily to redundancy, transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group expects to retire early as a result of the transformation strategy. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the project.

Strategic programmes – UK Logistics (£13.1m)
As part of the previously announced long-term strategic programme to transition to a single tier UK distribution network, the Group has announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result the Group has announced the closure of two existing distribution centres. A net charge of £13.1m has been recognised in the period for redundancy, dilapidations, accelerated depreciation, onerous contracts and project costs. The Group considers this cost to be an adjusting item as it is significant in value and relates to a significant strategic initiative of the Group. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. Treatment of the costs as being adjusting items is consistent with the treatment in previous periods in relation to the creation of a single tier logistics network.

Strategic programmes – Changes to pay and pensions (£12.9m)
In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c. £25m in total over three years (commencing 2017/18). The charge in the period for the first year of these transitional payments to employees is £12.9m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with the disclosure of the UK DB scheme closure costs in the prior year.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – International store closures and impairments (£5.0m)
In the prior year the Group announced its intention to close its owned stores in ten international markets, resulting in the recognition of £132.5m of expected closure costs primarily relating to redundancy, lease exit and property dilapidations. A net charge of £5.0m has been recognised in the period reflecting the actualisation of previously estimated closure costs and those costs which can only be recognised as incurred such as legal costs. The net charge is considered to be an adjusting item as it relates to a significant strategic program, which over the two years of charges has been significant in both value and nature to the results of the Group.

UK store impairments, asset write-offs and onerous lease contracts (£17.6m)
The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

UK store impairment testing (excluding those stores which have been captured as part of the UK store estate programme) has identified certain stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £12.6m has been incurred primarily in respect of the impairment of assets associated with these stores. This impairment charge is considered to be an adjusting item as it is considered to be consistent with the treatment of related impairments in the prior period.

Additionally, the Group has recognised an additional charge of £5.0m related to the write-off of store environment assets that are no longer used by the Group. The Group considers these costs to be adjusting items as the charges are significant in nature and value to the results of the Group for the current period.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£34.7m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the period is £34.7m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

Other (£17.7m)
Other includes profit on the disposal of our retail business in Hong Kong and charges for potential liabilities for certain employee related matters in the current period. The prior period income related to litigation settlements. These amounts are considered to be adjusting items as they are significant in nature and value to the results of the group in the current period.

On 30 December 2017, the Group completed the disposal of the retail business in Hong Kong and Macau to the Al Futtaim Group for consideration of HKD360.7m (£33.9m). The profit on disposal of the business was £5.8m including the recycling of amounts previously taken to equity in respect of foreign currency translation and net investment hedging. This profit is considered to be an adjusting item as it is significant in nature to both the results of the Group and the International segment. The profit on disposal is analysed as follows:

	2018 **£m**	2017 £m
Proceeds	**33.9**	–
Disposal costs	**(0.9)**	–
Net disposal proceeds	**33.0**	–
Fair value of net assets disposed	**(28.6)**	–
Provision for transition services	**(0.8)**	–
Net foreign exchange amounts recycled from reserves	**2.2**	–
Profit on disposal	**5.8**	–

NOTES TO THE FINANICAL STATEMENTS CONTINUED

6 FINANCE INCOME/COSTS

	2018 £m	2017 £m
Bank and other interest receivable	**6.0**	6.6
Ineffectiveness on financial instruments	**0.4**	0.3
Pension net finance income (see note 10F)	**17.7**	29.3
Finance income	**24.1**	36.2
Interest on bank borrowings	**(1.2)**	(2.8)
Interest payable on syndicated bank facility	**(2.3)**	(4.3)
Interest payable on medium-term notes	**(90.0)**	(91.2)
Interest payable on finance leases	**(1.9)**	(1.9)
Ineffectiveness on financial instruments	**(2.3)**	–
Unwind of discount on provisions	**(5.2)**	(0.2)
Unwind of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 11)	**(10.9)**	(12.6)
Finance costs	**(113.8)**	(113.0)
Net finance costs	**(89.7)**	(76.8)

7 INCOME TAX EXPENSE

A. Taxation charge

	2018 £m	2017 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 20%)		
– current year	**65.4**	98.3
– adjustments in respect of prior years	**7.5**	(17.4)
UK current tax	**72.9**	80.9
Overseas current taxation		
– current year	**10.3**	8.9
– adjustments in respect of prior years	**(0.2)**	7.3
Total current taxation	**83.0**	97.1
Deferred tax		
– origination and reversal of temporary differences	**(36.4)**	(48.3)
– recognition of previously unrecognised tax losses	**(1.4)**	–
– adjustments in respect of prior years	**(3.1)**	11.5
– changes in tax rate	**(3.3)**	0.2
Total deferred tax (see note 22)	**(44.2)**	(36.6)
Total income tax expense	**38.8**	60.5

B. Taxation reconciliation

The effective tax rate was 34.4% (last year 46.3%) and is explained below.

	2018 £m	2017 £m
Profit before tax	**112.6**	130.6
Notional taxation at standard UK corporation tax rate of 19% (last year: 20%)	**21.4**	26.1
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**3.0**	4.7
Other income and expenses that are not taxable or allowable for tax purposes	**14.8**	(0.7)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(3.3)**	(3.9)
Overseas profits taxed at rates different to those of the UK	**(3.4)**	(2.3)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**–**	0.5
Adjustments to the current and deferred tax charges in respect of prior periods	**4.2**	1.4
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**8.0**	–
– UK store and strategic programme impairments where no tax relief is available	**(1.2)**	16.9
– International store closures and impairments	**(8.3)**	26.0
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**3.4**	(1.7)
– other	**0.2**	–
– retranslation of deferred tax balances due to the change in statutory UK tax rates	**–**	4.1
– overseas profits taxed at rates different to those of the UK	**–**	(10.6)
Total income tax expense	**38.8**	60.5

NOTES TO THE FINANICAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

After excluding adjustments to underlying profit, the underlying effective tax rate was 21.6% (last year: 19.9%).

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £3.3m in the income statement and the recognition of a deferred tax charge of £0.1m in other comprehensive income.

C. Current Tax Reconciliation

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

	2018 £m	2017 £m
Profit before taxation	**112.6**	130.6
Notional taxation at standard UK corporation tax rate of 19% (last year: 20%)	**21.4**	26.1
Disallowable accounting depreciation and other similar items	**78.7**	90.2
Deductible capital allowances	**(70.6)**	(67.2)
Adjustments in relation to employee share schemes	**2.8**	1.0
Adjustments in relation to employee pension schemes	**9.2**	(11.7)
Overseas profits taxed at rates different to those of the UK	**(3.4)**	(2.3)
Overseas tax losses where there is no tax relief anticipated in the foreseeable future	**–**	0.5
Other income and expenses that are not taxable or allowable	**0.5**	3.8
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**9.5**	–
– UK store and strategic programme impairments where no tax relief is available	**35.3**	26.5
– International store closures and impairments	**(16.2)**	27.3
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**5.1**	(1.8)
– pay and pensions	**–**	25.4
– other	**3.4**	–
– overseas profits taxed at rates different to those of the UK	**–**	(10.6)
Current tax charge	**75.7**	107.2
Represented by:		
UK current year current tax	**65.4**	98.3
Overseas current year current tax	**10.3**	8.9
	75.7	107.2
UK adjustments in respect of prior years	**7.5**	(17.4)
Overseas adjustments in respect of prior years	**(0.2)**	7.3
Total current taxation (Note 7A)	**83.0**	97.1

8 DIVIDENDS

	2018 per share	2017 per share	**2018 £m**	2017 £m
Dividends on equity ordinary shares				
Paid final dividend	**6.8p**	6.8p	**193.8**	193.8
Special dividend	**-**	2.6p	**-**	74.1
Paid interim dividend	**3.9p**	3.9p	**111.2**	111.2
	10.7p	13.3p	**305.0**	379.1

The directors have approved a final dividend of 6.8p per share (last year 6.8p per share) which in line with the requirements of IAS 10 'Events after the Reporting Period', has not been recognised within these results.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

9 EMPLOYEES

A. Aggregate remuneration
The aggregate remuneration and associated costs of Group employees (including Operating Committee) were:

	2018 Total £m	2017 Total £m
Wages and salaries	**1,359.7**	1,333.8
Social security costs	**91.7**	89.7
Pension costs	**76.7**	100.3
Share-based payments (see note 12)	**18.9**	10.6
Employee welfare and other personnel costs	**56.6**	47.1
Capitalised staffing costs	**(24.7)**	(28.9)
Total aggregate remuneration[1]	**1,578.9**	1,552.6

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

Details of key management compensation are given in note 27.

B. Average monthly number of employees

	2018	2017
UK stores		
– management and supervisory categories	**6,004**	5,617
– other	**66,540**	66,385
UK head office		
– management and supervisory categories	**3,088**	3,172
– other	**856**	862
UK operations		
– management and supervisory categories	**89**	191
– other	**1,153**	1,267
Overseas	**6,891**	7,445
Total average number of employees	**84,621**	84,939

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 58,928 (last year 59,764).

	2018 £'000	2017 £'000
Highest paid director	**1,120**	1,642
Aggregate emoluments of all other directors	**1,266**	1,902

Two directors (last year one) accrued retirement benefits under a defined benefit scheme.

No directors (last year two) exercised share options in relation to the Group's long-term incentive plans.

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

10 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit (DB) arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. On closure of the UK DB scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m in the prior year. There will be no further service charge relating to the scheme and no future monthly employer contributions for current service. At year end the UK DB pension scheme had no active members (last year nil), 60,402 deferred members (last year 62,655) and 51,802 pensioners (last year 51,198).

The most recent actuarial valuation of the Marks and Spencer UK Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. No additional funding contributions were made during the year in respect of benefits already accrued by members, as the final contribution of £28m, (agreed at the 2012 actuarial valuation) was paid in the prior year. The UK DB pension scheme will continue to receive income from the Scottish Limited Partnership. See note 11 for further details.

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 54,001 active members (last year 53,661) and some 19,984 deferred members (last year 12,866).

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 RETIREMENT BENEFITS CONTINUED

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

The total Group retirement benefit cost was £58.9m (last year £198.4m). Of this, income of £14.7m (last year cost of £148.0m) relates to the UK DB pension scheme which included a £127.0m curtailment charge in the prior year, £68.8m (last year £45.1m) to the UK DC plan and £4.8m (last year £5.3m) to other retirement benefit schemes.

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one third of the pensioner portfolio. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

A. Pensions and other post-retirement liabilities

	2018 £m	2017 £m
Total market value of assets	**9,989.3**	10,135.1
Present value of scheme liabilities	**(9,029.6)**	(9,433.3)
Net funded pension plan asset	**959.7**	701.8
Unfunded retirement benefits	**(3.6)**	(1.0)
Post-retirement healthcare	**(7.9)**	(8.0)
Net retirement benefit surplus	**948.2**	692.8
Analysed in the statement of financial position as:		
Retirement benefit asset	**970.7**	706.0
Retirement benefit deficit	**(22.5)**	(13.2)
Net retirement benefit surplus	**948.2**	692.8

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

B. Financial assumptions

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

	2018 %	2017 %
Rate of increase in pensions in payment for service	**2.0-3.2**	2.0-3.2
Discount rate	**2.65**	2.55
Inflation rate	**3.15**	3.20
Long-term healthcare cost increases	**7.15**	7.20

C. Demographic assumptions

The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015. The specific mortality rates used are based on the VITA lite tables. The life expectancies underlying the valuation are as follows:

		2018	2017
Current pensioners (at age 65)	– male	**22.3**	23.2
	– female	**25.2**	24.7
Future pensioners – currently in deferred status (at age 65)	– male	**24.1**	24.7
	– female	**27.0**	27.1

D. Sensitivity analysis

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

	2018 £m	2017 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(70.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(25.0)**	(20.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**305.0**	370.0

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits.

