Shaping the FUTURE

The next phase of M&S' transformation

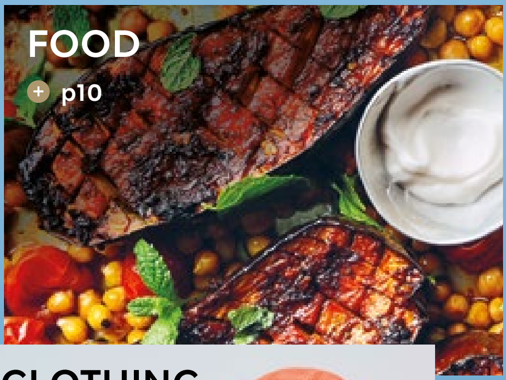
STRONGER TEAM, STRONGER BUSINESS,
STRONGER BALANCE SHEET

Marks and Spencer Group plc
Annual Report & Financial Statements 2022

M&S IS A LEADING BRITISH RETAILER, WITH A UNIQUE HERITAGE AND STRONG BRAND VALUES.

We operate as a family of businesses, selling high-quality, great-value, own-brand products and services, alongside a carefully selected range of third-party brands.

We do this through a network of 1,487 stores and 98 websites globally, and together, across our stores, support centres, warehouses and supply chain, our 65,000 colleagues serve over 30 million customers each year.



FOOD

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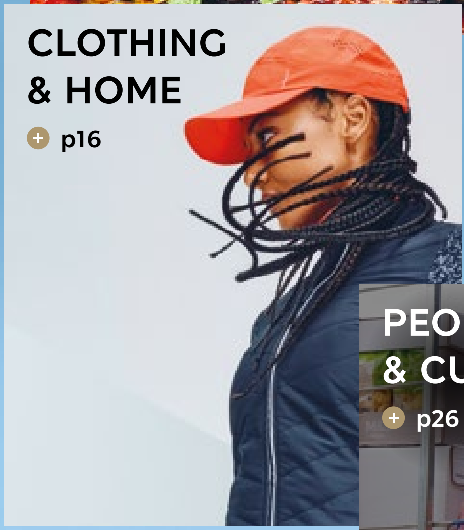

CLOTHING & HOME

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INTERNATIONAL

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PEOPLE & CULTURE

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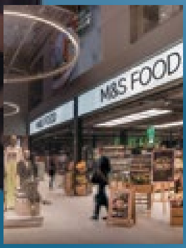
Cover

Inside M&S Stevenage, a strong example of how we're modernising our store estate to be fit for the future.



Group overview

Group revenue

£10.9bn (19/20: +6.9%)

Group profit before tax

£391.7m (19/20: +482.9%)

Percentage of UK Clothing & Home sales online

34% (19/20: 23%)

Basic earnings per share

15.7p (19/20: 1.3p)

APM **Group profit before tax and adjusting items**

£522.9m (19/20: +29.7%)

Group: Net promoter score[1]

+29 (new metric)

No dividend paid for 21/22

APM **Net debt excluding lease liabilities**

£420m (19/20: -71.2%)

Digital: Net promoter score[1]

+5 (new metric)

APM **Adjusted earnings per share**

21.7p (19/20: +29.9%)

Stores: Net promoter score[1]

+81 (20/21: 81)

APM

Alternative performance measures

The report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of UK-adopted International Accounting Standards. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 192 to 197 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

Year-on-year comparison

The impact of Covid-19 in 2020/21 renders comparisons to the prior year less meaningful. To aid understanding, throughout this document we are showing the 52 weeks to 28 March 2020 as the comparative period, unless stated otherwise.

Net promoter score

This year we launched a new Voice of the Customer programme, including Net Promoter Scores (NPS), which established a new measurement framework. This includes several new measures, including a M&S Group NPS metric, which for the first time provides a total view of our customers and a new Digital NPS metric, which tracks customer sentiment across M&S.com and our app. We will continue to benchmark our performance against the new framework in future reports.

Strategic report

All references to sales, a new APM, throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT.

Governance

Financial statements

1. Shareholder information forms part of the Directors' Report.

CHAIRMAN'S LETTER

"WE HAVE A VERY DYNAMIC NEW LEADERSHIP TEAM TAKING OVER FROM STEVE ROWE, OUR LONGSTANDING CHIEF EXECUTIVE. THEIR MANDATE IS NOW TO RESHAPE M&S AS A GROWTH BUSINESS CAPABLE OF EXPLOITING THE POWER OF OUR GLOBAL BRAND."

Archie Norman, Chairman

Dear shareholder,

Marks and Spencer ends the 2022 financial year at an inflection point in its history. Not only have we emerged from the pandemic a stronger business, but we are also at the end of the "fixing the basics" phase of our transformation. And we have a very dynamic new leadership team taking over from Steve Rowe, our longstanding Chief Executive. Their mandate is now to reshape M&S as a growth business capable of exploiting the power of our global brand.

I want to be clear that on doing so we are not declaring victory. Whilst we can now see more than glimpses of the potential in both Clothing & Home and Food, there are many aspects of both main businesses that require improvement, but the strategy is now clear, and our results this year have exceeded most expectations. Steve Rowe, in his remarkable tenure as Chief Executive grasped many of the nettles and addressed the underlying drift of previous decades. The change in leadership is not likely to herald a change of direction but rather a significant acceleration and a bolder approach to investment and growth.

However, with M&S, life is never plain sailing. On top of the transformation programme, the last four years have seen the businesses buffeted by a series of external shocks, Brexit, the pandemic, and the invasion of Ukraine. We live in an era of hyper-active government and expect increases in tax on profits and employment this year, alongside new regulatory pressures notably on food content and store layout. In the next eight months we expect the strongest reduction in consumer real income for decades.

The test of the quality of a business is not whether it encounters storms, but how resilient it is to ride them out. Of course, a dramatic reduction in real income will impact our profits. But with the changes we have made, M&S is in much stronger shape and we start from a rising trend in sales. We have moved to a faster, less hierarchical, more commercial organisation and culture. We are more digital and geared to an omni-channel future, with Clothing & Home online sales penetration double that at the outset of our transformation and the Ocado joint venture well positioned for growth.

Look Behind the Label

As part of our Plan A reset in September, we relaunched the iconic Look Behind the Label campaign, inviting customers to find out more about the action M&S is taking to do right by the planet.

Alongside this, customers were encouraged to visit our new hub through social channels, where we set out everyday actions customers can take to help reduce their carbon footprint.

Our international franchises are in good shape and we are rapidly growing our "global" online business. Both our main UK businesses have achieved market share growth in recent months and are well placed on value.

We have strong new store formats and a good pipeline of store relocations and rebuilds. Our balance sheet is commercially stronger than at any recent time.

So, our approach to the likely consumer recession will be unwavering. Our ambition is to become a growth business. M&S was founded in 1884 and we are striving to build a great business for the next 100 years. We expect to increase our investment in digital, technology and the store estate in the year ahead. For that reason and because of the macroeconomic uncertainty, we are reserving our position on future dividend payments. There will come a time to review the return of capital for shareholders, but it is not now.

I believe that the role of the Board in a transformation is not just to oversee good governance. It is to be the guardian of the strategy and values of the business, and the debating partner of the executive, and to be available to provide impartial advice to accelerate the transformation.

A good Board is an engaged Board. In the last year with the pandemic, the succession of leadership and other issues, we have had a stable team, robust discussion and great engagement. This year, Andy Halford, who has now served nine years, will hand over Chairmanship of the Audit Committee to Evelyn Bourke and we expect to appoint a successor to his role as Senior Independent Director (SID).

Most importantly, Steve Rowe is leaving us after spending almost all his career at M&S, starting on the shop floor and rising to Chief Executive, leading the business through the last six years. He has been heart and soul M&S and goes with the thanks and affection of everyone in the business. He has helped us plan the succession to Stuart Machin as Chief Executive and Katie Bickerstaffe as Co-Chief Executive alongside Eoin Tonge as Group CFO & Chief Strategy Officer. They represent a very strong and balanced team with the experience and energy to drive the next phase of change – "shaping the future".

Finally, M&S is a unique employee brand and the principles of equal respect, engagement and care of our colleagues run deep in our history. This year has been a testing one for everyone. Next year will be different but also challenging. We are deeply grateful to all our colleagues for their commitment, loyalty and hard work.

Archie Norman Chairman

Forward THINKING

Boosting our digital & data skills

To consistently deliver great products and services to our customers, we need to be forward thinking and data driven.

Having the right skills, capabilities and culture across the business to harness the insights we generate isn't just a nice-to-have – it's a necessity for our transformation. Which is why we've been investing in the skills of our teams, with over 1,000 colleagues from across the business having been upskilled through our data skills pathway, which we launched in 2018 with retail's first ever data academy in partnership with Decoded. Today we have four separate streams, including our most recently launched L7 Data Science & AI apprenticeship, all equipping our teams with the tools and skills they need to stay one step ahead of our customers. We want to establish our reputation as a data led organisation – and these programmes are a big part of how we're doing that.

1,000+

Number of colleagues upskilled through our data academies

COMPLETION OF THE FIRST PHASE OF TRANSFORMATION

Four years ago, in a presentation entitled "Facing the Facts", we set out why change was needed at M&S to arrest decline. Our results this year demonstrate the extent of change delivered.

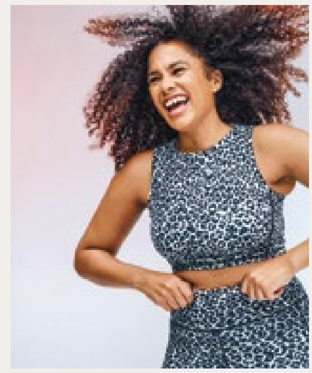
Fixing the basics

Food

M&S Food is now the top-performing UK food business in the sector based on like-for-like sales over 12 months, driven by record quality and improved value perception.

Brand appeal

Our brand perception was weakening, and customers questioned the relevance of M&S, but our efforts to broaden the appeal of our ranges has resulted in improvements on almost all customer metrics.



Simplified our clothing range by

c.20%

Clothing & Home

Customers told us clothing had become confusing to shop and growing option counts were leading to lower rates of sale. Options have now been reduced by 20%, and we've backed our bestselling lines and improved style credentials to deliver growth in key categories.

Taking M&S Food online

Four years ago, M&S Food had no online capability, but our 50% investment in Ocado Retail in 2019 has taken our full food range online for the first time.

Growing M&S.com

We have nearly doubled our Clothing & Home online penetration from 18% to 34% and driven a focus on M&S app downloads to reach 4m users. The nascent 'Brands at M&S' offer has been established, giving customers more reasons to visit M&S.com.