In addition to its interest in the Scottish Limited Partnership (refer to note 11), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 93% of interest rate movements and 91% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

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

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

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

	2018			2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	**4,472.9**	**369.4**	**4,842.3**	4,851.3	368.4	5,219.7
– Corporate Bonds	**5.9**	**685.4**	**691.3**	5.6	896.3	901.9
– Asset backed securities and structured debt	**–**	**339.2**	**339.2**	–	547.9	547.9
Scottish Limited Partnership Interest (see note 11)	**–**	**345.4**	**345.4**	–	412.1	412.1
Equity investments						
– Developed markets	**460.8**	**102.8**	**563.6**	1,125.4	110.2	1,235.6
– Emerging markets	**151.7**	**–**	**151.7**	268.4	–	268.4
Growth Asset Funds						
– Global Property	**–**	**274.0**	**274.0**	–	256.3	256.3
– Hedge and Reinsurance	**18.2**	**406.2**	**424.4**	–	322.0	322.0
– Private Equity and Infrastructure	**–**	**222.5**	**222.5**	–	241.5	241.5
Derivatives						
– Interest and inflation rate swaps	**7.7**	**6.4**	**14.1**	0.6	(29.5)	(28.9)
– Foreign exchange contracts and other derivatives	**0.1**	**154.8**	**154.9**	1.3	202.9	204.2
Cash and Cash equivalents	**41.8**	**92.5**	**134.3**	86.1	72.2	158.3
Other						
– Buy In Insurance	**–**	**1,277.9**	**1,277.9**	–	–	–
– Secure Income Asset Funds	**–**	**466.7**	**466.7**	–	326.7	326.7
– Other	**87.0**	**–**	**87.0**	69.4	–	69.4
	5,246.1	**4,743.2**	**9,989.3**	6,408.1	3,727.0	10,135.1

1. Repurchase agreements were £920.2m (last year £1,333.9m)

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

At year end, the UK schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 41,046 (last year 193,506) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits
Amounts recognised in comprehensive income in respect of defined benefit retirement plans are as follows:

	2018 £m	2017 £m
Current service cost	**0.3**	47.2
Administration costs	**3.5**	3.2
Past service costs – curtailment charge	**–**	128.0
Net interest income	**(17.7)**	(29.3)
Total	**(13.9)**	149.1
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**88.2**	(1,543.8)
Actuarial gain – demographic assumptions	**(85.1)**	–
Actuarial loss/(gain) – experience	**26.3**	(1.5)
Actuarial loss/(gain) – financial assumptions	**(230.3)**	1,614.2
Components of defined benefit income recognised in other comprehensive income	**(200.9)**	68.9

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

	2018 £m	2017 £m
Fair value of scheme assets at start of year	**10,135.1**	8,515.3
Interest income based on discount rate	**253.4**	284.9
Actual return on scheme assets excluding amounts included in net interest income[1]	**(88.2)**	1,543.8
Employer contributions	**40.7**	87.7
Benefits paid	**(353.9)**	(298.4)
Administration costs	**(3.3)**	(3.0)
Exchange movement	**5.5**	4.8
Fair value of scheme assets at end of year	**9,989.3**	10,135.1

1. The actual return on scheme assets was a gain of £164.6m (last year gain of £1,828.7m).

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

	2018 £m	2017 £m
Present value of obligation at start of year	**9,442.3**	7,691.2
Current service cost	**0.3**	47.2
Administration costs	**0.2**	0.2
Curtailment charge	**–**	128.0
Interest cost	**235.7**	255.6
Benefits paid	**(353.9)**	(298.4)
Actuarial loss/(gain) – experience	**26.3**	(1.5)
Actuarial (gain) - demographic assumptions	**(85.1)**	–
Actuarial (gain)/loss - financial assumptions	**(230.3)**	1,614.2
Exchange movement	**5.6**	5.8
Present value of obligation at end of year	**9,041.1**	9,442.3
Analysed as:		
Present value of pension scheme liabilities	**9,029.6**	9,433.3
Unfunded pension plans	**3.6**	1.0
Post-retirement healthcare	**7.9**	8.0
Present value of obligation at end of year	**9,041.1**	9,442.3

The average duration of the defined benefit obligation at 31 March 2018 is 19 years (last year 19 years).

NOTES TO THE FINANICAL STATEMENTS CONTINUED

11 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). Under the partnership agreement, the limited partners have no ongoing involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.5bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £335.5m (last year £396.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Groups' financial statements as it a transferable financial instrument. During the year to 31 March 2018 an interest charge of £10.9m (last year £12.6m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £345.4m (last year £412.1m).

The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly the associated liability is not included on the Groups statement of financial position.

12 SHARE-BASED PAYMENTS

This year a charge of £18.9m was recognised for share based payments (last year charge of £10.6m). Of the total share-based payments charge, £11.0m (last year £10.9m) relates to the Save As You Earn share option scheme and a charge of £2.3m (last year credit of £3.6m) relates to the Performance Share Plan. The remaining charge of £5.6m (last year £3.3m) is spread over the other share plans. An additional charge of £1.3m was recognised in relation to the Annual Bonus Scheme for 2016/17 last year under the Deferred Share Bonus Plan. There is no charge in the current year. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 50 to 62 of the Marks and Spencer Group plc annual report 2018 which does not form part of this report. These shares relate to the shares in the parent company, Marks and Spencer Group plc, rather than the Company.

A. Save As You Earn Scheme

The SAYE scheme was approved by shareholders for a further 10 years at the 2017 AGM. Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC Approved Schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**43,294,094**	**310.6p**	30,154,547	393.3p
Granted	**13,351,790**	**261.0p**	28,166,455	260.0p
Exercised	**(29,500)**	**269.7p**	(1,763,039)	312.8p
Forfeited	**(7,758,295)**	**307.1p**	(12,881,484)	391.8p
Expired	**(5,126,432)**	**402.5p**	(382,385)	355.2p
Outstanding at end of year	**43,731,657**	**285.4p**	43,294,094	310.6p
Exercisable at end of year	**4,976,777**	**362.3p**	4,928,971	403.5p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 314.8p (last year 387.4p).

NOTES TO THE FINANICAL 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:

	2018	2018	2017	2017	2017
	3-year plan	3-year plan 2016 modified[1]	3-year plan	3-year plan 2016 modified[2]	3-year plan 2015 modified2
Grant date	**Nov 17**	**Nov 17**	Nov 16	Nov 16	Nov 16
Share price at grant date	**298p**	**298p**	335p	335p	335p
Exercise price	**261p**	**432p**	260p	432p	369p
Option life in years	**3 years**	**3 years**	3 years	3 years	3 years
Risk-free rate	**0.5%**	**0.5%**	0.2%	0.2%	0.2%
Expected volatility	**27.8%**	**27.8%**	28.5%	28.5%	28.5%
Expected dividend yield	**6.3%**	**6.3%**	5.6%	5.6%	5.6%
Fair value of option	**42p**	**32p**	66p	19p	30p
Incremental fair value of option	**N/A**	**10p**	N/A	47p	36p

1. In the current year, there has been a modification to the 2018 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2018 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2018 options, being 42p, and the fair value of repriced previous awards, calculated using 2018 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 10p for 2016 modified options is already recognised in operating profit.
2. In the prior year, there was a modification to the 2017 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2017 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2017 options, being 66p, and the fair value of repriced previous awards, calculated using 2017 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 19p for 2016 modified options and 30p for 2015 modified options is already recognised in operating profit.

Volatility has been estimated by taking the historic volatility in the Marks and Spencer Group plc share price over a three-year period.

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

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

Options granted	Number of options		Weighted average remaining contractual life (years)		
	2018	2017	2018	2017	Option price
January 2014	**–**	4,854,749	**–**	0.2	405p
January 2015	**4,703,165**	6,280,741	**0.2**	1.2	369p
January 2016	**3,397,156**	4,676,198	**1.2**	2.2	432p
January 2017	**22,925,562**	27,482,406	**2.2**	3.2	260p
January 2018	**12,705,774**	–	**3.3**	–	261p
	43,731,657	43,294,094	**2.2**	2.5	285p

B. Performance Share Plan

The Performance Share plan (PSP) is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2017/18 included Adjusted Earnings Per Share (EPS), Return on Capital Employed (ROCE), and Total Shareholder Return (TSR). The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 50 to 62 of the Marks and Spencer Group plc annual report 2018 which does not form part of this report. Awards under this plan have been made in each year since 2005.

During the year, 7,880,779 shares (last year 7,569,499) were awarded under the plan. The weighted average fair value of the shares awarded was 268.4p (last year 328.0p). As at 31 March 2018 17,624,385 shares (last year 14,816,764) were outstanding under the plan.

C. Deferred Share Bonus Plan*

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

During the year, 1,892,215 shares (last year 1,563,439) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 343.3p (last year 355.8p). As at 31 March 2018, 4,248,291 shares (last year 3,033,709) were outstanding under the plan.

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The Plan operates for senior managers below executive director level. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period will also be paid on vesting.

During the year, 1,105,428 shares (last year 321,229) have been awarded under the plan. The weighted average fair value of the shares awarded was 314.0p (last year 326.6p). As at 31 March 2018, 1,555,748 shares (last year 888,027) were outstanding under the plan.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

12 SHARE-BASED PAYMENTS CONTINUED

E. Republic of Ireland Save As You Earn Scheme

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

During the year, 210,486 options (last year 324,768) were granted, at a fair value of 41.5p (last year 66.3p). As at 31 March 2018, 644,325 options (last year 521,837) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,247,837 (last year 2,173,101) shares with a book value of £9.8m (last year £10.7m) and a market value of £6.1m (last year £7.3m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

* All DSBP awards and 297,114 of the RSP awards (last year 321,229) were 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 FINANICAL STATEMENTS CONTINUED

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer Software £m	Computer software under developmen t £m	Total £m
At 2 April 2016					
Cost or valuation	130.7	112.3	1,272.0	89.4	1,604.4
Accumulated amortisation and impairments	(53.5)	(93.6)	(644.3)	(15.7)	(807.1)
Net book value	77.2	18.7	627.7	73.7	797.3
Year ended 1 April 2017					
Opening net book value	77.2	18.7	627.7	73.7	797.3
Additions	–	–	0.3	100.8	101.1
Transfers	–	–	95.8	(107.6)	(11.8)
Asset Impairments	–	–	6.1	(5.1)	1.0
Asset write-offs	–	–	(9.6)	(2.9)	(12.5)
Amortisation charge	–	(5.3)	(162.1)	–	(167.4)
Exchange difference	1.2	–	0.2	(0.1)	1.3
Closing net book value	78.4	13.4	558.4	58.8	709.0
At 1 April 2017					
Cost or valuation	131.9	112.3	1,368.3	82.5	1,695.0
Accumulated amortisation, impairments and write-offs	(53.5)	(98.9)	(809.9)	(23.7)	(986.0)
Net book value	78.4	13.4	558.4	58.8	709.0
Year ended 31 March 2018					
Opening net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**
Additions	**–**	**–**	**0.2**	**74.1**	**74.3**
Transfers	**–**	**–**	**94.2**	**(89.2)**	**5.0**
Asset impairments	**–**	**–**	**–**	**–**	**–**
Asset write-offs	**–**	**–**	**(5.8)**	**(1.7)**	**(7.5)**
Amortisation charge	**–**	**(5.3)**	**(175.4)**	**–**	**(180.7)**
Exchange difference	**(1.0)**	**–**	**0.3**	**(0.2)**	**(0.9)**
Closing net book value	**77.4**	**8.1**	**471.9**	**41.8**	**599.2**
At 31 March 2018					
Cost or valuation	**130.9**	**112.3**	**1,400.0**	**65.6**	**1,708.8**
Accumulated amortisation and impairments and write-offs	**(53.5)**	**(104.2)**	**(928.1)**	**(23.8)**	**(1,109.6)**
Net book value	**77.4**	**8.1**	**471.9**	**41.8**	**599.2**

Goodwill relate to the following groups of cash generating units (CGU's):

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 1 April 2017	**69.5**	**8.2**	**0.7**	**78.4**
Exchange difference	**–**	**(1.0)**	**–**	**(1.0)**
Net book value at 31 March 2018	**69.5**	**7.2**	**0.7**	**77.4**

Impairment testing

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

The costs in relation to the per una brand are £80.0m (net book value £8m). The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The per una goodwill and brand are allocated for impairment testing purposes to a single CGU.