Faster online fulfilment

Castle Donington struggled to cope with demand and fulfilment speeds lagged the market, but outputs have now doubled and delivery service and speeds are competitive again.

Trusted value

In 2018, c.30% of Food and c.35% of Clothing & Home stock was sold at discount, eroding customer trust. Today, this has reduced to c.15% and c.18% respectively, rebuilding belief that the first price is the right price.

Digital-first loyalty

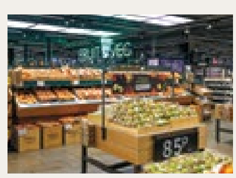
In 2020 Sparks relaunched as a digital-first loyalty scheme – and has doubled customer numbers in less than two years to over 15 million members.

Tackling our legacy store estate

Our legacy store base was ageing, with no track record of closures or adaptation to how our customers want to shop today. We now have a programme of store rotation underway to create a store estate fit for the future.

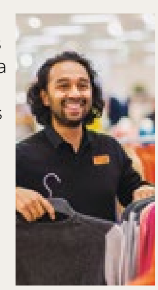
Store renewals

40



A family of accountable businesses

The slow and hierarchical corporate structure has been restructured into a family of accountable businesses, with leaders who are close to the front line and make decisions based on insight and data.



Nonetheless, there remains much to do as we embark on our new "shaping the future" stage, and **three important infrastructure challenges remain** which can still impact the pace of change and recovery:

#1

Although we have materially changed our digital footprint, some of our **core technology systems** need investment. Most notably in Clothing & Home, where range planning and supply chain tracking can be significantly improved to drive more efficient trading.

#2

Our **supply chains** require further investment, with the opportunity in Clothing & Home to reduce single picking, improve capacity, reduce costs and improve store operations as a result. In Food we need improved operations with Gist and to invest in and reshape the network.

#3

The **full-line store estate** remains aged compared to competition, and there is much still to do. Clothing & Home store sales are running more than 25% below four years ago, yet we have had less than a 10% reduction in space since then. The imperative to reduce space and rotate to newer better stores remains.

CHIEF EXECUTIVE'S STATEMENT

> "WHAT IS IMPORTANT ABOUT THESE RESULTS IS NOT JUST THE RESTORATION OF PROFIT AND STRONG CASH FLOW, IT IS THAT THEY DEMONSTRATE M&S HAS FUNDAMENTALLY CHANGED."
>
> *Steve Rowe, Chief Executive*

STRONG PERFORMANCE DELIVERED BY A MORE RESILIENT M&S

A strong all-round performance combined with the benefits of the transformation delivered an encouraging performance across M&S. Profit before tax and adjusting items for the period was £522.9m (2019/20: £403.1m). Statutory profit before tax was £391.7m (2019/20: £67.2m). The recovery of profit combined with a focus on working capital and tightly controlled capital expenditure generated substantial free cash flow and a sharp reduction in net debt. Results included £59.8m of UK business rates relief and a net rates charge of £139.7m in the period.

M&S Food now a high-performing business with market share growth

M&S Food delivered sales growth of 10.1%. Combined with an improving margin mix in H2 and the benefits of the "lowering cost" programme, this supported a strong increase in operating profit before adjusting items. We were encouraged by the core sales performance and the resilience of larger basket sizes, even as we saw a gradual recovery in the franchise travel and hospitality businesses in H2. Value and quality perception indicators are robust. The strength of performance in new channels (Ocado and Costa Coffee) reinforces our belief in the long-term potential to grow the business.

Ocado Retail transitioning to strong capacity growth post pandemic reversion

As expected, Ocado Retail saw a normalisation of basket sizes and the shape of trade, resulting in a 4% decline in revenue and a reduced contribution to Group results after exceptional costs including the Erith fire. At the same time, we are investing in new capacity despite the backdrop of well-understood industry cost pressures, demonstrating our confidence in Ocado Retail. This has the potential to grow the business by over 50% when fully ramped up. With the M&S brand consistently over 25% of the average Ocado basket, we believe there is substantial further synergy potential for the two businesses to exploit.

Clothing & Home on track for a more profitable model capable of growth

Clothing & Home delivered 3.8% sales growth, driven by online sales. We shifted to trusted value, reducing option count by c.20% over three years, which resulted in good growth in core categories and a reduction of stock into sale. Operating profit before adjusting items grew strongly, reflecting the improved full-price mix. MS2 made multiple improvements to the online offer and service, with around 11% of orders fulfilled from store. We have successfully grown the Sparks programme to 15m members and app users to over 4m, and have begun to personalise customer experience. The nascent brands platform now has around 40 clothing brand partnerships, own or invested brands.

Ukraine response: Thank you to our customers and colleagues

From the outset of the invasion, our priority was to act with pace and provide meaningful support to the people of Ukraine. We moved quickly to get behind UNICEF UK's Ukraine Appeal with a corporate donation and pledged to double donations from customers who selected UNICEF UK as their Sparks charity. However, in response to the escalating humanitarian crisis, we announced a further £1.5m support package; including a kickstart donation of £500,000 to UNHCR, the UN Refugee Agency, and 12,000 items of winter clothing – to be distributed to those in need.

We made it possible for colleagues and customers to show their support too, activating giving at till-points and on M&S.com, allocating £500,000 to match colleague fundraising and doubling Sparks donations on an ongoing basis. Across the entire M&S Family, the response has been incredible with £1.7m donated by customers, made possible through till-point and M&S.com donations for UNICEF UK on an ongoing basis, as well as over £115k raised through colleague fundraising events across stores and support centres.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Building store rotation pipeline driving exit from legacy stores

We are now developing a growing pipeline of store relocations, moving to modern well-located sites, in the renewal format with omni-channel capability. We aim to fund the exit costs of the legacy estate through an increasingly active asset management and disposal programme. We have a pipeline of c.15 new full-line stores over the next three years and c.40 new Food stores, many in the larger renewal format with click-and-collect services for Clothing & Home. The 10 new stores opened last year traded 11% ahead of sales plan and are on track to generate a payback of the net capital invested in just 1.5 years. New store performance gives us encouragement wherever possible to accelerate rotation.

International absorbing Brexit-related costs, but emerging global strategy encouraging

The International business, together with our partners, generated 4% retail sales growth. This included a solid performance in the Middle East and online retail sales more than doubling to over £250m through growth in markets with a store presence and global platforms. Operating profit before adjusting items reflected the combined effects of EU border costs and tariffs of £29.6m and an estimated trading impact in the region of £15m. While we have provided for the £31m cost of fully exiting Russia and business disruption in Ukraine, and will incur a loss of contribution, we are also exploring multiple opportunities for further growth, including through the Reliance joint venture in India.

Extending and expressing our sustainability lead

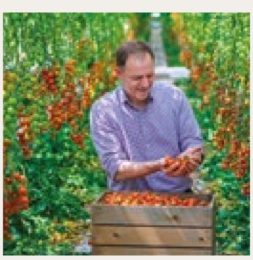
During the year we reset Plan A with a singular focus on cutting our carbon footprint by one third by 2025 and becoming a fully net zero business by 2040. As an own-brand retailer, M&S is very well positioned to work with its supplier partners to find better ways of doing things. We developed a multi-stakeholder plan spanning customers, colleagues and suppliers to deliver on this target. We also agreed a new £850m revolving credit facility linked to the delivery of the net zero roadmap.

A stronger M&S

When I took over the reins at M&S six years ago, I committed to tackle the underlying issues that had eroded the strength of the business and build the foundations for future growth. For me, what is important about these results is not just the restoration of profit and strong cash flow; it is that they demonstrate that M&S has fundamentally changed. While there is much more to do, the business has moved beyond proving its relevance and has the opportunity for substantial future growth. It has been my privilege to be the steward and shopkeeper of this fantastic business and extraordinary brand at such an important stage in its history. The changes we have delivered are down to the commitment and hard work of colleagues across the business and I am delighted to hand the baton on to Stuart, Katie and Eoin to lead the next phase.

Steve Rowe Chief Executive

Read about our strategic priorities in the following chapters



M&S FOOD high-performing business and market share growth

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OCADO transitioning to strong capacity growth post pandemic reversion

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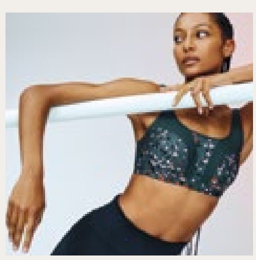

CLOTHING & HOME on track for a more profitable model capable of growth

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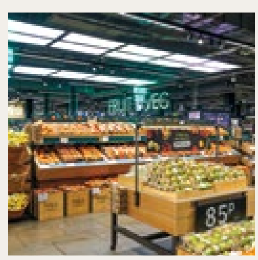

Building **STORE ROTATION** pipeline, driving exit from legacy stores

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INTERNATIONAL absorbing Brexit related costs, but embryonic global strategy encouraging

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THE NEXT PHASE OF TRANSFORMATION

As we enter the next phase of the transformation, we maintain our ambition to create a business capable of sustainable growth in sales, market share and profit. With improved profitability and cash conversion, and financial net debt under a third of 2019/20 levels, the business is resilient to the macroeconomic headwinds while having flexibility to invest in our transformation priorities.

MACROECONOMIC HEADWINDS IMPACT ON PERFORMANCE AND EXPECTATIONS

There is substantial inflation in both cost of goods sold and operating costs including fuel, power, building materials and maintenance. Food cost inflation is being driven not just by global supply issues but also labour shortages, border- and customs-related costs, and in some cases reduction in UK capacity by growers and producers. In Clothing & Home, factory cost prices, transport and freight costs, combined with continued supply issues in China, are driving similar pressures.

Consequently, customers' spending capacity is under pressure. We expect these pressures to increase as the year progresses. We are therefore planning for an adverse impact on volumes due to price inflation, slowing the rate of sales growth.

LATEST UPDATE AND GUIDANCE FOR 2022/23

Overall trading in the first six weeks of the financial year has been ahead of the comparable periods in 2021/22, including the period from April 12, 2021 when non-essential retail reopened, with a particularly strong performance in Clothing & Home and growth in the total Food business continuing to outperform the overall market.

While encouraging, we expect the impact of declining real incomes to sharpen in the second half and endure for at least the remainder of the financial year. There is no current sign of inflation abating, although we believe the rate of cost growth will subside by the third quarter.

However, we believe that our market positioning and business strategy will help us mitigate the effects as:

- Our stronger value perception in both businesses will provide protection from customer downtrading;
- Our large share in 'for tonight' shopping in Food provides resilience compared with the core grocery market;
- As travel, leisure events and weddings return, we expect to see a revival of the demand that receded in the past couple of years;
- Some of our customers, while not immune to the pressure, have a degree of cushion from the higher savings ratio recorded during the pandemic;
- The experience of the past two years has illustrated the earnings balance provided by both Food and Clothing & Home and trading through stores, online and international channels.

In addition, we are taking specific steps to support performance in this environment and offset inflation. In Clothing & Home we are taking a more flexible approach to trading and currently retain a substantial proportion of open to buy for H2. We are also starting to develop the strategic supplier programme. We expect further benefits from the 'lowering cost' programme in Food and are continuing to drive digital-led efficiencies in stores and simplify ways of working in support centres.

This year the business will not receive business rates relief and International will not have the profit contribution from Russia. As we invest in capacity growth at Ocado Retail, we anticipate a minimal contribution of share of net income to group results. Consequently, we start 2022/23 from a lower adjusted profit base. The business is now much better positioned and had an encouraging start to the year. However, given the increasing cost pressures and consumer uncertainty, we do not currently expect to progress from this lower profit base in 2022/23.

INCREASING THE PACE OF CHANGE AND INVESTING IN GROWTH

Despite the near-term challenges, the business is better set up both financially and operationally for the medium-term. The combined opportunities to both improve the infrastructure and invest in growth mean that we expect to continue to increase our investment rate, albeit subject to careful assessment and even stricter financial discipline given heightened uncertainty. As a result, and taking into account inflationary pressures, we anticipate capital expenditure will increase to around £400m in the coming year (2021/22 £300.2m excluding property acquisitions and disposals). The areas of focus and opportunity are as follows:

- Technology investment to drive the digital transformation of M&S and systems improvement to support more responsive trading.
- Supply chain investment to create a quicker, more efficient operation and pave the way to a modern, automated network.
- Multiple opportunities for growth in the store estate, including investment in renewal, larger-format Food stores, rotation to modern, accessible full-line stores, and growth through franchise partnerships.

Our capital allocation decisions will continue to be guided by our ambition to grow the business while sustaining balance sheet metrics consistent with investment grade. The Board will consider the scale and timing of a resumption of dividend payments at the year end.

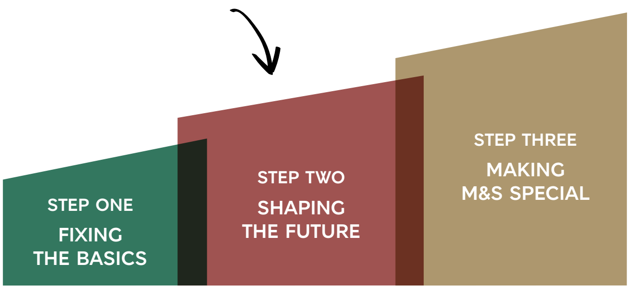
Financial Review

"Despite the near-term challenges, the business is better set up both financially and operationally to invest for the future."

Read our full Financial Review on p36 →

THE NEXT PHASE OF TRANSFORMATION
CONTINUED

We are confident about the future potential of M&S, but we know we need to go further and faster in this next phase of transformation to reposition for growth. The new leadership team will set out their plans in more detail later in the year, but the following detail sets out their clear areas of focus to protect the magic of M&S, whilst modernising the parts where we currently lag, so that we can drive growth.



- The most important priority is to build on the strength of the M&S brand and product. We will offer style in Clothing, Home and Beauty, great taste in Food and underpin that with our commitment to trusted value. Alongside this we will raise the bar in categories where we have opportunity to grow market share.
- We will offer our customers a truly seamless experience across all our channels wherever we trade around the world, using our data and insight to improve personalisation capability.
- We will offer our customers curated choice. Building our core M&S product, whilst opening up our channels to partners that complement and enhance the range.
- 'Do the right thing' is an M&S value but it reflects a behaviour that's deep in the culture and we will put it into action and better connect our ambitious net zero plans to our commercial strategy.
- Alongside this, we need to modernise the key enablers that will unlock growth potential at M&S. This means:
  - Modernising and focusing our store estate
  - Simplifying and future proofing our supply chains
  - Building more responsive and agile systems to improve visibility and insight

Joined the Board on 25 May 2022

"Under Steve's leadership M&S has changed, while holding true to its values. I feel very fortunate to be leading the next chapter in M&S' story with two fantastic partners in Katie and Eoin. Thanks to the changes made – we are facing into the market wide inflationary pressures from a much more resilient position. We are confident in our ability to trade the business and – at the same time – increasing the pace of change and investing behind our long-term growth. Effectively managing for today and building the M&S for the future. This means a simpler, faster M&S with a laser focus on execution, so that we can be a great place for our colleagues to work and a great place for our customers to shop.

Stuart Machin Chief Executive Officer

Having led the first phase of transformation in our respective areas, the new leadership team brings the ability to accelerate change, whilst providing the breadth and continuity the business needs. Like in any retailer, we will always have a to-do list, but M&S benefits from an extraordinary brand, exceptional customer insight and fantastic committed colleagues, and we now have the right foundations in place to reposition the business for growth both in the UK and globally."

Katie Bickerstaffe Co-Chief Executive Officer

BUSINESS MODEL

OUR CUSTOMERS

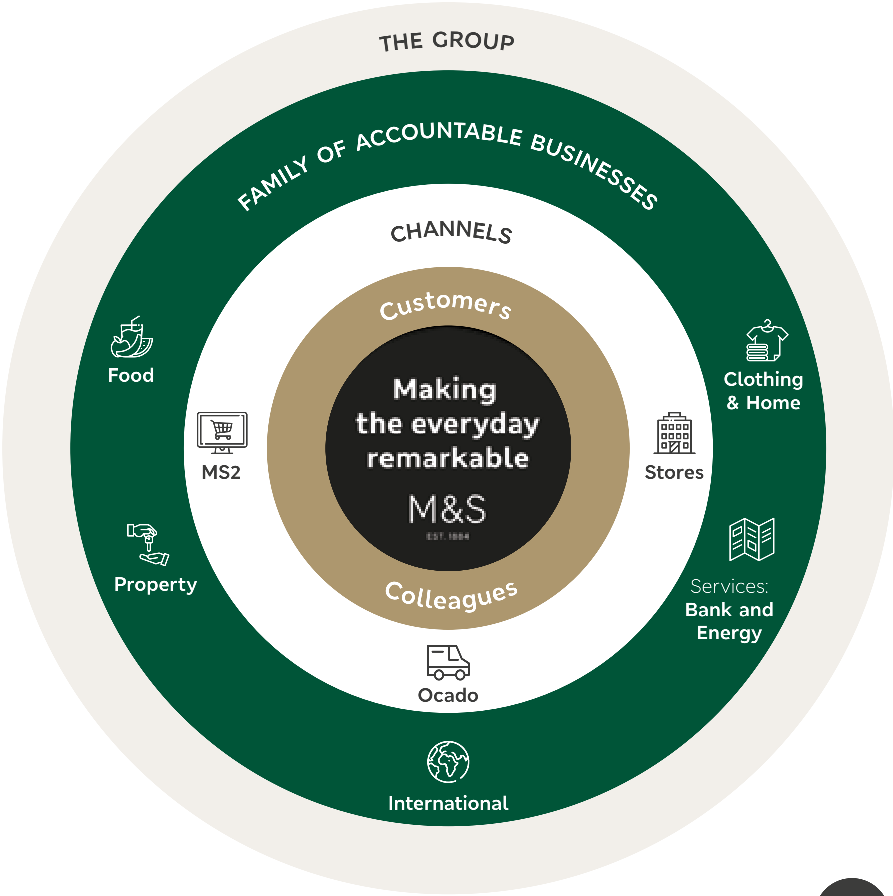
M&S serves nearly 30 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services to make us more relevant, more often, to our customers and beyond, who we reach through a channel network of 1,487 stores and online services in the UK and over 100 international markets.

Number of customers served in 21/22

30 million

OUR COLLEAGUES

We employ c.65,000 colleagues across our stores, support centres, logistics operations and international teams. They demonstrate extraordinary passion for the business, deliver outstanding customer service and bring extensive technical skills and expertise in areas such as sourcing, fit and product development.



A FAMILY OF ACCOUNTABLE BUSINESSES

M&S operates a family of parallel businesses, each led by its own integrated management team, with functional accountability for their divisions, including marketing, supply chain and finance. We predominantly sell own-brand products, manufactured and marketed exclusively under the M&S brand, with quality, innovation and trusted value at their core.

Food

M&S Food sells sustainably sourced products of exceptional quality and value through five main categories: Protein, deli and dairy; Produce; Ambient and in-store bakery; Meals, dessert and frozen; Hospitality and Food-on-the-move.

Clothing & Home

M&S sells stylish, quality, sustainably sourced own-brand clothing and homeware through our principal product departments: Womenswear, Menswear, Lingerie, Kidswear and Home.

International

M&S exports the best of M&S Food and Clothing & Home around the world in selected target markets. Customers purchase our products through a network of mainly partner-led businesses or through online-only channels.

Services

Through M&S Bank (operated by HSBC), we provide a range of financial services – with a focus on credit card and payment solutions that create a rewarding shopping experience. M&S Energy is a competitive fully renewable energy source provider (operated by Octopus).

Property

We have an active Property Development team to maximise the value of our property assets through investment and development opportunities.

OCADO

M&S holds a 50% investment in Ocado Retail, a relationship between M&S and Ocado Group plc. Since September 2020, the M&S Food range and selected Clothing & Home products have been available for customers to shop on the Ocado platform, giving the Group access to the UK's fastest-growing grocery sales channel.

MS2

MS2 brings together our data and online teams to invert the conventional model where M&S.com had been run as an extension of the stores business and enables them to take advantage of the online growth opportunity.

FOOD

BIGGER, BETTER, FRESHER

Financial highlights

UK Food revenue

£6.6bn (19/20: +10.1%)

Operating profit before adjusting items

£277.8m (19/20: +17.4%)

The objective for M&S Food is to "protect the magic" by investing in our unique focus on own-brand innovation and fresh, easy-to-cook food, while "modernising the rest" of the infrastructure supporting it. By extending reach of the brand into bigger, new-format stores and growing new channels (Ocado Retail, Costa Coffee), we see the potential for substantial growth.

M&S Food delivered sales growth of 10.1% vs 2019/20 and in H2 continued to be the best-performing UK grocery chain (Source: Kantar 12 weeks ended 20 March 2022). This was despite continuing adverse Covid-related headwinds and the absence of online grocery sales, which are reported separately through Ocado Retail.