The key estimates that management uses in the value in use calculations are expected changes to future cash flows and discount rates.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to each CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital adjusted for the specific risks relating to each CGU.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The long-term growth rates do not exceed the long-term growth rate for the UK, the long-term growth rate in the Group's Clothing & Home business or the long-term growth rate in India.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

13 INTANGIBLE ASSETS CONTINUED

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with other variables simultaneously changed. Management has concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for India or the UK.

However, the context in which these estimates have been made for the per una CGU is more uncertain due to the significant change in the UK retail market. The following key assumptions would have to change as follows to eliminate the headroom in the per una CGU:

In the short-term, assuming that cost reductions are materially in line with plan, the key assumption driving the value in use calculated is the ability to deliver cash flow forecasts. Cash flow forecasts in each of the years covered by the three-year plan would have to be 38% below current expectations to eliminate the headroom in the per una CGU;

In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. This is reflected within the estimate of the long-term growth rate of -3.0%. Long-term growth rates, including a commensurate decline in cash flows over the period of the Group's three-year plan, would have to decline by 9.4% to eliminate the headroom in these calculations; and,

An increase of 9.2% in the pre-tax discount rate to 17.8% would eliminate the headroom in the per una CGU.

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 2016				
Cost	2,981.6	7,476.3	82.9	10,540.8
Accumulated depreciation, impairments and write-offs	(386.7)	(5,113.5)	(13.5)	(5,513.7)
Net book value	2,594.9	2,362.8	69.4	5,027.1
Year ended 1 April 2017				
Opening net book value	2,594.9	2,362.8	69.4	5,027.1
Additions	–	76.2	209.0	285.2
Transfers	17.4	189.6	(196.2)	10.8
Disposals	(0.6)	(1.0)	–	(1.6)
Asset impairments	(11.6)	(68.6)	(1.9)	(82.1)
Asset write-offs	(6.0)	(1.8)	(2.5)	(10.3)
Depreciation charge	(57.3)	(399.3)	–	(456.6)
Exchange difference	10.0	9.2	0.3	19.5
Closing net book value	2,546.8	2,167.1	78.1	4,792.0
At 1 April 2017				
Cost	3,008.4	7,750.3	96.0	10,854.7
Accumulated depreciation, impairments and write-offs	(461.6)	(5,583.2)	(17.9)	(6,062.7)
Net book value	2,546.8	2,167.1	78.1	4,792.0
Year ended 31 March 2018				
Opening net book value	**2,546.8**	**2,167.1**	**78.1**	**4,792.0**
Additions	**0.2**	**56.5**	**204.6**	**261.3**
Transfers	**10.2**	**186.6**	**(200.8)**	**(4.0)**
Disposals	**(2.1)**	**(15.4)**	**–**	**(17.5)**
Asset impairments	**(104.8)**	**(103.3)**	**–**	**(208.1)**
Asset write-offs	**(16.5)**	**1.5**	**(3.0)**	**(18.0)**
Depreciation charge	**(18.8)**	**(395.0)**	**–**	**(413.8)**
Exchange difference	**2.9**	**(0.8)**	**(0.1)**	**2.0**
Closing net book value	**2,417.9**	**1,897.2**	**78.8**	**4,393.9**
At 31 March 2018				
Cost	**2,963.4**	**7,059.0**	**96.8**	**10,119.2**
Accumulated depreciation, impairments and write-offs	**(545.5)**	**(5,161.8)**	**(18.0)**	**(5,725.3)**
Net book value	**2,417.9**	**1,897.2**	**78.8**	**4,393.9**

Asset write-offs in the year include assets with gross book value of £784.9m and £nil net book value that are no longer in use and have therefore been retired.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

14 PROPERTY, PLANT AND EQUIPMENT CONTINUED

The net book value above includes land and buildings of £41.6m (last year £42.1m) and equipment of £nil (last year £nil) where the Group is a lessee under a finance lease.

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

Impairment of property, plant and equipment
For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of outlet stores, which are considered together as one CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. One of the indicators of impairment is whether a store is identified within the Groups' UK store estate programme (see note 5).

The recoverable value of each CGU is determined to be the higher of value in use and fair value less costs to sell.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate for UK stores based on historic growth rates and management future expectations, with reference to forecast GDP growth for other territories. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in these territories. If the CGU relates to a store which the Group has been identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 8% to 15% (last year 7% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the proceeds and timing of exit.

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

During the year, the Group has recognised an impairment charge of £196.2m and no impairment reversal as a result of the announced UK store estate programme. The impairment charge relates to the acceleration in the year of the programme announced in November 2016 (see note 5). These impairments have been recognised within adjusting items (see note 5).

The Group has performed sensitivity analysis on the impairment tests associated with the UK store estate programme. A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £43.2m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £5.5m. Neither a 1% increase in the discount rate, a 20 basis point reduction in gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge.

During the year the Group has recognised an impairment charge of £11.9m and no impairment reversals as a result of store impairment testing unrelated to the UK store estate programme. The gross impairment charge relates to stores in the UK. These impairments have been recognised within adjusting items (see note 5).

The Group has performed a sensitivity analysis on the key assumptions in the impairment model for those UK stores not expected to be included in the UK store estate programme described above. A 1% reduction in the sales growth would result in an increase in the impairment charge of £1.0m and a 20 basis point reduction in gross margin would increase the impairment charge by £0.4m. A 100 basis point increase in the pre-tax discount rate would increase the impairment charge by £5.4m.

15 OTHER FINANCIAL ASSETS

	2018 £m	2017 £m
Non-current		
Unlisted investments	**9.9**	3.0
Other investments[1]	**6.1**	7.3
	16.0	10.3
Current		
Short-term investments[2]	**13.7**	14.5
Amounts owed by parent companies	**2,550.6**	2,552.2
	2,564.3	2,566.7

1. Other investments represents shares in Marks and Spencer Group plc held for issue against vested employee schemes.
2. Includes £5.8m (last year £5.3m) of money market deposit held by Marks and Spencer plc in an escrow account, as part of the Group's self-funded captive insurance scheme.

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.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

16 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Non-current		
Other receivables	**2.3**	15.1
Prepayments and accrued income	**206.7**	219.0
	209.0	234.1
Current		
Trade receivables	**114.3**	111.0
Less: provision for impairment of receivables	**(0.4)**	(1.7)
Trade receivables – net	**113.9**	109.3
Other receivables	**30.9**	28.5
Prepayments and accrued income	**163.6**	180.8
	308.4	318.6

Trade and other receivables that were past due but not impaired amounted to £21.3m (last year £20.8m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £28.2m (last year £31.5m) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £207.7m (last year £468.6m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.40% (last year 0.21%). These deposits have an average maturity of 23 days (last year eight days).

18 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current		
Trade and other payables	**872.9**	967.5
Social security and other taxes	**57.1**	55.0
Accruals and deferred income	**475.9**	531.3
	1,405.9	1,553.8
Non-current		
Other payables, accruals and deferred income	**333.8**	328.5

19 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2018 £m	2017 £m
Current		
Bank loans and overdrafts[1]	**88.4**	70.3
Finance lease liabilities	**0.3**	0.4
6.250% US$500m medium-term notes 2017[3,4]	**–**	328.1
Interest accrued on medium-term notes	**36.9**	46.4
Revaluation of medium-term notes	**–**	72.8
	125.6	518.0
Non-current		
6.125% £400m medium-term notes 2019[2,5]	**400.1**	400.2
6.125% £300m medium-term notes 2021[2]	**298.2**	297.8
3.00% £300m medium-term notes 2023[2]	**296.9**	296.3
4.75% £400m medium-term notes 2025[2,5]	**397.5**	397.1
7.125% US$300m medium-term notes 2037[3,4]	**192.0**	191.9
Revaluation of medium-term notes	**38.2**	80.1
Finance lease liabilities	**47.7**	48.3
	1,670.6	1,711.7
Total	**1,796.2**	2,229.7

1 Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 27).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$500m and US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps)
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, the £425m (last year £425m) was swapped from fixed to floating rate.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

19 BORROWINGS AND OTHER FINANCIAL LIABILITIES CONTINUED

Finance leases
The minimum lease payments under finance leases fall due as shown in the table on the following page. The weighted average lease term for equipment is two years (last year three years) and 93 years (last year 95 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

20 FINANCIAL INSTRUMENTS

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

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

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

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

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

(a) Liquidity and funding risk

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

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

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023, following the Group's second and final request to extend the facility by one further year. The 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 uncommitted facilities available to it. At year end, these amounted to £100m (last year £150m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £nil (last year £nil) was drawn under the committed facilities and £45m (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 £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the Marks & Spencer UK pension (note 11) £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total Derivative assets and liabilities £m
Timing of cash flows									
Within one year	(70.3)	–	(514.2)	(2.5)	(71.9)	(658.9)	543.6	(373.4)	170.2
Between one and two years	–	–	(88.0)	(2.6)	(71.9)	(162.5)	26.7	(14.5)	12.2
Between two and five years	–	–	(915.1)	(7.3)	(215.6)	(1,138.0)	63.9	(41.2)	22.7
More than five years	–	–	(1,309.0)	(176.0)	(71.9)	(1,556.9)	519.5	(413.2)	106.3
	(70.3)	–	(2,826.3)	(188.4)	(431.3)	(3,516.3)	1,153.7	(842.3)	311.4
Effect of discounting	–	–	715.6	139.7	34.8	890.1			
At 1 April 2017	(70.3)	–	(2,110.7)	(48.7)	(396.5)	(2,626.2)			
Timing of cash flows									
Within one year	**(88.4)**	**–**	**(86.1)**	**(2.3)**	**(71.9)**	**(248.7)**	**30.0**	**(88.2)**	**(58.2)**
Between one and two years	**–**	**–**	**(486.1)**	**(2.3)**	**(71.9)**	**(560.3)**	**21.9**	**(18.1)**	**3.8**
Between two and five years	**–**	**–**	**(466.3)**	**(6.9)**	**(215.5)**	**(688.7)**	**270.0**	**(248.5)**	**21.5**
More than five years	**–**	**–**	**(1,207.2)**	**(168.9)**	**–**	**(1,376.1)**	**223.1**	**(198.5)**	**24.6**
	(88.4)	**–**	**(2,245.7)**	**(180.4)**	**(359.3)**	**(2,873.8)**	**545.0**	**(553.3)**	**(8.3)**
Effect of discounting	**–**	**–**	**585.9**	**132.4**	**23.8**	**742.1**			
At 31 March 2018	**(88.4)**	**–**	**(1,659.8)**	**(48.0)**	**(335.5)**	**(2,131.7)**			

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

The present value of finance lease liabilities is as follows:

	2018 £m	2017 £m
Within one year	**(0.3)**	(0.4)
Later than one year and not later than five years	**(1.1)**	(1.6)
Later than five years	**(46.6)**	(46.7)
Total	**(48.0)**	(48.7)

(b) Counterparty risk

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

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

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

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

	AAA+ £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	**–**	**–**	**2.6**	**9.8**	**33.6**	**7.9**	**2.7**	**1.5**	**58.1**
Derivative assets[2]	**–**	**–**	**–**	**–**	**–**	**8.0**	**–**	**2.9**	**10.9**
At 31 March 2018	**–**	**–**	**2.6**	**9.8**	**33.6**	**15.9**	**2.7**	**4.4**	**69.0**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks & Spencer plc and Marks & Spencer General Insurance. Excludes cash in hand and in transit £149.6m (last year £116.9m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

The Group has a very low retail credit risk due to transactions principally being of 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 £111m), other receivables £33m (last year £44m), cash and cash equivalents £208m (last year £469m) and derivatives £34m (last year £220m).

(c) Foreign currency risk
Transactional foreign currency exposure arises primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar, incurred in the sourcing of Clothing & Home products from Asia.

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

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,963m (last year £2,023m) with a weighted average maturity date of six months (last year six months)

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 31 March 2018 will be released to the income statement at various dates over the following 17 months (last year 17 months) from the balance sheet date.

The Group previously used a combination of foreign currency debt and foreign exchange contracts to hedge its net balance sheet translation exposure by currency arising from investment in overseas operations. The treasury policy was changed during the current financial year and the Group no longer hedges these. Last year, €26m and HK$190m of foreign exchange contracts were in place hedging overseas net assets.

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

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance resulted in a £3.3m gain (last year £2.3m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £217m (last year £367m).

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

	2018			2017		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,276.2**	**511.6**	**1,787.8**	1,727.8	492.3	2,220.1
Euro	**6.5**	**–**	**6.5**	6.6	0.7	7.3
Other	**0.1**	**1.8**	**1.9**	0.1	2.2	2.3
	1,282.8	**513.4**	**1,796.2**	1,734.5	495.2	2,229.7

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 4.7% (last year 5.0%) and the weighted average time for which the rate is fixed is six years (last year six years).

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

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

At the balance sheet date, fixed rate borrowings amounted to £1,282.8m (last year £1,734.5m) representing the public bond issues and finance leases, amounting to 71% (last year 78%) of the Group's gross borrowings.

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

	2018 %	2017 %
Committed and uncommitted borrowings	**1.0**	0.3
Medium-term notes	**4.7**	5.0
Finance leases	**4.3**	4.3

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

		2018		2017	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Cross-currency swaps	– cash flow hedges	**–**	**–**	72.6	–
Forward foreign exchange contracts	– cash flow hedges	**5.1**	**(73.6)**	89.1	(9.0)
	– held for trading	**2.0**	**(0.2)**	0.7	(1.5)
	– net investment hedges	**–**	**–**	0.7	–
		7.1	**(73.8)**	163.1	(10.5)
Non-current					
Cross-currency swaps	– cash flow hedges	**–**	**(26.7)**	14.0	–
Forward foreign exchange contracts	– cash flow hedges	**0.4**	**(4.0)**	1.3	(0.8)
Interest rate swaps	– fair value hedges	**26.7**	**–**	41.5	–
		27.1	**(30.7)**	56.8	(0.8)

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a £0.4m gain (last year £0.3m) as the gain on the hedged items was £15.0m (last year £0.3m) and the movement on the hedging instruments was £14.6m loss (last year £nil).

The Group holds a number of cross currency interest rate swaps to re-designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in the profit and loss that arises from the cash flow hedges amounts to a £2.3m loss (last year £nil) as the gain on the hedged items was £24.9m (last year £nil) and the movement on the hedging instruments was £27.2m loss (last year £nil).

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthenin g in sterling £m
At 1 April 2017				
Impact on income statement: gain/(loss)	7.8	(2.1)	–	–
Impact on other comprehensive income: (loss)/gain	(2.2)	0.3	246.4	(164.3)
At 31 March 2018				
Impact on income statement: gain/(loss)	**8.9**	**(9.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(15.6)**	**10.6**	**215.7**	**(222.4)**

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

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

	Gross financial assets/ (liabilities) £m	**Gross financial (liabilities)/ assets set off £m**	**Net financial assets/ (liabilities) per statement of financial position £m**	**Related amounts not set off in the statement of financial position £m**	**Net £m**
At 31 March 2018					
Trade and other receivables	**31.3**	**(29.9)**	**1.4**	**–**	**1.4**
Derivative financial assets	**34.2**	**–**	**34.2**	**(34.2)**	**–**
Cash and cash equivalents	**46.3**	**(46.0)**	**0.3**	**–**	**0.3**
	111.8	**(75.9)**	**35.9**	**(34.2)**	**1.7**
Trade and other payables	**(276.4)**	**29.9**	**(246.5)**	**–**	**(246.5)**
Derivative financial liabilities	**(104.5)**	**–**	**(104.5)**	**34.2**	**(70.3)**
Bank loans and overdrafts	**(82.5)**	**46.0**	**(36.5)**	**–**	**(36.5)**
	(463.4)	**75.9**	**(387.5)**	**34.2**	**(353.3)**

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

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

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

Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. No level 3 instruments were in place at the year end.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

	2018				2017			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	**–**	**2.0**	**–**	**2.0**	–	0.7	–	0.7
Derivatives used for hedging	**–**	**32.2**	**–**	**32.2**	–	219.2	–	219.2
Short- term investments	**–**	**13.7**	**–**	**13.7**	–	14.5	–	14.5
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	**–**	**(0.2)**	**–**	**(0.2)**	–	(1.5)	–	(1.5)
Derivatives used for hedging	**–**	**(104.3)**	**–**	**(104.3)**	–	(9.8)	–	(9.8)

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £9,989.3m (last year £10,135.1m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,152.4m (last year £8,690.2m). Additionally, the scheme assets include £2,836.9m (last year £1,444.9m) of Level 3 financial assets. See note 10 for information on the Group's retirement benefits.

There were no transfers between the levels of the fair value hierarchy. In addition to the above, the Group has £9.9m (last year £3.0m) in unlisted equity securities measured at fair value (see note 15).

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

	2018 £m	2017 £m
Opening balance	**1,444.9**	1,219.1
Fair value (loss)/gain recognised in other comprehensive income	**(74.9)**	100.6
Additional investment	**1,466.9**	125.2
Closing balance	**2,836.9**	1,444.9

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

The carrying value of the Group's fixed rate bond debt (level 1 equivalent) was £1,659.9m (last year £2,110.7m), the fair value of this debt was £1,761.0m (last year £2,236.7m).

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 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 six years (last year seven years). During the year Marks and Spencer Group plc maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

21 PROVISIONS

	Property £m	Restructuring £m	Other £m	2018 £m	2017 £m
At 1 April 2017	**128.7**	**101.6**	**30.4**	**260.7**	66.0
Provided in the year	**135.2**	**23.7**	**28.1**	**187.0**	246.0
Released in the year	**(12.6)**	**(12.9)**	**(3.3)**	**(28.8)**	(26.3)
Utilised during the year	**(23.5)**	**(85.9)**	**(23.6)**	**(133.0)**	(30.2)
Exchange differences	**0.3**	**1.9**	**–**	**2.2**	3.4
Discount rate unwind	**5.2**	**–**	**–**	**5.2**	0.2
Reclassification from trade and other payables	**–**	**–**	**(1.4)**	**(1.4)**	1.6
At 31 March 2018	**233.3**	**28.4**	**30.2**	**291.9**	260.7
Analysed as:					
Current				**98.8**	147.2
Non-current				**193.1**	113.5

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

Restructuring provisions relate to the estimated costs associated with the International Exit strategy and the strategic programme to transition to a single tier UK distribution network. These provisions are expected to be utilised within the next year.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia.

Please see note 5 for further information on these provisions.

22 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 17% as applicable (last year 19% and 17%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in Note 7.

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

Deferred tax assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 2 April 2016	(48.2)	(80.1)	(205.5)	(1.9)	(335.7)	(3.3)	(339.0)
Credited/(charged) to income statement	3.5	17.9	14.5	1.4	37.3	(0.7)	36.6
Credited/(charged) to equity/other comprehensive income	–	–	21.6	4.8	26.4	(5.2)	21.2
Other Balance Sheet movement	1.4	–	–	(1.6)	(0.2)	(0.2)	(0.4)
At 1 April 2017	(43.3)	(62.2)	(169.4)	2.7	(272.2)	(9.4)	(281.6)
At 2 April 2017	**(43.3)**	**(62.2)**	**(169.4)**	**2.7**	**(272.2)**	**(9.4)**	**(281.6)**
Credited to income statement	**8.0**	**32.0**	**1.2**	**1.3**	**42.5**	**1.7**	**44.2**
Credited/(charged) to equity/other comprehensive income	**–**	**–**	**(39.8)**	**19.9**	**(19.9)**	**0.5**	**(19.4)**
Other Balance Sheet movement	**1.4**	**–**	**–**	**–**	**1.4**	**(1.2)**	**0.2**
At 31 March 2018	**(33.9)**	**(30.2)**	**(208.0)**	**23.9**	**(248.2)**	**(8.4)**	**(256.6)**

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

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £283.2m (last year £254.5m) and a tax value of £53.8m (last year £48.4m). Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £80.1m (last year £147.9m) and a tax value of £16.9m (last year £34.2m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £48.4m (last year £38.2m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £11.5m (last year £9.0m) however this has not been recognised on the basis the distribution can be controlled by the Group.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

23 ORDINARY SHARE CAPITAL

	2018		2017	
	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

	2018 £m	2017 £m
Commitments in respect of properties in the course of construction	**121.8**	156.4
Software capital commitments	**17.2**	11.0
	139.0	167.4

B. Other material contracts

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

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

C. Commitments under operating leases

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

	2018 £m	2017 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**288.5**	342.0
– Later than one year and not later than five years	**1,026.1**	1,115.9
– Later than five years and not later than ten years	**896.8**	964.1
– Later than ten years and not later than 15 years	**503.8**	421.9
– Later than 15 years and not later than 20 years	**304.6**	285.3
– Later than 20 years and not later than 25 years	**149.4**	166.8
– Later than 25 years	**1,026.8**	1,069.5
Total	**4,196.0**	4,365.5

The total future sublease payments to be received are £27.4m (last year £34.6m).

Of the total commitments under operating leases disclosed above, £172.5m (2017: £129.1m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme. In relation to the International strategic programme, in 2017, £70m of total commitments under operating leases are already provided for with regards to expected lease exit costs. No commitments remain in the current year relating to the International strategic programme.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

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

Cash flows from operating activities

	2018 £m	2017 £m
Profit on ordinary activities after taxation	**73.8**	70.1
Income tax expense	**38.8**	60.5
Finance costs	**113.8**	113.0
Finance income	**(24.1)**	(36.2)
Operating profit	**202.3**	207.4
(Increase)/decrease in inventories	**(38.2)**	53.9
Decrease/(increase) in receivables	**28.8**	(9.9)
Decrease in payables	**(87.4)**	(51.5)
Adjusting items net cash outflows	**(153.1)**	(36.8)
Non-cash share-based payment charges	**18.9**	10.6
Depreciation, amortisation and write-offs	**580.6**	589.5
Defined benefit pension funding	**(41.4)**	(36.6)
Adjusting items non-cash	**(34.7)**	(44.1)
Adjusting operating profit items	**468.3**	483.2
Cash generated from operations	**944.1**	1,165.7

Adjusting items net cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with both the UK store estate, UK organisation, UK logistics, IT reorganisation and changes to pay and pensions. Adjusting items non-cash relate to the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

26 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 2 April 2017 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2018 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(70.3)	(18.1)	–	**(88.4)**
Less: amounts treated as financing (see below)	7.9	43.8	–	**51.7**
	(62.4)	25.7	–	**(36.7)**
Cash and cash equivalents (see note 17)	468.6	(257.4)	(3.5)	**207.7**
Net cash per statement of cash flows	406.2	(231.7)	(3.5)	**171.0**
Current financial assets (see note 15)	2,566.7	(2.4)	–	**2,564.3**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(7.9)	(43.8)	–	**(51.7)**
Medium-term notes (see note 19)	(1,911.4)	328.2	(1.5)	**(1,584.7)**
Finance lease liabilities (see note 19)	(48.7)	2.6	(1.9)	**(48.0)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(387.4)	59.6	–	**(327.8)**
Debt financing	(2,355.4)	346.6	(3.4)	**(2,012.2)**
Net debt	617.5	112.5	(6.9)	**723.1**

B. Reconciliation of net debt to statement of financial position

	2018 £m	2017 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17)	**207.7**	468.6
Current financial assets (see note 15)	**2,564.3**	2,566.7
Bank loans and overdrafts (see note 19)	**(88.4)**	(70.3)
Medium-term notes – net of hedging derivatives	**(1,621.7)**	(1,957.8)
Finance lease liabilities (see note 19)	**(48.0)**	(48.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11 and 21)	**(335.5)**	(396.5)
	678.4	562.0
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**44.7**	55.5
Total net debt	**723.1**	617.5

NOTES TO THE FINANICAL STATEMENTS CONTINUED

27 RELATED PARTY TRANSACTIONS

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

B. Hedge End joint venture
A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 31 December 2017. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

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

D. Key management compensation
The Group has determined that the key management personnel constitute the Board and the members of the Operating Committee. For the prior year, the members of the Board were considered to be key management personnel for the whole year, and members of the Operating Committee with effect from November 2016 when the terms of reference of the Operating Committee were ratified.