Sales grew 14.7% after adjusting for the Covid-related impact on the hospitality and franchise businesses. H2 saw a gradual recovery of stores in city centres and the franchise travel business compared to H1.

Operating profit before adjusting items of £277.8m, as compared to £236.7m in 2019/20, reflected sales growth and the lowering cost programme, partly offset by increasing supply chain cost pressures in H2 and Brexit-related costs in Northern Ireland.

PERFORMANCE UNDERPINNED BY IMPROVEMENT IN QUALITY AND VALUE

The outperformance of the M&S Food range over the past four years has delivered improved customer perceptions for both value and quality, and good core sales growth. Market share has grown from 3.4% to 3.6% over three years.

The consistently strong core sales performance throughout 2021/22, supported by good market conditions, is evident in the category sales mix, with growth in core areas such as produce, meat and grocery. This was driven by larger basket sizes, which began to normalise through the year as the effects of Covid reduced.

Understanding our customers

MARKET CONTEXT

The grocery market shrank -4.4% compared to the prior year for the 52 weeks ended 17 April 2022, declining to £127bn (Source: Kantar).

What customers bought

Our aim is to offer every customer shopping with M&S Food a bigger and fresher range of delicious food to choose from, at everyday value they can trust. Throughout the year we've seen customers purchase more products from our core grocery and produce ranges – like our 78p bananas, 60p Vitamin D-enriched bread or £1 100% British eggs – in higher volume, driving bigger baskets.

Sales vs 2019/20 (%)	H1	H2	FY
Frozen	40	18	27
Beers, wines & spirits	30	17	23
Grocery & household	33	9	20
Meat, fish, poultry, deli, dairy	20	14	17
Bakery	13	18	15
Produce & flowers	14	12	13
Total	**20**	**14**	**17**

Sales vs 2019/20 (%)	H1	H2	FY
Food-on-the-move	-18	-4	-11
Hospitality	-53	-27	-40
Total	**-30**	**-12**	**-21**

Where customers shopped

With M&S available on Ocado and Costa, along with the growing number of bigger, better, new-format Foodhalls in retail parks, the breadth of channels in which customers can shop for their favourite M&S products has grown. This year, as the impact of the pandemic on locations such as city centres, high streets and travel locations reduced, we've seen customers gradually returning, but with Simply Food and retail park locations remaining the main destination of choice for M&S customers.

Sales vs 2019/20 (%)	H1	H2	FY
Simply Food	27	18	23
Retail parks	23	20	22
Franchise fuel	13	8	11
Total	**25**	**18**	**21**

Sales vs 2019/20 (%)	H1	H2	FY
High street	-10	-6	-8
City centre	-18	-10	-14
Franchise travel (rail/air/roadside)	-49	-29	-39
Total	**-18**	**-10**	**-14**

FOOD
CONTINUED

Growth was supported by a substantial programme of product innovation, with over 1,350 new lines over the past year, including summer barbecue ranges, extensions to our market-leading Plant Kitchen offer, and an expanded "Dine In" programme.

In a climate of increasing price awareness, "Remarksable Value" and "Fresh Market Specials" ranges have been relaunched, offering products with an M&S quality differential at everyday low prices. Around one in four M&S baskets now include one of these lines. Overall, value perception has improved by five points since March 2019, ahead of the market, and quality perception is at the highest level in over five years.

The Food renewal format creates larger stores with the efficiency of a supermarket and the 'soul' of a fresh food market. This has now been implemented in 40 stores, enabling customers to access more of the M&S range. Annualised sales in Food stores which have been fully renewed have been strong, on average up over 10% vs control stores.

In the second half, we launched a ground-breaking partnership with Costa Coffee, making available around 30 M&S food-on-the-move products in c.2,500 coffee shops. These include new lunch options, hot meal boxes and children's food. Early sales are in line with our expectations.

MORE TO DO ON SUPPLY CHAIN, WASTE AND AVAILABILITY

The M&S Food supply chain remains less efficient and, we believe, higher cost to serve than our competitors. This is a result of a complex store and logistics network, a high level of chilled product mix and a costly supply chain contract with our partners, Gist. Alongside this, our forecasting, ordering and stock allocation systems are dated and are in the process of being upgraded.

Over the past two years we have implemented the "Vangarde" trading model across the full Food estate, creating more efficient processes for stock management and replenishment of stores, which has helped to sustain availability through the supply chain disruption of last year. However, waste and stock loss remain above target levels. In the next stage we will roll out new forecasting, ordering, and space, range and display systems to better match catalogue and product display to customer demand, with the objective of realising a substantial reduction in food waste. The increasing store rationalisation programme is also helping to create a network of conforming stores which are lower cost to serve.

Can I App it? Yes you can!

To promote the benefits of the M&S app and encourage more customers to download and start using it, we ran a two week app-focused campaign in March, including our first ever Sparks TV advert.

As more customers turn to shopping with us digitally, we've been building our quick and easy digital shopping experiences – such as scan & shop and digital click & collect – which, alongside our Sparks rewards scheme, are all hosted in the M&S app. Not only is this the easiest and most rewarding experience for customers but it also builds our omni-channel capabilities and offers flexibility for customers so that they can choose how they shop with us. The result of the campaign was over half a million app downloads across March and monthly active app users reaching new levels.

Rewards you'll

LOVE

SPARKS

M&S Food Renewal

Central to the strategy of M&S Food is modernising how we bring delicious, great-quality ranges to customers; with our Food store renewal programme a key driver of this.

The renewal programme takes existing M&S stores and invests in them to meet varying requirements so that they offer the efficiency of a supermarket and the 'soul' of a fresh food market, showcasing the quality, value and freshness of its ranges. These stores have increased produce, bakery, ambient, grocery and frozen ranges, as well as innovative concepts like Fill Your Own, Wine Tasting, Ceramic Pizza Ovens or new-look M&S Cafes – all laid out in an inspiring and aesthetically-pleasing format. M&S has renewed 40 stores so far across the UK, delivering a bigger, better and fresher experience for customers across Food, such as our Woking store seen right, with more in the pipeline for the year ahead.

40

Stores renewed

Fit for the

FUTURE

Strategic KPIs

Value for money perception[1]
Customer perception of M&S Food representing value for money remained level this year, following last year's +3ppt increase (Source: YouGov). Our focus on offering M&S quality products at everyday value – such as the relaunch of our "Remarksable Value" range this year – have driven increases in value perceptions ahead of the market.

LEVEL (20/21: +3ppt)

Quality perception[1]
Customer ratings of M&S Food products on quality were level on last year (Source: YouGov) and remain at their highest point in five years.

LEVEL (20/21: +3ppt)

Availability
Our Vangarde trading model has improved processes for stock management and replenishment of stores, and helped to sustain availability through the supply chain disruption of last year.

95% (20/21: 95.5%)

1. Reset quality and value perception scores tracking independent data which future reports will be benchmarked against.

FOOD
CONTINUED

British Select Farmers

We've continued to showcase our British Select Farmers, who deliver the exceptional quality, value, and freshness we're famous for, through our Fresh Market Update customer campaign. This multimedia and TV campaign helps strengthen customer perceptions of our quality and value.

New PARTNERSHIPS

Costa Coffee

This March, M&S and Costa Coffee launched an exciting partnership to bring together two of the nation's favourite high street brands.

A range of around 30 delicious M&S Food classics, including sandwiches, children's food and products from our Plant Kitchen and Made Without ranges, are now available in c.2,500 Costa Coffee stores and Drive-Thru lanes across the UK. The collaboration brings M&S' delicious Food-on-the-move to the nation's largest chain of coffee shops, taking our trusted value offer to a wider audience. So far, customers have reacted brilliantly to the tie-in, with sales performing strongly.

OCADO
TRANSITIONING TO STRONG CAPACITY GROWTH POST PANDEMIC REVERSION

Our ambition is to grow Ocado Retail over the next five years to achieve a market-leading national position in online food retailing and a brilliant showcase for the M&S brand and range. Doing so means building on the competitive advantages in quality, value and service that the Ocado platform combined with M&S Food can achieve. We will deliver growth through rapid expansion of customer fulfilment centres ("CFCs") alongside our immediacy proposition, Zoom.

Following a successful switchover to M&S supply, Ocado Retail delivered an exceptional performance during the lockdown periods in 2020/21. As expected, 2021/22 saw a reduction in average basket size to c.£123 in Q4 (2020/21: c.£145) and increasingly normalised demand across the week. At the same time, with a substantially larger industry growth opportunity than we envisaged when we acquired 50% of Ocado Retail, we are investing in an ambitious capacity roll-out plan, with new CFCs coming on stream against a backdrop of well-understood industry-wide cost pressures.

Ocado Retail delivered revenue of £2,248.8m, down 4.4% compared to 2020/21, and EBITDA before exceptional items of £104.8m as compared to £189.9m in 2020/21. We recorded a Group share of net income of £13.9m, after a £7.2m share of net exceptional costs.

	M&S financial quarter			
2021/22	Q1	Q2	Q3	Q4
Average orders per week (k)	383	338	375	367
Retail revenue (£m ex VAT)	618.4	517.5	547.8	564.7

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods. Average orders per week refers to results of Ocado.com.

TARGETING GROWTH IN ACTIVE CUSTOMERS AS PANDEMIC CONDITIONS NORMALISE

Ocado Retail delivered good growth in active customers through the year, with an acceleration in the final quarter compared with the prior year, as new CFCs came on stream. Order growth and average basket size reflected the return of customer behaviours towards pre-Covid levels as restrictions reduced and there was a return to more in-office working. As a result, revenue declined, but substantially outperformed the online grocery market (Source: Kantar 12 weeks ended 20 March 2022).

NEAR-TERM MARGINS REFLECTING A HIGHER PERCENTAGE OF IMMATURE CAPACITY

Near-term margins reflect the higher percentage of immature capacity as well as the peaks and troughs associated with normalised trading. Following a period of more limited capacity owing to a fire, Erith CFC was fully reopened in December 2021. During 2021 we also opened two new CFCs in Purfleet and Andover, which were operating at around half of their end-game capacities by Q4. Some one-off costs, associated with the fire at the Erith distribution centre and technology platform transition, have impacted the M&S share of profit.

Alongside the opening of Bicester in 2022 and Luton in 2023, we have plans to reach capacity for over 700,000 orders per week based on pre-Covid basket sizes, representing growth of over 50% when fully ramped.