	2018 £m	2017 £m
Salaries and short-term benefits	**6.9**	6.9
Share-based payments	**0.4**	–
Total	**7.3**	6.9

E. Other related party transactions
There were no related party transactions during the year to 31 March 2018 (last year: nil).

F. Transactions with parent company
During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £305.0m (last year: £379.1m) and has decreased its loan to its parent company by £1.6m (last year decrease of £7.1m). The outstanding balance was £2,550.6m (last year £2,552.2m) and was non-interest bearing. There were no other related party transactions.

Company statement of comprehensive income

	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Profit/(loss) for the year	**392.4**	(182.7)
Other comprehensive income/(expense):		
Items that will not be classified to profit or loss		
Remeasurements of retirement benefit schemes	**183.9**	(51.7)
Tax charge on retirement benefit schemes	**(37.7)**	22.0
	146.2	(29.7)
Items that will be reclassified subsequently to profit or loss		
Fair value movement on available-for-sale assets	**2.5**	(9.3)
Cash flow hedges		
– fair value movements in other comprehensive income	**(197.9)**	45.5
– reclassified and reported in net profit	**54.0**	(82.4)
– amount recognised in inventories	**59.5**	(19.8)
Tax credit on cash flow hedges	**20.2**	7.0
	(61.7)	(59.0)
Other comprehensive income/(expense) for the year, net of tax	**84.5**	(88.7)
Total comprehensive income/(expense) for the year	**476.9**	(271.4)

The profit attributable to shareholders of the Company for the year is £392.4m (last year loss of £182.7m).

Company statement of financial position

	Notes	As at 31 March 2018 £m	As at 1 April 2017 £m
Assets			
Non-current assets			
Intangible assets	C6	**516.9**	617.9
Property, plant and equipment	C7	**2,713.6**	3,015.1
Investments in group undertakings	C8	**923.7**	946.6
Investment in joint ventures		**5.9**	5.9
Other financial assets	C9	**15.9**	10.3
Retirement benefit asset	C3	**1,517.7**	1,244.9
Trade and other receivables	C10	**91.2**	102.6
Derivative financial instruments	C14	**27.1**	56.8
		5,812.0	6,000.1
Current assets			
Inventories		**742.0**	687.7
Other financial assets	C9	**5.8**	5.3
Trade and other receivables	C10	**6,360.1**	4,584.0
Derivative financial instruments	C14	**7.2**	168.3
Cash and cash equivalents	C11	**130.4**	399.2
		7,245.5	5,844.5
Total assets		**13,057.5**	11,844.6
Liabilities			
Current liabilities			
Trade and other payables	C12	**5,959.2**	4,708.5
Borrowings and other financial liabilities	C13	**123.6**	514.9
Derivative financial instruments	C14	**77.0**	15.3
Provisions	C15	**92.4**	46.0
Current tax liabilities		**27.2**	46.4
		6,279.4	5,331.1
Non-current liabilities			
Retirement benefit deficit	C3	**10.4**	8.0
Trade and other payables	C12	**548.3**	525.2
Borrowings and other financial liabilities	C13	**1,664.2**	1,705.3
Derivative financial instruments	C14	**30.8**	0.8
Provisions	C15	**187.3**	109.0
Deferred tax liabilities	C16	**286.1**	304.5
		2,727.1	2,652.8
Total liabilities		**9,006.5**	7,983.9
Net assets		**4,051.0**	3,860.7
Equity			
Issued share capital	C17	**712.5**	712.5
Share premium account		**386.1**	386.1
Capital redemption reserve		**8.0**	8.0
Hedging reserve		**(67.3)**	18.4
Retained earnings		**3,011.7**	2,735.7
Total equity		**4,051.0**	3,860.7

The financial statements were approved by the Board and authorised for issue on 25th September 2018. The financial statements also comprise the notes on pages 69 to 89.

Humphrey Singer, Director

Registered number:

00214436

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 2 April 2016	712.5	386.1	8.0	46.6	3,347.6	4,500.8
At 3 April 2016	712.5	386.1	8.0	46.6	3,347.6	4,500.8
Profit for the year	–	–	–	–	(182.7)	(182.7)
Other comprehensive income:						
Remeasurements of retirement benefit schemes	–	–	–	–	(51.7)	(51.7)
Tax charge on retirement benefit schemes	–	–	–	–	22.0	22.0
Fair value movement in equity on available-for-sale assets	–	–	–	–	(9.3)	(9.3)
Cash flow hedges						
– fair value movements in other comprehensive income	–	–	–	67.0	(21.5)	45.5
– reclassified and reported in net profit	–	–	–	(82.4)	–	(82.4)
– amount recognised in inventories	–	–	–	(19.8)	–	(19.8)
Tax on cash flow hedges	–	–	–	7.0	–	7.0
Other comprehensive income	–	–	–	(28.2)	(60.5)	(88.7)
Total comprehensive income	–	–	–	(28.2)	(243.2)	(271.4)
Transactions with owners:						
Dividends	–	–	–	–	(379.1)	(379.1)
Release for share-based payments	–	–	–	–	13.2	13.2
Deferred tax on share schemes	–	–	–	–	(2.8)	(2.8)
At 1 April 2017	712.5	386.1	8.0	18.4	2,735.7	3,860.7
At 2 April 2017	**712.5**	**386.1**	**8.0**	**18.4**	**2,735.7**	**3,860.7**
Profit for the year	–	–	–	–	**392.4**	**392.4**
Other comprehensive income:						
Remeasurements of retirement benefit schemes	–	–	–	–	**183.9**	**183.9**
Tax charge on retirement benefit schemes	–	–	–	–	**(37.7)**	**(37.7)**
Fair value movement in equity on available-for-sale assets	–	–	–	–	**2.5**	**2.5**
Cash flow hedges						
– fair value movements in other comprehensive income	–	–	–	**(219.4)**	**21.5**	**(197.9)**
– reclassified and reported in net profit	–	–	–	**54.0**	–	**54.0**
– amount recognised in inventories	–	–	–	**59.5**	–	**59.5**
Tax on cash flow hedges	–	–	–	**20.2**	–	**20.2**
Other comprehensive income	–	–	–	**(85.7)**	**170.2**	**84.5**
Total comprehensive income	–	–	–	**(85.7)**	**562.6**	**476.9**
Transactions with owners:						
Dividends	–	–	–	–	**(305.0)**	**(305.0)**
Release for share-based payments	–	–	–	–	**18.1**	**18.1**
Deferred tax on share schemes	–	–	–	–	**0.3**	**0.3**
At 31 March 2018	**712.5**	**386.1**	**8.0**	**(67.3)**	**3,011.7**	**4,051.0**

Company statement of cash flows

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flows from operating activities			
Cash generated from operations	C19	**1,017.3**	1,065.1
Income tax paid		**(86.5)**	(87.6)
Net cash inflow from operating activities		**930.8**	977.5
Cash flows from investing activities			
Purchase of property, plant and equipment		**(236.2)**	(302.8)
Proceeds from sale of property, plant and equipment		**3.2**	27.0
Purchase of intangible assets		**(85.4)**	(90.1)
Reduction of non-current financial assets		**–**	–
Purchase of current financial assets		**(0.5)**	(1.7)
Interest received		**8.4**	0.2
Net cash used in investing activities		**(310.5)**	(367.4)
Cash flows from financing activities			
Interest paid		**(104.6)**	(90.5)
Cash inflow/(outflow) from borrowings		**45.0**	(19.8)
(Repayment) of syndicated loan notes		**–**	(215.3)
(Redemption)/issuance of medium-term notes		**(328.2)**	300.0
Movement in intercompany loans treated as financing		**(400.2)**	336.4
Decrease in obligations under finance leases		**(2.3)**	(1.7)
Equity dividends paid		**(305.0)**	(379.1)
Purchase of shares in ultimate parent company held in employee trust		**(3.1)**	–
Net cash used in financing activities		**(1,098.4)**	(70.0)
Net cash (outflow)/inflow from activities		**(478.1)**	540.1
Opening net cash		**571.9**	31.8
Closing net cash	C11	**93.8**	571.9

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

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

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

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

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

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement. The profit for the year was £392.4 (last year loss of £182.7m).

C2 DIVIDENDS

	2018 per share	2017 per share	2018 £m	2017 £m
Dividends on equity ordinary shares				
Paid final dividend	**6.8p**	6.8p	**193.8**	193.8
Paid special dividend	**-**	2.6p	**-**	74.1
Paid interim dividend	**3.9p**	3.9p	**111.2**	111.2
	10.7p	13.3p	**305.0**	379.1

In addition, the directors have proposed and paid a final dividend of 6.8p per share (last year 6.8p per share) amounting to a dividend of £193.8m in respect of the year ended 31 March 2018. In line with the requirement of IAS 10 'Events after the reporting period,' this dividend has not been recognised within these results.

C3 RETIREMENT BENEFITS

The Company provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit (DB) arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Company. The DB scheme closed to future accrual on 1 April 2017. On closure of the DB scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m in the prior year. There will be no further service charge relating to the scheme and no future monthly employer contributions for current service. At year end the DB pension scheme had no active members (last year nil), 60,402 deferred members (last year 62,655) and 51,802 pensioners (last year 51,198).

The most recent actuarial valuation of the Marks and Spencer Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. No additional funding contributions were made during the year in respect of benefits already accrued by members, as the final contribution of £28m, (agreed at the 2012 actuarial valuation) was paid in the prior year. The DB pension scheme will continue to receive income from the Scottish Limited Partnership. See note C4 for further details.

The DC plan is a pension plan under which the Company pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Company has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Company and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 54,001 active members (last year 53,661) and some 19,984 deferred members (last year 12,866).

The total Company retirement benefit cost was £54.3m (last year £119.6m). Of this, income of £14.7m (last year £77.4m) relates to the DB pension scheme which included a included a £127.0m curtailment charge in the prior year, £68.8m (last year £41.9m) to the DC plan and £0.2m (last year £0.3m) relates to other retirement benefit schemes.

In March 2018, the DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one third of the pensioner portfolio. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Company.

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

	2018 £m	2017 £m
Total market value of assets	**10,425.0**	10,569.6
Present value of scheme liabilities	**(8,907.3)**	(9,324.7)
Net funded pension plan asset	**1,517.7**	1,244.9
Unfunded retirement benefit	**(2.5)**	-
Post-retirement healthcare	**(7.9)**	(8.0)
Net retirement benefit asset	**1,507.3**	1,236.9

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 RETIREMENT BENEFITS CONTINUED

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES (CONTINUED)

	2018 £m	2017 £m
Analysed in the statement of financial position as:		
Retirement benefit asset	**1,517.7**	1,244.9
Retirement benefit deficit	**(10.4)**	(8.0)
	1,507.3	1,236.9

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

B. FINANCIAL ASSUMPTIONS

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

	2018 %	2017 %
Rate of increase in pensions in payment for service	**2.0-3.2**	**2.0-3.2**
Discount rate	**2.65**	**2.55**
Inflation rate	**3.15**	**3.20**
Long-term healthcare cost increases	**7.15**	**7.20**

C. DEMOGRAPHIC ASSUMPTIONS

The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015. The specific mortality rates used are based on the VITA lite tables. The life expectancies underlying the valuation are as follows:

		2018	2017
Current pensioners (at age 65)	– males	**22.3**	23.2
	– females	**25.2**	24.7
Deferred pensioners (at age 65)	– males	**24.1**	24.7
	– females	**27.0**	27.1

D SENSITIVITY ANALYSIS

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

	2018 £m	2017 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(70.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(25.0)**	(20.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**305.0**	370.0

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

E. ANALYSIS OF ASSETS

The investment strategy of the DB pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits.

In addition to its interest in the Scottish Limited Partnership (refer to note C4), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 93% of interest rate movements and 91% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

– Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.

– The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.

– Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that lead to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.