SUBSTANTIAL FURTHER POTENTIAL FOR THE JOINT VENTURE

The M&S brand is consistently over 25% of Ocado Retail's sales, and this has generated substantial buying gains for both M&S Food and Ocado Retail. We believe there is additional unexploited potential to make better use of the M&S brand, data capabilities, and cross-marketing as the businesses work even more closely together. Towards the end of our coming financial year, we are also planning to re-platform from the legacy operating system to the "Ocado Smart Platform". This represents a major technology switchover and will provide Ocado Retail with a website and ordering capability that when fully developed we believe will be market-leading.

M&S Food online

Our partnership with Ocado Retail brings together our unbeatable quality and Ocado's industry-leading customer service. We're investing in growing capacity at Ocado Retail and believe there is potential for our two businesses to work even more closely together.

Number one full-price activewear range

GOODMOVE

We launched our activewear range Goodmove in January 2020 and have grown it to be our biggest in-house womenswear sub-brand. It's a credible competitor in the growing activewear market and a truly relevant offer for our customers – covering every area of activewear from performance items (pictured) to a growing yoga range. With health & wellness more important than ever for our customers, we continue to market the trusted value of the product and the market-leading innovations within the range, such as our new Extra High Impact Sports Bra (£28), with pioneering cup technology and front adjusting velcro straps. We sell 1.6 million Goodmove items annually – with 5,000 of our £25 Go Move "squat proof" leggings sold every month, and are the market leader for full-price women's activewear.

CLOTHING & HOME

Everyday style and value

The objective of Clothing & Home is to create a contemporary M&S range bought in greater depth, alongside a family of internal and external partner brands providing broader choices to our customers. We are at the very early stages of transitioning to an omni-channel business backed by exceptional data and highly personalised customer relationships, and a more sustainable, profitable model is starting to emerge.

Clothing & Home delivered sales growth of 3.8% vs 2019/20, with three consecutive quarters of underlying growth. Online sales were up 55.6%, with strong growth throughout the year outperforming pure-play peers and gaining 60bps of market share (Source: Kantar 52 weeks to 3 April 2022). Store sales declined 11.2%, with performance continuing to be impacted by legacy high street and city centre stores, although there was some improvement in H2.

Operating profit before adjusting items of £330.7m, as compared to £223.9m in 2019/20, reflected the benefits of sales growth combined with an increased full-price sales mix.

RESHAPING THE "PRODUCT ENGINE" TO DRIVE SHAPE OF BUY AND REDUCE CLEARANCE

The Clothing & Home offer has been reshaped over the past three years around trading principles focused on contemporary style, simple accessible product, and greater depth of buy. Overall option count has reduced by c.20% on 2018/19. Alongside the product change, there has been a successful shift to trusted value and everyday low price. As a result of these actions, discounted sales have reduced and stock into the clearance sale was down 34% on two years ago, enabling a simpler, more profitable operation. These changes are beginning to be reflected in improved customer style perceptions and are generating increased confidence in the new approach within the core product teams.

Blanket promotions, which often obscured inconsistent pricing and reduced trust, have largely been removed. The pricing architecture is clearer, offering value on entry price points in products such as women's jeggings, men's denim and the recently introduced "Remarksable Value" label in our Home ranges. As we have shifted to a trusted value approach, we have seen an improvement in value perception, which is now market-leading.

UK Clothing & Home revenue

£3.3bn (19/20: +3.8%)

Operating profit before adjusting items

£330.7m (19/20: +47.7%)

Understanding our customers

MARKET CONTEXT

The clothing market increased by 25% year on year for the 52 weeks to 4 April 2021 to a total value of £33.1bn (Source: Kantar).

What customers bought

In Clothing & Home, our aim is to offer everyday, sustainably sourced products that are relevant to how our customers are living and working – at trusted value. In the first half of the year we saw customers continue to purchase casual and activewear, a trend representative of the pandemic – before other categories such as formalwear began to return later in the year.

Sales vs 2019/20 (%)	H1	H2	FY
Women's denim	8	27	17
Women's casual tops	10	30	17
Women's knitwear	15	7	9
Men's casual	1	13	7
Kids daywear	21	27	24
Lingerie	0	9	5
Soft furnishings	23	12	16

Sales vs 2019/20 (%)	H1	H2	FY
Women's formal	-33	-20	-26
Women's holiday	-35	26	-24
Men's formal	-35	-20	-28
Men's footwear	-9	6	-1

Where customers shopped

As well as great products, our customers are always searching for easy and inspirational shopping experiences, and we're aiming to deliver this by building an omni-channel business where our stores and M&S.com combine seamlessly together. Over the course of the year we saw customers gradually returning to Clothing & Home stores; however, M&S.com remained the most popular shopping channel for our customers.

Sales vs 2019/20 (%)	Q1	Q2	Q3	Q4	FY
Retail park	-2	3	3	24	5
Outlet	-10	1	3	26	3
Shopping centre	-26	-16	-12	15	-12
High street	-24	-22	-20	-5	-19
City centre	-37	-28	-19	3	-22
Total C&H stores	**-21.2**	**-14.3**	**-10.9**	**5.6**	**-11.2**

CLOTHING & HOME
CONTINUED

STRONG PERFORMANCE IN CORE CATEGORIES AND IMPROVING STYLE PERCEPTION

As expected, category performance over the two pandemic years has been greatest in core casual categories, sleepwear and soft furnishings. Following the reopening of the economy in July 2021, the slow return to offices, combined with greater mobility, has led to a gradual improvement in formal ranges, elements of footwear and holiday.

- Womenswear has driven good growth in the “big three” departments of denim, knitwear and casual tops. A focus on simple, repeatable styles in dresses, supported by popular collaborations with brands such as Ghost, has resulted in a very strong performance. The Goodmove activewear brand has grown to over £65m in two years.
- Lingerie has seen a recovery over the past year in core areas such as sleep, underwear and bras. A focus on sharper value through multi-packs at opening price points has combined with new stretch offers such as “Boutique” and the launch of the “Neutrals” range.
- Menswear was impacted in the pandemic by its high formal and office-wear shares. We saw good growth in jersey, knitwear and underwear, although following reopening availability in formal categories was below target.
- Kidswear’s increased focus on daywear has combined with growth in schoolwear to deliver double-digit sales growth. The growth of M&S Kids provides an important entry point to the brand for family-age customers.
- Home ranges have been reshaped, with pricing realigned to the market in areas such as bed linen, lighting and curtains. Furniture ranges are being upgraded and losses have reduced.

Nothing Neutral About It

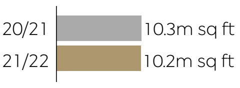
The new neutrals offer is a clear and simple proposition for all women – more colours, more sizes and more choice within neutral (also known as nude) bras & knickers. This new range gives customers the freedom to complement or contrast their skin tone. Customers can opt for a size, style and colour that makes them look good and feel great.

Strategic KPIs

Clothing & Home space

Progress has been made in addressing the legacy of our full-line store estate; however, there is much still to do to convert stores to a new more efficient, shoppable format and support our growth towards an omni-channel customer offer.

-1.0%



Value for money perception[1]

The percentage point increase in customers rating M&S Clothing & Home products highly on value for money (Source: YouGov). Our successful shift to trusted value and everyday low prices and the replacement of widespread promotions with clear pricing of our products, has improved our score by a further percentage point and means we remain the market leader on value for money perception by customers.

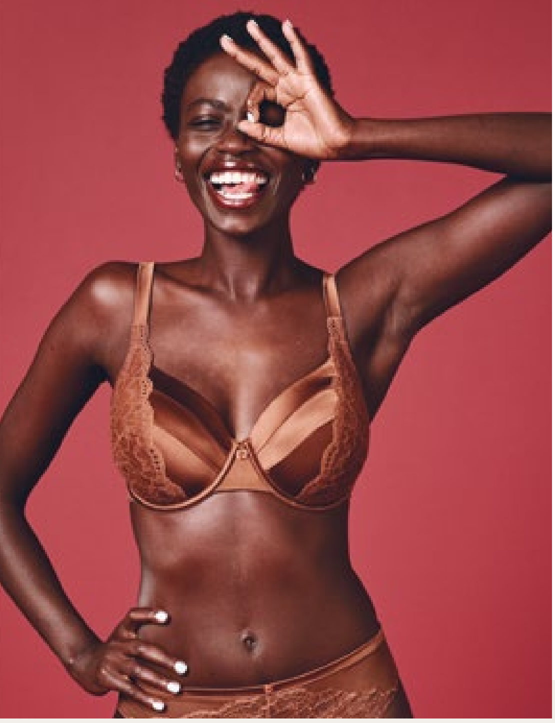
+1 (20/21: +3)

Quality perception[1]

Customers continued to rate M&S Clothing & Home products highly on quality (Source: YouGov). Although no change year on year in our score, we continue to be clear #1 in the market on product quality as a result of the reshaping of our product engine to focus on contemporary style combined with simple and accessible products.

LEVEL (20/21: +1)

1. Reset quality and value perception scores tracking independent data which future reports will be benchmarked against.



Nobody's Child

Our Brands at M&S strategy has continued to gain momentum. In November, we evolved our partnership with affordable, eco-conscious fashion brand Nobody's Child by investing a 27% stake in the business.

Bringing back strong brands

In March 2020 we launched our "Brands at M&S" platform, and today we sell over 40 complementary and curated brands on M&S.com.

From Sosander to Smiggle, we operate a range of models, including exclusive collaborations and brands we own, like Jaeger (Spring/Summer collection pictured), or have a minority stake in, like Nobody's Child. During the year, brands represented c.3.5% of our online sales and were shopped by over a million customers. Customers who buy brands not only on average spend double but return to purchase again 10 days sooner. "Brands at M&S" will continue to be online first, maximising the advantage our store network brings for seamless delivery and collection, but we've begun a number of exciting in-store trials with brands including Early Learning Centre (now in 10 stores) and SeaSalt (in 20 stores).

JAEGER

CLOTHING & HOME
CONTINUED

MS2 DRIVING OMNI-CHANNEL GROWTH

MS2 had a successful year, with strong online sales growth at an adjusted operating profit margin competitive with store sales. The MS2 organisation brings together the data, digital and online teams across M&S. Its aim is to prioritise the best online offer, acting with the speed of a pure-play while leveraging the store estate to drive advantages in reach and fulfilment to deliver better customer service.

- A programme of front-end digital development to inspire customers has included upgraded imagery, increased user-generated content, "shop the look" features and "hotspotting" of product benefits.
- We have introduced over 60 digital hubs in stores, enabling rapid click-and-collect and rolled out paper-free returns.
- Online availability through omni-channel fulfilment now exceeds store availability, with an increasing number of "online-only" products and use of the channel to trial "test and repeat" ranges. The online commercial teams are fully involved in category planning.
- During the year, c.11% of online orders were satisfied through in-store fulfilment. The ability to sell through stock in the store network has increased customer convenience, improved stock turn and helped drive customer availability to c.90%, compared with c.75% through the online distribution centre alone.
- The cut-off for next-day delivery remains below our target level but is now market-competitive.

Over the past three years we have built the foundations of a more personalised, customer-focused digital offer. We have created a single customer data platform alongside our enterprise data platform, "BEAM", which continues to consolidate our data in one place.

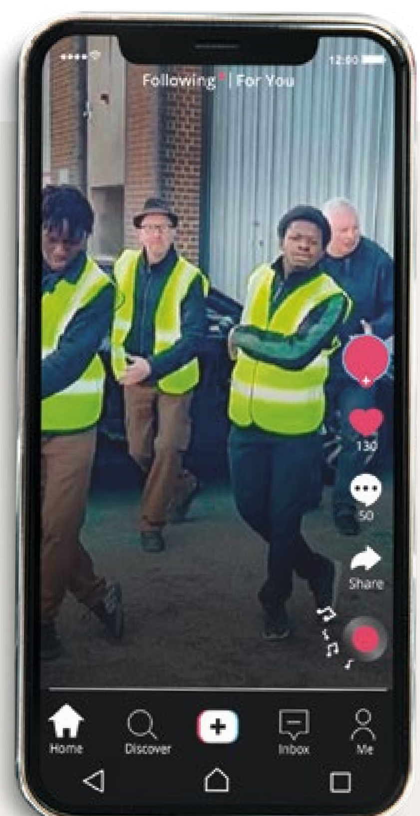
The relaunched Sparks programme has grown to over 15m members, of which close to 9m are active, and we are working on the next generation of improvements to the offer. We have grown app users to over 4m and expect to launch Sparks Pay, offering customers an integrated payment and credit proposition including loyalty rewards through Sparks and the M&S app.

Over the past year we began to personalise the customer experience through our website, app and customer relationship management programme, and around 8% of M&S.com sales are now being driven by personalisation. Although still at an early stage, we have developed a bespoke in-house solution to deepen relationships with customers and drive future growth. The goal is to build personalisation at scale to move from a targeted promotions model to one where the range, interactions and product presentation are relevant to the individual customer, making M&S a more engaging and easier place to shop.

Sparks and data provide the gateway to delivery of further services, notably the shift to a digital proposition for M&S Bank customers including credit, loyalty rewards and payment.

NASCENT PLATFORM OF BRANDS ESTABLISHED

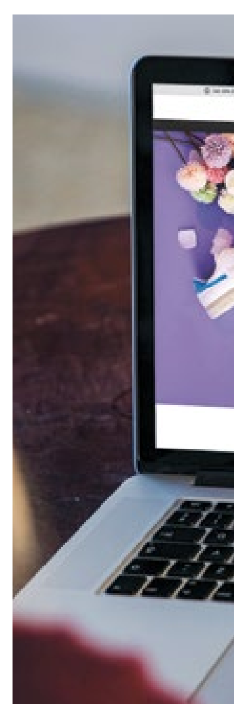
M&S has a strong and trusted brand which attracts customers to our platforms as the second largest UK online clothing retailer (Source: Kantar 52 weeks ending 3 April) with the largest omni-channel footprint. This, combined with our 15m Sparks card holders, credit card and customer data engine, creates the scope to bring other brands onto our platform,



A very social experiment

Over 600 M&S stores now have their own social media accounts on Facebook and TikTok.

Set up during the pandemic as a way to communicate with local customers about availability of essential items and opening hours, these accounts have evolved into a highly effective and engaging way for M&S stores to reach local customers and communities. Content updates on new products and services are attracting a collective 3+ million views a week. Our stores are also driving perception change on TikTok, with over 51 million views of our dedicated hashtag and M&S Romford leading the charge with their viral videos.



providing broader choice and personalisation for the M&S customer and substantial new revenue streams.

- In the last year we have established a series of pilots with a combination of around 40 clothing brand partnerships, own or invested brands. This has included the purchase and relaunch of Jaeger, as a contemporary British brand, a 27% shareholding in Nobody's Child and the majority acquisition of activewear brand curator, The Sports Edit, which brings new capabilities, customers and brands to the Group.
- These brand partnerships bring broader choice, premium price points and additional expertise to M&S. In total, third-party brands across Clothing, Home and Beauty, including Jaeger, generated c.£100m of orders in 2021/22.
- In establishing the operation, we have made early investment in the initial capacity required for ordering and business development. At this stage, the business trades through a wholesale or commission model, with product flowing through the M&S distribution network. We expect to evolve the model to add dropship capability, enabling the sale and fulfilment of orders from partner stock.

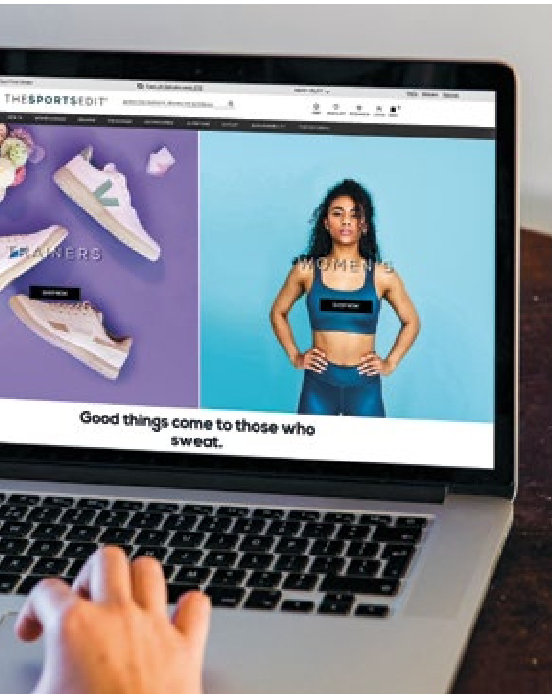
IMPROVING PERFORMANCE THROUGH ADDRESSING LEGACY ISSUES

Despite the far-reaching developments and progress in the product engine, the Clothing & Home business requires further development in legacy systems, supply chain and stores to enable a more responsive business with faster speed to market, an improved returns process, lower stock levels and a lower cost to operate.

In the current system, less effective systems configuration and interface makes planning and tracking slow and labour intensive. Teams have limited visibility to create accurate channel plans, and stock journeys from port to customer via multiple stock holding and consolidation points are lengthy and can be hard to track. The reconfiguration of systems is likely to take a number of years to implement.

The supply chain picking model can be slow and high cost to operate, resulting in a risk of trapped stock. The opportunity is to reconfigure the network to support our omni-channel needs better. In addition, the returns channel remains slow, creating excess handling cost and margin loss. We have already identified multiple ways of reducing this; for instance preparing returns for resale in the store of return or nearby stores to enable further improvements in omni-channel availability.

So, the pattern and rhythm of product flow will be further reshaped over the next few years. This reshaping will be underpinned by a commitment to fewer, deeper strategic supplier relationships to support a faster, more flexible sourcing model which has already proved comparatively resilient during the pandemic.



The Sports Edit

In March, we announced a new investment in the fast-growing brand platform The Sports Edit, which offers new and innovative brands. Our investment reflects our strategic focus on activewear, and in May we made our market-leading activewear brand Goodmove available on the platform.

Digital net promoter score

+5

Traffic (visits per week)

13.3m (20/21: 13.5m)

Percentage of UK Clothing & Home sales online

34% (19/20: 23%)

STORES & PROPERTY
ACCELERATED ROTATION OF THE ESTATE

The step change in online participation and further shift of trade away from high street and city centre stores during the pandemic has increased the imperative to reduce Clothing & Home trading space. Last year we set out the objective of the M&S store rotation programme to create a modernised estate of c.180 full-line stores and a growing programme of larger, more inspirational Food stores. We aim to fund the exit costs of the legacy estate through an increasingly active asset management and freehold disposal programme, which we expect to release at least £200m of cash proceeds.

DEVELOPING PROFITABLE ROTATION PIPELINE FOR FULL-LINE AND FOOD STORES

So far in the transformation, we have made significant progress in closing 68 legacy full-line stores and 19 smaller Food stores. We have also created a bigger Food store format which can serve more of the family shop and offer click-and-collect services for Clothing & Home, and opened 13 new, more efficient full-line stores.

We are now developing a growing pipeline of store relocations, moving from old multi-floor buildings, often with challenged fabric and poor access and car parking, to modern, well-located sites wherever possible in the renewal format with omni-channel capability. Moving away from town centres is not our only focus, but we recognise that in an omni-channel world, ease of shopping and fast access is critical to competitiveness, and in many cases we believe the town centre locations have lost impetus as a result of failed local authority or government policy. As a result, a high proportion, but not all, of our relocations are to the edge of town.

Combined with the relocation programme, we are targeting an overall reduction in Clothing & Home space reflecting the rapid growth of online and our exit from the long tail of low sales density stores that deliver a small proportion of total profit.

The full-line store pipeline already has around 15 new stores planned over the next three years, including seven former Debenhams sites, and we expect this to build further. This will help enable a further 32 store closures. Examples include:

- In Leamington Spa, the recent closure of related town centre stores and relocation to a full-line edge-of-town former Debenhams to create a full-line proposition is expected to pay back the net capital of £7.0m invested in the new site in 3.5 years.
- The relocation of Thurrock from the back of an underperforming centre with no accessible parking to the former Debenhams site by the bus station with extensive parking is expected to cost a net £8.4m and to pay back in 2 years.
- The announced closure of the legacy four-floor town centre store at Colchester and opening of a new modern store in the retail park on the edge of town will cost a net £7.3m, resulting in an estimated payback of 3.2 years.

To accelerate the estate's rotation, we are focused on driving the recapture of Clothing & Home sales from existing legacy sites either to new stores, to alternative stores or online and are trialling a number of new initiatives to increase this.

To also help enable the full-line store rotation, and to drive access to new areas of growth, we currently anticipate opening c.40 new Food stores in the next three years, largely in the 12,000-15,000 sq ft renewal format. These stores generate higher productivity and good cash paybacks.

ENCOURAGING RESULTS FROM RECENT OPENINGS

Of the 10 M&S stores opened in 2020/21*, sales are averaging c.11% above plan, with paybacks of around 1.5 years.

	10 stores opened in 2020/21		Foodhall	Full-line
	Performance	Vs original plan	Performance	Performance
Average annual sales (£m)	14.3	11%	12.3	18.8
Average capex (£m)	3.7	-2%	2.2	7.3
Average payback (years)	1.5	-44%	1.5	1.5

* 2020/21 store openings are shown above rather than 2021/22, as these have 12 months of sales data to allow a full financial review.