– Legislative changes could also lead to an increase in the schemes' liabilities.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 RETIREMENT BENEFITS CONTINUED

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

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

	2018			2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	**4,460.8**	**369.3**	**4,830.1**	4,826.7	368.4	5,195.1
– Corporate Bonds	**–**	**685.4**	**685.4**	–	896.3	896.3
– Asset backed securities and structured debt	**–**	**339.2**	**339.2**	–	547.9	547.9
Scottish Limited Partnership Interest (see note C4)	**–**	**892.1**	**892.1**	–	950.7	950.7
Equity investments						
– Developed markets	**412.3**	**102.8**	**515.1**	1,075.3	110.1	1,185.4
– Emerging markets	**144.7**	**–**	**144.7**	262.4	–	262.4
Growth Asset Funds						
– Global Property	**–**	**274.0**	**274.0**	–	256.2	256.2
– Hedge and Reinsurance	**–**	**406.3**	**406.3**	–	322.0	322.0
– Private Equity and Infrastructure	**–**	**222.5**	**222.5**	–	241.5	241.5
Derivatives						
– Interest and inflation rate swaps	**0.4**	**6.4**	**6.8**	0.6	(29.5)	(28.9)
– Foreign exchange contracts and other derivatives	**0.1**	**154.8**	**154.9**	1.2	203.0	204.2
Cash and Cash equivalents	**29.8**	**92.5**	**122.3**	86.0	72.2	158.2
Other						
– Buy In Insurance	**–**	**1,277.9**	**1,277.9**	–	–	–
– Secure Income Asset Funds	**–**	**466.7**	**466.7**	–	326.7	326.7
– Other	**87.0**	**–**	**87.0**	51.9	–	51.9
	5,135.1	**5,289.9**	**10,425.0**	6,304.1	4,265.5	10,569.6

1. Repurchase agreements were £920.2m (last year £1,333.9m)

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

At year end, the DB pension scheme indirectly held 41,046 (last year 193,506) ordinary shares in Marks and Spencer Group plc through its investment in UK Equity Index Funds.

F. ANALYSIS OF AMOUNT CHARGED AGAINST PROFITS

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

	2018 £m	2017 £m
Current service cost	**-**	47.0
Administration costs	**3.3**	3.0
Past service costs – curtailment charge	**-**	128.0
Net interest income	**(50.6)**	(58.4)
Total	**(47.3)**	119.6
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**113.2**	(1,567.8)
Actuarial gain/(loss) – experience	**27.2**	(0.2)
Actuarial loss – demographic assumptions	**(85.1)**	–
Actuarial (loss)/gain – financial assumptions	**(239.2)**	1,619.7
Components of defined benefit gain recognised in other comprehensive income	**(183.9)**	51.7

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 RETIREMENT BENEFITS CONTINUED

G. SCHEME ASSETS

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

	2018 £m	2017 £m
Fair value of scheme assets at start of year	**10,569.6**	8,902.1
Interest income based on discount rate	**283.8**	311.7
Actual return on scheme assets excluding amounts included in net interest income	**(113.2)**	1,567.8
Employer contributions	**40.3**	86.8
Benefits paid	**(352.2)**	(295.8)
Administration costs	**(3.3)**	(3.0)
Fair value of scheme assets at end of year	**10,425.0**	10,569.6

H. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

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

	2018 £m	2017 £m
Present value of obligation at start of year	**9,332.7**	7,580.7
Current service cost	**-**	47.0
Curtailment charge	**-**	128.0
Interest cost	**233.2**	253.3
Benefits paid	**(352.2)**	(295.8)
Acquisition of Canadian pension liability	**1.1**	-
Actuarial loss/(gain) – experience	**27.2**	(0.2)
Actuarial gain – demographic assumptions	**(85.1)**	-
Actuarial (gain)/loss– financial assumptions	**(239.2)**	1,619.7
Present value of obligation at end of year	**8,917.7**	9,332.7
Analysed as:		
Present value of pension scheme liabilities	**8,907.3**	9,324.7
Unfunded pension plans	**2.5**	-
Post-retirement healthcare	**7.9**	8.0
Present value of obligation at end of year	**8,917.7**	9,332.7

The average duration of the defined benefit obligation at 31 March 2018 is 19 years (last year: 19 years).

C4 MARKS & SPENCER UK PENSION SCHEME INTEREST IN THE SCOTTISH LIMITED PARTNERSHIP

The Company is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.5bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Company retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further £36.4m annually from 2017 until 2031.

The partnership liability in relation to the first interest of £335.5m (last year £396.5m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 31 March 2018 an interest charge of £10.9m (last year £12.6m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the DB Pension Scheme assets, valued at £345.4m (last year £412.1m). It is also included as a liability on the Company's statement of financial position as it is a transferable financial instrument. The second partnership interest included within the DB Pension Scheme assets, valued at £547.1m (last year £538.6m) is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19 on consolidation. Similarly the associated liability is not included on consolidation.

C5 SHARE-BASED PAYMENTS

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C6 INTANGIBLE ASSETS

	Computer software £m	Computer software under development	Total £m
At 2 April 2016			
Cost or valuation	1,221.7	75.2	1,296.9
Accumulated amortisation	(598.4)	–	(598.4)
Net book value	623.3	75.2	698.5
Year ended 1 April 2017			
Opening net book value	623.3	75.2	698.5
Additions	–	103.3	103.3
Transfers	94.9	(107.7)	(12.8)
Disposals	(0.5)	–	(0.5)
Asset write-offs and impairments	(3.5)	(6.4)	(9.9)
Amortisation charge	(160.7)	–	(160.7)
Closing net book value	553.5	64.4	617.9
At 1 April 2017			
Cost or valuation	1,312.6	70.8	1,383.4
Accumulated amortisation	(759.1)	(6.4)	(765.5)
Net book value	553.5	64.4	617.9
Year ended 31 March 2018			
Opening net book value	**553.5**	**64.4**	**617.9**
Additions	–	**74.1**	**74.1**
Transfers	**100.5**	**(89.2)**	**11.3**
Disposals	–	–	**–**
Asset write-offs and impairments	**(3.8)**	**(1.6)**	**(5.4)**
Amortisation charge	**(181.0)**	–	**(181.0)**
Closing net book value	**469.2**	**47.7**	**516.9**
At 31 March 2018			
Cost or valuation	**1,315.5**	**55.9**	**1,371.4**
Accumulated amortisation	**(846.3)**	**(8.2)**	**(854.5)**
Net book value	**469.2**	**47.7**	**516.9**

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C7 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 2 April 2016				
Cost	1,057.8	6,886.5	66.1	8,010.4
Accumulated depreciation and write-offs	(121.6)	(4,670.8)	–	(4,792.4)
Net book value	936.2	2,215.7	66.1	3,218.0
Year ended 1 April 2017				
Opening net book value	936.2	2,215.7	66.1	3,218.0
Additions	–	68.6	206.4	275.0
Transfers	15.1	187.1	(190.5)	11.7
Disposals	(0.6)	(1.0)	–	(1.6)
Asset impairments	(9.4)	(52.9)	(1.8)	(64.1)
Asset write-offs	(1.9)	(3.4)	(1.3)	(6.6)
Depreciation charge	(46.2)	(371.1)	–	(417.3)
Closing net book value	893.2	2,043.0	78.9	3,015.1
At 1 April 2017				
Cost	1,088.0	7,083.5	80.2	8,251.7
Accumulated depreciation and write-offs	(194.8)	(5,040.5)	(1.3)	(5,236.6)
Net book value	893.2	2,043.0	78.9	3,015.1
Year ended 31 March 2018				
Opening net book value	**893.2**	**2,043.0**	**78.9**	**3,015.1**
Additions	**–**	**50.7**	**196.5**	**247.2**
Transfers	**7.5**	**174.2**	**(193.0)**	**(11.3)**
Disposals	**(2.1)**	**(5.3)**	**–**	**(7.4)**
Asset impairments	**(58.2)**	**(79.6)**	**–**	**(137.8)**
Asset write-offs	**(5.7)**	**(11.2)**	**(3.0)**	**(19.9)**
Depreciation charge	**(10.5)**	**(361.8)**	**–**	**(372.3)**
Closing net book value	**824.2**	**1,810.0**	**79.4**	**2,713.6**
At 31 March 2018				
Cost	**1,054.7**	**6,388.0**	**83.7**	**7,526.4**
Accumulated depreciation and write-offs	**(230.5)**	**(4,578.0)**	**(4.3)**	**(4,812.8)**
Net book value	**824.2**	**1,810.0**	**79.4**	**2,713.6**

The net book value above includes land and buildings of £34.1m (last year £35.5m) and equipment of £nil (last year £nil) 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.

For impairment testing purpose, the recoverable amount is determined on the same basis as the Group, assumptions, and critical accounting judgements applied are the same as those set out in note 14 of the Group financial statements.

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 2016			
Cost	1,388.9	0.5	1,389.4
Provision for impairment	(291.8)	–	(291.8)
Net book value	1,097.1	0.5	1,097.6
Year ended 1 April 2017			
Opening net book value	1,097.1	0.5	1,097.6
Additions	–	–	–
Disposals	(64.5)	–	(64.5)
Provision for impairment	(86.5)	–	(86.5)
Closing net book value	946.1	0.5	946.6
At 1 April 2017			
Cost	1,324.4	0.5	1,324.9
Provision for impairment	(378.3)	–	(378.3)
Net book value	946.1	0.5	946.6
Year ended 31 March 2018			
Opening net book value	**946.1**	**0.5**	**946.6**
Additions	**–**	**–**	**–**
Provision for impairment	**(22.9)**	**–**	**(22.9)**
Closing net book value	**923.2**	**0.5**	**923.7**
At 31 March 2018			
Cost	**1,153.9**	**0.5**	**1,154.4**
Provision for impairment	**(230.7)**	**–**	**(230.7)**
Net book value	**923.2**	**0.5**	**923.7**

For impairment testing purposes the carrying value of the investment held by the Company is compared to the net assets of the subsidiary companies adjusted for impairments of fixed assets held by the subsidiaries calculated on the same basis as note C7.

B. SUBSIDIARY UNDERTAKINGS

The Company's subsidiary undertakings are set out below.

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Amethyst Leasing (Holdings) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Amethyst Leasing (Properties) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Andis SARL	48, Rue de la Chaussée-d'Antin 75009 Paris, France	France	€1,060 Ordinary	–	100%
Aprell Limited[1]	24-29 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	–	100%
Busyexport Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Hedge End Park Limited	33,Holborn, London, EC1N 2HT	United Kingdom	£1 Ordinary	50%	–
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	£1 Ordinary	–	100%
M&S (Spain) S.L.	Calle Fuencarrel No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	–	100%
M&S Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
M&S Poland sp ZO.O	UL Marszatkowska 104/122, 00-017 Warszawa, Poland	Poland	PLN 50.00 Ordinary	–	100%
M&S Services S.R.O	Vyskocilova 14814, 14000 Praha 4, Michle, Czech Republic	Czech Republic	Registered Capital	–	100%
Manford (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	–	100%
Marks & Spencer Canada Incorporated (in liquidation)	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	Common	–	100%
			Class A Preference	–	100%
			Class B Preference	–	100%
Marks and Spencer Company Archive CIC	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	Membership	–[2]	–
Marks & Spencer Holdings Canada Incorporated (in liquidation)	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	Common	–	100%
			Class A Preference	–	100%
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	Common	100%	–
Marks & Spencer Outlet Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks & Spencer Simply Foods Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Sparks Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS CONTINUED

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100%	–
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100%	–
Marks and Spencer (Belgium) SPRL	4th floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	–	–
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9, Canton Road, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	–	100%
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	–	100%
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, India Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	–	100%
Marks and Spencer (Ireland) Limited[1]	24-27 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	–	100%
Marks and Spencer (Israel) Limited	31, Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	83.3%	–
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100%	–
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€450 Ordinary	–	100%
Marks and Spencer (Northern Ireland) Limited	8, Laganbank Road, Belfast, BT1 3LR	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer (Shanghai) Limited	Unit 03-04, 6/F, ECO city, 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	–	100%
Marks and Spencer (Singapore) Investments Pte. Ltd	77, Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	–	100%
Marks and Spencer (Thailand) Limited	1011 Supalai Grand Tower, 24th floor, Rama 3 Road, Kwaeng Chongnonsi, Khet Yannawa, Bangkok 10120, Thailand	Thailand	THB 100.00 Ordinary	99.7%	–
Marks and Spencer 2005 (Brooklands Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Hedge End Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kensington Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Parman House Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Pudsey Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Warrington Gemini Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi Istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	–	100%
Marks and Spencer (Commercial Shanghai) Limited	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	–	100%
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Wyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	–	100%
			CZK 100,000 Ordinary	–	100%
			CZK 1,000,000 Ordinary	–	100%
Marks and Spencer Guernsey Investments LLP	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	Partnership interest	–	–[3]
Marks and Spencer Hungary Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS CONTINUED