Strategic KPIs

Transactions (average per week)

9.7m (20/21: +39%)

Footfall (average per week)

14.1m (20/21: +45%)

Stores net promoter score

+81 (20/21: 81)

Clothing renewals

Modern stores in convenient locations are at the heart of our store strategy, such as our 75,000 sq ft new full-line store in Stevenage, which brings elements of our renewal format into Clothing & Home for the first time.

STRATEGIC REPORT

Changing the way we connect with customers

We have a unique combination of nationwide stores and a broad-reaching online platform, giving us a competitive advantage and the ability to offer seamless and convenient experiences to customers, however they want to shop.

Not only is this better for customers, but dual channel shoppers spend twice as much as those shopping only in store. In-store fulfilment is a big part of our advantage, leveraging the store estate to become a critical part of our supply chain network. To meet demand in the pandemic, we scaled up our in-store pick model to cover more than 200 locations; at the height of the Covid-19 crisis, these operations were fulfilling over 20% of online demand. This acted as the catalyst for further growth, and today all our clothing stores are set up to be micro-fulfilment centres collectively picking over 50% of customers' online orders. So if a customer is picking up a new Goodmove top in their local store, there's a strong chance the local team have also fulfilled that order, which as well as being efficient, is a nice personalised touch.

INTERNATIONAL

BUILDING OUR GLOBAL REACH THROUGH STRONG PARTNERSHIPS AND ONLINE GROWTH

International Revenue

£937.2m (19/20: -0.8%)

Operating profit before adjusting items

£73.6m (19/20: -33.5%)

Net promoter score

86 (20/21: 85)

International websites

98 (20/21: 98* restated)

Our objective is to create a growing International business through strong partnerships and a multi-platform online business with global reach.

International sales grew 1.7% at constant currency, reflecting the continuing rebound in activity through the year and sustained growth in online sales both in markets with a store presence and through global marketplaces. Operating profit before adjusting items of £73.6m (2019/20: £110.7m) included costs and tariffs of £29.6m and an estimated trading impact in the region of £15m due to ongoing EU border issues, largely related to the Republic of Ireland following Brexit.

SOLID GROWTH IN THE MIDDLE EAST, INDIA AND GLOBAL ONLINE

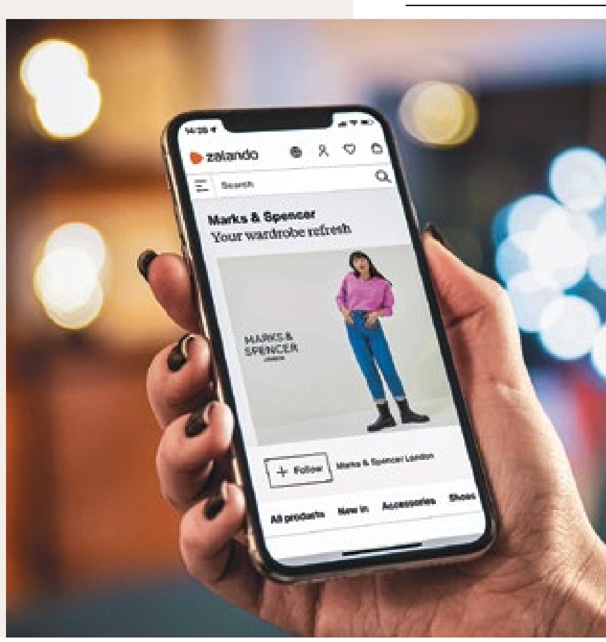
Together with our partners, we generated 4% growth in retail sales in 2021/22. This included a particularly good performance in the Middle East region, with growth in domestic demand. In Asia, we saw a substantial bounce back in India following lockdown in Q1, which was partly offset by continuing restrictions in some markets. Sales in Europe reflected strength in Clothing & Home sales in the Republic of Ireland, partly offset by the impact of EU-related border issues on the Food business. Over the past two years, online retail sales of M&S and our partners have grown by 152% and now total £251m. Following the expansion into an additional 46 territories in March 2021, we now trade in 105 markets.

Performance vs 2019/20 (%)	H1	H2	FY
Europe	4.2	7.4	5.8
Middle East	9.5	28.0	18.6
Asia	-23.6	9.9	-6.6
Total retail sales	**-2.7**	**11.2**	**4.3**

Performance vs 2019/20 (%)	H1	H2	FY
Stores	-13.1	1.5	-5.7
Online	165.7	141.1	152.2
Total retail sales	**-2.7**	**11.2**	**4.3**

Building a great service for our international partners

Alongside growing online channels, we're expanding our global reach by building a strong, efficient business with partners in select target markets. We're focused on making it as easy as possible for partners to order, ship and sell M&S products in their markets, and as part of this, in May 2021 we launched a new UK hub specifically for distribution of international orders. This means that products from our largest sourcing regions are no longer required to be sourced from out of the UK network and re-routed to partners. Since the go-live in May, the UK hub has processed over 7 million singles from the UK network; we've improved the visibility and stock presentation of orders to make it easier to track and process, and reduced our lead times, meaning M&S products will be landing on the shelves even quicker for customers across our partner markets.



ADAPTING TO GEO-POLITICAL SHOCKS: BREXIT & RUSSIA/UKRAINE

During the year, the business faced the dual headwinds of the impact of EU border issues and the ending of shipments to our franchise partner in Russia as a result of the war in Ukraine.

To mitigate EU border costs, we exited the high street franchise Food operation in France and ceased exporting chilled food to the Czech business. We continue to absorb material administration-related cost headwinds on Food exports to Ireland, because of certification, declarations and the complexity of segregation in warehouses, none of which benefit customers. We expect to be able to mitigate these costs further through increased local sourcing and by automating processes. In our Clothing & Home operation, we are planning to open a new "EU hub" in Croatia, enabling the direct flow of stock into market to fulfil orders for our partners, including marketplaces.

The M&S businesses in Russia and Ukraine have been operated by a licence holder and franchise partner and in 2021/22 generated retail sales of £102.5m and a contribution to profit before adjusting items of £5.2m. M&S is a values-led business; therefore, as a result of the invasion of Ukraine, we ceased shipments to Russia on 3 March 2022. Subsequently, we have made the decision to fully exit our Russian franchise and we have recognised a charge of £31m in adjusting items, representing our full exit costs from Russia and business disruption in Ukraine. Unfortunately, our Ukrainian business has also been partially closed as a result of war impacts, and we are working with our partner to reopen as and when possible.

EXPLOITING GLOBAL GROWTH OPPORTUNITIES IN INDIA, THE REPUBLIC OF IRELAND AND ONLINE

Our joint venture partnership with Reliance Retail in India opened six new stores, closed nine mostly smaller-format stores and refurbished or expanded a further six. The business is exploring multiple options for future growth, including ambitious plans to grow space, with around 10 new store openings per year and expansions in key existing locations, as well as leveraging the dedicated Indian website and pursuing growth through third-party marketplaces.

During the year we also developed and grew in-store fulfilment of Clothing & Home online orders in key markets such as the Republic of Ireland. In addition, the partnership with Zalando has delivered substantial growth over the past year, and we expect to broaden the range available as we develop additional capabilities.

New openings

New International store openings include our comprehensive 13,000 sq ft new store in the Dubai Hills Mall.

PEOPLE & CULTURE

Our People Plan has six key aims:

#1 Transforming our organisational design to drive ownership, pace and commerciality.

#2 Becoming a data enabled and digitally focused business.

#3 Creating a team of empowered, responsive and commercial leaders who are close to the front line.

#4 Putting the store voice back at the centre of the business and amplifying the voice of the customer.

#5 Creating a culture of plain speaking: data-driven and focused on performance.

#6 Building an involving, engaging culture where everyone can get on.

Four years ago, we set out the unvarnished truths about the state of the business and why far-reaching change was needed to arrest decline. Central to this was addressing the hierarchical, slow-moving, overly corporate and top-heavy culture that had stalled previous transformation strategies. We were clear that our aim was to draw on the foundations on which M&S was built and apply them in a modern setting to create the most engaging, involving place to work in UK retail – an organisation that was data-driven, digitally-enabled, empowered and fast-moving, underpinned by a flat structure built around the trading business units that drives a closeness to the front line and the customer.

At the beginning of the financial year, Stuart Machin and Katie Bickerstaffe were appointed Co-Chief Operating Officers (COOs), sharing operational oversight of the business, to accelerate the pace of change across the core businesses. This has driven real momentum behind our key strategic priorities, for example on store rotation with an accelerated closure, relocation and renewal programme and accelerating online growth through MS2. It has also accelerated the breadth and pace of change in our culture, as the executive team took direct ownership of the People Plan and we have made some progress against our priorities:

#1

Transforming our organisational design to drive ownership, pace and commerciality

The key change over the past year has been the appointment of the two Co-COOs and the galvanising effect they have had across the core businesses, as can be seen in our preliminary results.

Across the business, the move to more flexible, agile working has been further embedded, underpinned by clear frameworks and our market-leading partnership with Microsoft. Adoption of TEAMS is now at 93% across the business, with 9.5 million interactions every month: 9 million chat messages, 280,000 video calls and 120,000 online meetings, as well as 240 streamed events.

In stores, work has begun to modernise our approach to flexibility. For store management teams we have introduced job sharing, moved from shift patterns to hours-based matrices and are trialling new work patterns such as nine-day fortnights. For customer assistants, we will be piloting a new provider to make it easier for store teams to book and change shifts through a mobile-compatible digital platform accessed through TEAMS. This will also mean store managers can manage shifts through their electronic devices on the shop floor.

#2

Becoming a data enabled and digitally focused business

If we want to be a truly omni-channel business and maximise our competitive advantage, our colleagues need the right skills and capabilities, enabled by the right systems and technologies, underpinned by a digital first culture. Progress this year includes:

Skills & Capabilities

In January the "Product Academy" was launched, an £11m investment in face-to-face training to help our store teams perform and sell better, delivered to 25,000 colleagues. This includes "selling through every channel" to increase colleague confidence and capability in utilising our growing number of digital tools and in selling products and services available online rather than in store. In December we launched the first ever Data Science and AI apprenticeship in retail, offering a 15-month Level 7 course for 10 colleagues through our "BEAM Academy" digital and data learning hub. Over the past year, 14,000 learning sessions have been undertaken through the Academy – ranging from longer-term courses to bite-sized sessions.