				Proportion of shares held by:	
	Registered address	Country of incorporation	Share Class	Company	A subsidiary
Marks and Spencer International Holdings Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Investments	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%
Marks and Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	–	80%
Marks and Spencer Romania SA (in liquidation)	No. 262 Timisoara Boulevard, Anchor Plaza, 3rd Floor premises 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	–	100%
Marks and Spencer DOO Beograd (in liquidation)	Patrisa Lumumbe no. 70, 11000 Belgrade	Serbia	RSD Quotas	–	100%
Marks and Spencer Montenegro DOO Podgorica (in liquidation)	C/O Eurofast Global Limited, 112 Bul Svetog Petra, Cetinjskog, 8100 Podgorica, Montenegro	Montenegro	€ Ordinary	–	100%
Marks and Spencer Property Developments Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer Reliance India Pvt Ltd	4th floor, Court House, Lokmanya, Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	–	51%
			INR 10 Class B	–	100%
			INR 10 Class C[4]	–	0%
Marks and Spencer Scottish Limited Partnership	2-28 St. Nicholas Street, Aberdeen, AB10 1BU	United Kingdom	Partnership interest	–[5]	–
Marks and Spencer Shared Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€450 Ordinary	–	100%
M.S. General Insurance L.P	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	Partnership interest	100%	–
Marks and Spencer Pension Trust Investments Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer SA (PTY) Limited	Woolworths House, 93 Longmarket Street, Cape Town, 8001, South Africa	South Africa	ZAR 2 Ordinary	100%	–
Marks and Spencer Nederland (Retail) BV	Muntplein 10C, 1012 WR, Amsterdam, Netherlands	Prins Bernhardplein, 1097 JB, Amsterdam, Netherlands	€100.00 Ordinary	–	100%
M&S Mode International BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%
MSF Slovakia S.R.O.	Ivanská cesta 16 , Bratislava, 821 Slovakia 04 , Slovakia	Slovakia	Registered capital	–	100%
Marks and Spencer France Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ou MSF Estonia	Paldiski mnt 102, Tallin, 13522, Estonia	Estonia	Registered capital	–	100%
Per Una Italia SRL (in liquidation)	Via Giotto 25-59100 Prato, Italy	Italy	€ Quota	–	100%
Ruby Properties (Cumbernauld) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Enfield) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Hardwick) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Long Eaton) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Thorncliffe) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Tunbridge) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Simply Food (Property Investments)	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Simply Food (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
St. Michael (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
St Michael Finance plc	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 INVESTMENTS CONTINUED

B. Subsidiary undertakings continued

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	–	100%
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	–	100%
UAB MSF Lithuania	Gedimino pr. 20, Vilnuis, Lithuania	Lithuania	€28.96 Ordinary	–	100%

1. The Company has guaranteed all of the liabilities and commitments referred to in Section 357(1) (b) of the Companies Act 2014 in respect of the whole of the financial year ending 31 March 2018 for Marks and Spencer (Ireland) Limited and Aprell Limited. These subsidiaries are availing of the exemption under Section 357 of the Companies Act 2014 not to file their statutory financial statements.
2. The company is a Community Interest Company, not established or conducted for private gain. It is limited by guarantee of its members and does not have any share capital.
3. The designated members of the LLP are Teranis Limited, Ignazia Limited, Aprell Limited and Marks and Spencer (Ireland) Limited.
4. INR 10 Class C shares 100% owned by JV partner.
5. Marks and Spencer plc is the general partner.

C. UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 March 2018. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Registered address	Share Class	Company number	Proportion of shares held by: Company	A subsidiary
Marks and Spencer Chester Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	5174129	–	100%
Marks and Spencer (Property Investments) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	5502582	100%	–
Marks and Spencer (Bradford) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	10011863	–	100%
Minterton Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	4763836	100%	–

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £2.4m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 OTHER FINANCIAL ASSETS

	2018 £m	2017 £m
Non-current		
Unlisted investments	**9.9**	3.0
Other investments[1]	**6.0**	7.3
	15.9	10.3
Current		
Other investments	**5.8**	5.3

1. Non-current other investments are £6.0m (last year £7.3m) shares in Marks and Spencer Group plc held for employee share schemes.

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

C10 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Non-current		
Prepayments and accrued income	**91.2**	102.6
	91.2	102.6
Current		
Trade receivables	**112.8**	108.3
Less: Provision for impairment of receivables	**(6.1)**	(7.5)
Trade receivables – net	**106.7**	100.8
Other receivables	**13.6**	13.4
Prepayments and accrued income	**156.1**	166.3
Amounts owed by parent company	**2,563.3**	2,564.9
Amounts owed by subsidiary companies	**3,520.4**	1,738.6
	6,360.1	4,584.0

Trade receivables that were past due but not impaired amounted to £21.1m (last year £6.6m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 31 March 2018, £629.7m (last year £713.0m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £9.9m (last year £2.7m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £5,454.0m (last year £3,590.5m) of intercompany receivables are interest-free.

C11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £93.8m (last year £571.9m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.05% (last year is 0.19%). These deposits have an average maturity of three days (last year three days).

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

	2018 £m	2017 £m
Cash at bank and in hand	**130.4**	399.2
Bank loans and overdrafts	**(86.6)**	(67.3)
Syndicated loan notes	**-**	205.0
Bank loans and overdrafts treated as financing	**50.0**	35.0
	93.8	571.9

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C12 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current		
Trade and other payables	**873.9**	967.8
Social security and other taxes	**42.3**	36.7
Accruals and deferred income	**407.3**	425.4
Amounts owed to subsidiaries	**4,635.7**	3,278.6
	5,959.2	4,708.5
Non-current		
Other payables, accruals and deferred income	**548.3**	525.2

As at 1 April 2018, £975.7m (last year £1,243.7m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £12.9m (last year £11.1m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £3,660.0m (last year £2,034.9m) of intercompany payables are interest-free.

C13 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2018 £m	2017 £m
Current		
Bank loans and overdrafts[1]	**86.6**	67.3
Finance lease liabilities	**0.1**	0.2
6.250% US$500m medium-term notes 2017[3,4]	**-**	328.1
Interest accrued on medium-term notes	**36.9**	46.4
Revaluation of medium-term notes	**-**	72.9
	123.6	514.9
Non-current		
6.125% £400m medium-term notes 2019[2]	**400.1**	400.2
6.125% £300m medium-term notes 2021[2]	**298.2**	297.8
3.00% £300m medium-term notes 2023[2]	**296.9**	296.3
4.75% £400m medium-term notes 2025[2]	**397.5**	397.1
7.125% US$300m medium-term notes 2037[3,4]	**192.0**	191.9
Revaluation of medium-term notes	**38.2**	80.0
Finance lease liabilities	**41.3**	42.0
	1,664.2	1,705.3
Total	**1,787.8**	2,220.2

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note C20).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$500m and US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Company's policy to lease certain properties and equipment under finance leases. The weighted average lease term for equipment is two years (last year three years) and 93 years (last year 95 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Company's obligations under finance leases are secured by the lessors' charges over the leased assets.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS

Treasury policy

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

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

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

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

Financial risk management

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

(a) Liquidity/funding risk

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

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

At year end, the Company had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. These facilities contain only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Company also has a number of uncommitted facilities available to it. At year end, these amounted to £100m (last year £150m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £nil (last year £nil) was drawn under the committed facilities and £45m (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 £3.0bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date

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

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets[1] £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(67.3)	–	(514.2)	(2.0)	(583.5)	549.9	(377.7)	172.2
Between one and two years	–	–	(88.0)	(1.9)	(89.9)	26.7	(14.5)	12.2
Between two and five years	–	–	(915.1)	(5.8)	(920.9)	63.9	(41.2)	22.7
More than five years	–	–	(1,309.0)	(155.6)	(1,464.6)	519.4	(413.2)	106.2
	(67.3)	–	(2,826.3)	(165.3)	(3,058.9)	1,159.9	(846.6)	313.3
Effect of discounting and foreign exchange	–	–	715.6	123.1	838.7			
At 1 April 2017	(67.3)	–	(2,110.7)	(42.2)	(2,220.2)			
Timing of cash flows								
Within one year	**(86.6)**	–	**(86.1)**	**(1.8)**	**(174.5)**	**30.3**	**(92.0)**	**(61.7)**
Between one and two years	–	–	**(486.1)**	**(1.8)**	**(487.9)**	**21.9**	**(18.1)**	**3.8**
Between two and five years	–	–	**(466.3)**	**(5.3)**	**(471.6)**	**270.0**	**(248.5)**	**21.5**
More than five years	–	–	**(1,207.2)**	**(148.2)**	**(1,355.4)**	**223.1**	**(198.5)**	**24.6**
	(86.6)	–	**(2,245.7)**	**(157.1)**	**(2,489.4)**	**545.3**	**(557.1)**	**(11.8)**
Effect of discounting and foreign exchange	–	–	**585.9**	**115.7**	**701.6**			
At 31 March 2018	**(86.6)**	–	**(1,659.8)**	**(41.4)**	**(1,787.8)**			

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

The present value of finance lease liabilities is as follows:

	2018 £m	2017 £m
Within one year	**(0.1)**	(0.2)
Later than one year and not later than five years	**(0.4)**	(0.8)
Later than five years	**(40.9)**	(41.2)
Total	**(41.4)**	(42.2)

(b) Counterparty risk

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

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poors Global Ratings (A-)/Moody's (A3) (BBB+/Baa1 for committed lending banks). Credit ratings quoted on the following page are in line with Standard & Poors Global Ratings' equivalent. In the event of a downgrade by one rating agency and not the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

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

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

	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	**–**	**–**	**0.5**	**4.4**	**–**	**–**	**–**	**4.9**
Derivative assets	**–**	**–**	**–**	**–**	**8.0**	**–**	**2.9**	**10.9**
At 31 March 2018	**–**	**–**	**0.5**	**4.4**	**8.0**	**–**	**2.9**	**15.8**

1. Includes cash on deposit and money market funds held by Marks & Spencer plc and Marks & Spencer General Insurance LP (escrow only). Excludes cash in hand and in transit £149.6m (last year £116.9m).
2. Derivative balances have been assessed per counterparty. Where a counterparty has both derivative assets and derivative liabilities, the net position is reflected in the table above.
3. Standard & Poors Global Ratings equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poors Global Ratings, Moodys or Fitch where applicable. Excludes all intercompany derivatives executed on behalf of group companies by Marks and Spencer PLC as none of the entities have credit ratings.

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £113m (last year £108m), other receivables £14m (£13m), cash and cash equivalents £130m (last year £399m) and derivatives £34m (last year £225m).

(c) Foreign currency risk

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

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

Forward foreign exchange contracts in relation to the Company's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability.

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £2,167m (last year £2,801m) with a weighted average maturity date of six months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 31 March 2018 will be released to the income statement at various dates over the following 17 months (last year 17 months) from the balance sheet date.

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:

	2018			2017		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,276.2**	**511.6**	**1,787.8**	1,727.9	492.3	2,220.2
	1,276.2	**511.6**	**1,787.8**	1,727.9	492.3	2,220.2

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

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 4.7% (last year 5.0%) and the weighted average time for which the rate is fixed is six years (last year six 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 £1,276.2m (last year £1,727.9) representing the public bond issues and finance leases, amounting to 71% (last year 78%) of the Group's gross borrowings.

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

	2018 %	2017 %
Committed and uncommitted borrowings	**1.0**	0.3
Medium-term notes	**4.7**	5.0
Finance leases	**4.1**	4.2

Derivative financial instruments

			2018		2017	
			Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current						
Cross-currency swaps			**–**	**–**	72.6	–
Forward foreign exchange contracts	–	cash flow hedges	**1.8**	**(73.3)**	86.6	(5.5)
	–	held for trading	**5.4**	**(3.7)**	9.1	(9.8)
			7.2	**(77.0)**	168.3	(15.3)
Non-current						
Cross-currency swaps	–	cash flow hedges	**–**	**(26.8)**	14.0	–
Forward foreign exchange contracts	–	cash flow hedges	**0.4**	**(4.0)**	1.3	(0.8)
Interest rate swaps	–	fair value hedge	**26.7**	**–**	41.5	–
Embedded derivative			**–**	**–**	–	–
			27.1	**(30.8)**	56.8	(0.8)

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £0.4m (last year £0.3m) as the gain on the hedged items was £15.0m (last year £0.3m gain) and the movement on the hedging instruments was £14.6m loss (last year £nil).

The Group holds a number of cross currency interest rate swaps to re-designate its USD fixed debt to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in the profit and loss that arises from the cash flow hedges amounts to a £2.3m loss (last year £nil) as the gain on the hedged items was £24.9m (last year £nil) and the movement on the hedging instruments was £27.2m loss (last year £nil).

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.

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 1 April 2017				
Impact on income statement: gain/(loss)	7.9	(2.4)	–	–
Impact on other comprehensive income: (loss)/gain	(2.2)	0.3	297.9	(199.2)
At 31 March 2018				
Impact on income statement: gain/(loss)	**9.0**	**(9.4)**	–	–
Impact on other comprehensive income: (loss)/gain	**(15.7)**	**10.7**	**247.8**	**(254.5)**

Offsetting of Financial assets and labilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 1 April 2017					
Trade and other receivables	25.1	(22.8)	2.3	–	2.3
Derivative financial assets	225.1	–	225.1	(16.1)	209.0
Cash and cash equivalents	42.4	(41.6)	0.8	–	0.8
	292.6	(64.4)	228.2	(16.1)	212.1
Trade and other payables	(279.2)	22.8	(256.4)	–	(256.4)
Derivative financial liabilities	(16.1)	–	(16.1)	16.1	–
Bank loans and overdrafts	(103.9)	41.6	(62.3)	–	(62.3)
	(399.2)	64.4	(334.8)	16.1	(318.7)

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 31 March 2018					
Trade and other receivables	31.3	(29.9)	1.4	–	1.4
Derivative financial assets	**34.3**	**–**	**34.3**	**(34.3)**	**–**
Cash and cash equivalents	**46.3**	**(46.0)**	**0.3**	**–**	**0.3**
	111.9	**(75.9)**	**36.0**	**(34.3)**	**1.7**
Trade and other payables	**(276.4)**	**29.9**	**(246.5)**	**–**	**(246.5)**
Derivative financial liabilities	**(107.8)**	**–**	**(107.8)**	**34.3**	**(73.5)**
Bank loans and overdrafts	**(82.5)**	**46.0**	**(36.5)**	**–**	**(36.5)**
	(466.7)	**75.9**	**(390.8)**	**34.3**	**(356.5)**

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of Financial assets and liabilities continued

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

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Company's level 2 financial instruments include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. No level 3 instruments were in place at the year end. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives last year was 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 Company held the following financial instruments measured at fair value:

	2018				2017			
	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	–	**5.5**	–	**5.5**	–	9.1	–	9.1
Derivatives used for hedging	–	**28.9**	–	**28.9**	–	216.0	–	216.0
Embedded derivatives	–	–	–	–	–	–	–	–
Short-term investments	–	**5.8**	–	**5.8**	–	5.3	–	5.3
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- trading derivatives	–	**(3.7)**	–	**(3.7)**	–	(9.8)	–	(9.8)
Derivative used for hedging	–	**(104.1)**	–	**(104.1)**	–	(6.3)	–	(6.3)

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,425.0m (last year £10,569.6m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,152.4m (last year £8,690.2m). Additionally, the scheme assets include £2,836.9m (last year £1,444.9m) of Level 3 financial assets. See note C3 for information on the Company's retirement benefits.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior reporting period. In addition to the above, the Company has £9.9m (last year £3.0m) in unlisted equity securities measured at fair value.

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

	2018 £m	2017 £m
Opening balance	**1,444.9**	1,219.1
Fair value (loss) / gain recognised in the income statement	**(75.0)**	100.6
Additional investment	**1,466.9**	125.2
Closing balance	**2,836.8**	1,444.9

The following table represents the changes in the embedded derivative (Level 3 instruments):

	2018 £m	2017 £m
Opening balance	–	21.3
Fair value gain recognised in the income statement	–	8.3
Derecognition	–	(29.6)
Closing balance	–	–

The gains recognised in the income statement in last year relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £nil (last year £8.3m gain) is treated as an adjustment to reported profit.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 FINANCIAL INSTRUMENTS CONTINUED

Fair value of financial instruments

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

The carrying value of the Company's fixed rate bond debt (level 1 equivalent) was £1,659.9m (last year £2,110.7m), the fair value of this debt was £1,761.0m (last year £2,236.7m).

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 seven years (last year eight years). During the year Marks and Spencer Group plc maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poors Global Ratings.

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

				2018	2017
	Property £m	Restructuring £m	Other £m	Total £m	Total £m
At start of year	**124.7**	**1.9**	**28.4**	**155.0**	55.8
Provided in the year	142.7	18.8	24.3	185.8	138.3
Released in the year	(12.6)	(3.5)	(2.9)	(19.0)	(21.9)
Utilised during the year	(21.7)	(2.0)	(23.4)	(47.1)	(19.5)
Discount rate unwind	5.0	-	-	5.0	2.3
At end of year	**238.1**	**15.2**	**26.4**	**279.7**	155.0
Analysed as:					
Current				**92.4**	46.0
Non-current				**187.3**	109.0

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

Restructuring provisions primarily relate to the estimated costs of several strategic programmes and the transition to a single tier UK distribution network. These provisions are expected to be utilised within the next year.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C16 DEFERRED TAX

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

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

Deferred tax (liabilities)/assets

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m
At 2 April 2016	(38.8)	(72.8)	(237.8)	(4.8)	(354.2)
Credited/(charged) to the income statement	3.4	12.4	11.2	2.1	29.1
Charged to equity	–	–	16.4	4.2	20.6
At 1 April 2017	(35.4)	(60.4)	(210.2)	1.5	(304.5)
At 1 April 2017	**(35.4)**	**(60.4)**	**(210.2)**	**1.5**	**(304.5)**
Credited/(charged) to the income statement	**9.9**	**30.4**	**(8.8)**	**4.1**	**35.6**
Charged to equity	–	–	**(37.7)**	**20.5**	**(17.2)**
At 31 March 2018	**(25.5)**	**(30.0)**	**(256.7)**	**26.1**	**(286.1)**

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

The deferred tax liability on land and building temporary differences is reduced by the benefit of capital losses with a tax value of £53.8m (last year £48.4m).

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

C17 ORDINARY SHARE CAPITAL

	2018		2017	
	Shares	**£m**	Shares	£m
Issued and fully paid ordinary shares of 25p each	**2,850,039,477**	**712.5**	2,850,039,477	712.5

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C18 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2018 £m	2017 £m
Commitments in respect of properties in the course of construction	**118.8**	156.0
Commitments in respect of computer software under development	**17.2**	10.8
	136.0	166.8

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 Company'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.

	2018 £m	2017 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**389.3**	239.6
Later than one year and not later than five years	**1,523.3**	883.5
Later than five years and not later than ten years	**1,616.6**	836.2
Later than ten years and not later than 15 years	**1,163.6**	402.9
Later than 15 years and not later than 20 years	**308.9**	276.7
Later than 20 years and not later than 25 years	**154.8**	159.4
Later than 25 years	**786.8**	1,019.1
Total	**5,943.3**	3,817.4

The total future sublease payments to be received are £24.1m (last year £31.5m).

Of the total commitments under operating leases disclosed above, £172.5m (2017: £129.1m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme. In relation to the International strategic programme, in 2017, £70m of total commitments under operating leases are already provided for with regards to expected lease exit costs. No commitments remain in the current year relating to the International strategic programme.

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

Cash flows from operating activities

	2018 £m	2017 £m
Profit/(Loss) on ordinary activities after taxation	**392.4**	(182.7)
Income tax expense	**(8.2)**	34.7
Finance costs	**113.3**	107.7
Finance income	**(61.1)**	(69.5)
Operating profit	**436.4**	(109.8)
(Increase)/decrease in inventories	**(53.8)**	33.9
Decrease/(increase) in receivables	**3.3**	(22.6)
(Decrease)/increase in payables	**(290.5)**	190.9
Adjusting items net cash outflows	**(103.9)**	(61.5)
Depreciation, amortisation and asset impairments	**530.8**	540.3
Non-cash share-based payment charges	**18.7**	10.6
Defined benefit pension funding	**(41.0)**	(35.9)
Adjusting operating profit items	**517.3**	519.2
Cash generated from operations	**1,017.3**	1,065.1

Adjusting items net cash outflows relate to strategic programme costs associated with both the UK store estate, UK organisation, UK logistics, IT reorganisation and changes to pay and pensions and the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C20 RELATED PARTY TRANSACTIONS

A. Marks and Spencer Group plc

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £305.0m (last year £379.1m) and has decreased its loan to its parent company by £1.6m (last year decrease of £7.1m). The outstanding balance was £2,550.6m (last year £2,552.2m) and was non-interest bearing.

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

	2018 Transactions £m	2017 Transactions £m
Trading sales	**(350.9)**	(352.2)
Trading purchases	**–**	–
Rental expense	**(150.8)**	(144.0)
Rent receivable	**23.9**	23.7
Interest	**2.9**	0.6

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2014. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Marks & Spencer Pension Scheme

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

D. Key management compensation

Payments and benefits relating to key management are set out on page 50 of Marks and Spencer Group plc annual report 2018.

C21 ULTIMATE PARENT COMPANY

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

Marks and Spencer Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2018. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

GLOSSARY

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income statement measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for- like stores</td><td>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th>FY17/18
£m</th><th>FY16/17
£m</th><th>%</th></tr>
<tr><td>UK Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-Like</td><td>9,252.2</td><td>9,338.8</td><td>(0.9)</td></tr>
<tr><td>Net new space</td><td>358.8</td><td>102.9</td><td></td></tr>
<tr><td>Statutory Total</td><td>9,611.0</td><td>9,441.7</td><td>1.8</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue/ Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th></th><th>FY17/18
£m</th><th>FY16/17
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>1,087.2</td><td>1,211.3</td><td>(10.2)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>(31.0)</td><td></td></tr>
<tr><td>At reported currency</td><td>1,087.2</td><td>1,180.3</td><td>(7.9)</td></tr>
</table></td></tr>
<tr><td>International owned retained and franchise revenue growth at constant currency</td><td>Movement in revenue per the Income Statement</td><td>Sales from closure markets</td><td>The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results. FY 17/18
<table>
<tr><th></th><th>FY17/18
£m</th><th>FY16/17
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Reported currency</td><td>1,087.2</td><td>1,180.3</td><td>(7.9)</td></tr>
<tr><td>Owned exit</td><td>(66.4)</td><td>(192.3)</td><td></td></tr>
<tr><td>Owned retained and franchise</td><td>1,020.8</td><td>988.0</td><td>3.3</td></tr>
<tr><td>Impact of FX retranslation</td><td></td><td>23.5</td><td></td></tr>
<tr><td>Owned retained and franchise at constant currency</td><td>1,020.8</td><td>1,011.5</td><td>0.9</td></tr>
</table></td></tr>
<tr><td>Gross margin</td><td>Gross profit margin[1]</td><td>Certain downstream logistics costs (see note 2)</td><td>Where referred to throughout the Annual Report, gross margin is calculated as gross profit before adjusting items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.</td></tr>
<tr><td>Adjusting items</td><td>None</td><td>Not applicable</td><td>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods.
Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.</td></tr>
<tr><td>Profit before tax and adjusting items</td><td>Profit before tax</td><td>Adjusting items (see note 5)</td><td>Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.</td></tr>
</table>

GLOSSARY (Continued)

Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 26)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the UK pension scheme less cash, cash equivalents and unlisted and short term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statements excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure and interest paid. This measure shows the cash retained by the Group in the year.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination.

[1]Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.