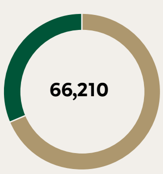
The right systems & technologies

The first phase of MyHR – the cloud-based digital people system – was launched in September, focused on performance management and talent management across the colleague lifecycle. While there were bumps in the road and we continue to respond to colleague feedback, it was a relatively smooth process and is a key part of moving to a manager-and-colleague-led self-service model.

Colleague representation measurements[1]

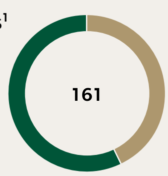
Total employees[1]

- Female **45,484**
- Male **20,726**



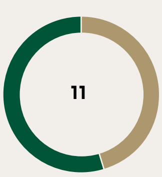
Total senior managers[1]

- Female **69** (20/21: 57)
- Male **92** (20/21: 79)



Total Board[1,2]

- Female **5** (20/21: 4)
- Male **6** (20/21: 6)



1. Colleague measurements compared to 20/21 to illustrate year-on-year progress.
2. As at publication date.

Senior managers from ethnic minorities

6.8% (20/21: 8%)

While we made progress in attracting talent from diverse backgrounds, internal progression for this group remained broadly static impacting overall representation among senior managers. We're taking action to increase representation by opening accessible attraction routes and working with our business-wide diversity networks.

Engagement

62%

Over 50,000 colleagues participated in our Your Voice colleague survey, giving the business insights into how engaged colleagues are feeling in their roles at M&S. Following a reset of our survey provider, we cannot accurately compare against last year's score of 82% but this will be the benchmark score we measure against in future reports.

Gender pay gap

12.5% (20/21: 12.5%* restated)

Our gender pay gap, the average difference in hourly earnings between our male and female colleagues, remained level on the year. We've made progress in the representation of women in leadership roles across the business, with women in more than 50% of our senior management roles. We remain committed to reducing the gap further through action such as expanding talent pathways to further raise the representation and reward of women across the business.

* Our reporting coverage has been updated and will include an additional colleague shift pattern in our distribution centre, so we've restated previous years to give the truest comparison going forward.

We have continued to use TEAMS as a gateway to different services, utilising its high adoption rates. We have fully digitised the operational communications that go out to stores through the TEAMS platform. They are now personalised to be more relevant to colleagues, albeit there is still work to do on making these communications succinct and engaging. The revamped colleague survey and CEO suggestion scheme are also fully digitised and accessed through TEAMS, which has driven increased participation.

In terms of equipment, headsets for store teams are being trialled in 25 stores so that colleagues can talk to each other on the move using TEAMS, cutting time and helping colleagues spend more time with customers.

There remains more work to do to ensure a consistent quality of WiFi across the estate, particularly as we expand our omni-channel capabilities.

Digital-first culture

Our BEAM Academy has engaged over 100,000 colleagues through events during the year, including 3,000 colleagues at our biggest-ever annual "Digifest", 450 colleagues participating in the digital and data hackathon and 900 regularly attending the "DigiMeetUp" sessions. To target colleagues of the future, we also sponsored "Hack the Burgh" – Scotland's biggest student hackathon.

To foster digital innovation, "Ignite" – our external innovation and partnerships function – met over 500 start-ups, launched 19 new trials and established two new partnership with start-ups, building on our existing work with True and Founders Factory.

However, having directly asked colleagues their views on our progress in creating a digital-first business, the feedback is clear. While colleagues understand the importance of digital and data transformation and of growing the Sparks digital loyalty programme, they do not yet believe that data is used enough to inform decision-making or that we have invested enough in the tools and capabilities to enable them to do their job better.

#3

Creating a team of empowered, responsive and commercial leaders who are close to the front line

Improving talent planning and driving a high-performance culture has been a real area of focus for the executive team over the past year. As a result, while we continue to be a destination for world-class talent, for the first time since beginning the transformation we have promoted more people into senior leadership roles than we have hired externally.

Standardising expectations has improved, with the introduction of a leadership framework and model of potential to give clarity to what great leadership looks like at M&S. However, there is still not a regular cadence of leadership engagement or development to build "one M&S leadership team". In addition, while listening groups are now an established practice at M&S and the "Christmas Elfers" scheme – where support centre colleagues help stores over the peak period – was the biggest to date, the reality is that programmes to connect leaders to the front line have stalled in the past year.

#4

Putting the store voice back at the centre of the business and amplifying the voice of the customer

In September we established the "Store Voice Feedback" network, allowing stores to send feedback directly to the leadership, including the CEO. This is coupled with a weekly call every Monday morning in which the store managers challenge the business on all issues stores are grappling with. This is followed every Monday afternoon by a call to store managers setting out the priorities of the week but also responding to challenges raised through the feedback call. In addition, "Buyers and Sellers" networks have been established, connecting our top sellers with buying teams. These meet regularly to discuss what is and isn't working and take action.

Our colleague suggestion programme, "Suggest to Steve", has been reinvigorated since moving to a digital platform, with an increase in suggestions of over 100% on the prior year. Steve Rowe has surprised colleagues with winning ideas with a "Steve Rowe hello", and "Dragon's Den" events have taken place in stores across the country, with colleagues pitching against each other. The business has put over 600 ideas into action since launching four years ago.

We also launched our new "Voice of the Customer" digital platform, "Make your Marks", which houses all of our customer feedback, received across all channels, from online to stores, in one place. This helps colleagues to make data-driven decisions based on exactly what our customers need and want.

#5

Creating a culture of plain speaking: data-driven and focused on performance

In the past year, Stuart Machin has led a reset of performance management focused on robust goal setting. This is linked to transformation priorities and open and honest conversations through the year to track performance, enabled by the MyHR system. Every single salaried colleague had an end-of-year rating recorded in the system, enabling far better visibility of performance data to ensure fairness and transparency. In stores we reset expectations for our customer assistants and have continued to drive quarterly check-ins on progress, with data showing that 84% of colleagues are now having regular check-ins with their manager.

Competitive reward

We've invested in our remarkable people by increasing our hourly rate of pay. Every store colleague across the UK now earns at least £10 an hour, as part of our competitive reward package.

Alongside tracking of performance, we also invested in our rates of pay and benefits for colleagues. With pay and cost of living remaining top of mind for our colleagues, in February we announced an increase in the base rate of pay so that all permanent colleagues earn a minimum of £10, rising to £11.25 for colleagues in London, both ahead of the real living wage. In addition, we enhanced wider benefits to include health & wellness benefits, such as Virtual GP access and financial management advice which combined with our pension and discount contributions offers one of the best all-round reward packages in retail.

#6

Building an involving, engaging culture where everyone can get on

M&S is made up of over 65,000 colleagues, and our aim is to establish a culture which brings out the best in each of them.

A place where everyone can get on

We have expanded the successful Food Leaders programmes to offer a range of innovative development programmes; BUILD for colleagues new to leadership, EVOLVE for colleagues moving from management to broader roles and TRANSFORM for colleagues moving into senior leadership roles. They are, critically, for ALL colleagues across the business, and feedback is extremely positive. The key now is to expand and embed the programmes without lowering their quality. In addition, we have expanded our coaching offer, previously only for executive leaders, to 300 high-potential colleagues, and have developed "Stepping Into" programmes to better support the career path of 750 high-performing store colleagues.

To ensure we are building a diverse organisation, we have invested in new attraction routes and partnered with third parties to source candidates from diverse backgrounds. This summer we will welcome the first of our "Black Interns" initiative participants and we have already delivered our first "Diversity Insight" work experience programme targeted at undergraduates with an ethnic minority or lower socio-economic background. We are piloting a RISE – Recognising In-Store Experience – programme, opening up support centre opportunities for store colleagues, and will expand it in the coming year. 427 young people participated in the "Marks and Start" programme for those furthest away from work, with 81% offered work at the end of it, and we have delivered the government-backed Kickstart programme, giving 358 young people a six-month placement and offering 80% of participants work at the end of it.

Building an involving, engaging culture

Over 50,000 colleagues participated in our Your Voice survey, and the feedback was clear. Colleague belief that we are in a position to succeed has really improved, there remains huge pride in the brand, and scores on being empowered and trusted to do what's best for the business and customers are high. However, while colleagues' belief that we engage in genuine two-way communication has moved upwards, it remains poor; too few colleagues believe the right people are recognised and rewarded, and belief that action will be taken on feedback through the colleague survey is very low. These are critical areas to target in the coming year.

Our Business Involvement Group, BIG, continues to engage regularly with the leadership – including at Board and executive levels – and work has been done to better establish the role of BIG reps.

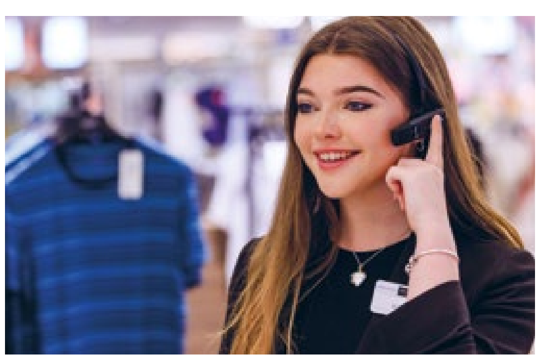
We've also taken action to get the basics right with a much-improved induction. Finally, it's been a year since we launched our alumni network – the M&S Family – which has doubled to c.10,000. In a "world first", we are engaging our alumni as mentors for current colleagues, and we are delighted that Steve Rowe – perhaps our most famous alumnus – will be the community's president.

MOVING FROM FIXING THE BASICS TO THE NEXT PHASE OF TRANSFORMATION

Perhaps the most significant change to our people and culture is the handing of the baton from Steve Rowe to the new leadership team. On 25 May Stuart Machin will become CEO, Katie Bickerstaffe Co-CEO and Eoin Tonge Group CFO & Chief Strategy Officer. Bringing these three leaders together will provide the stability, pace and bandwidth required to accelerate the pace of change as M&S enters the "shaping the future" phase.

Key to this is upping the pace of change and becoming a business that moves away from a linear transformation programme to an organisation that is continually changing, evolving and experimenting. In many ways it means more fully executing the priorities we have had for our people and culture for the past four years. Breaking down hierarchies, really listening and – critically – acting on what colleagues and customers are saying. Making M&S a place where every single colleague feels they belong and can grow their career at a business they trust to do the right thing. Killing sacred cows and becoming a truly data-led, digitally enabled business focused on outcomes, not inputs.

Stuart has taken immediate "Day One" steps to listen and act on what colleagues are saying. The CEO suggestion scheme has been reset and expanded, so anyone can make a suggestion, ask a question, or bring an issue "Straight to Stuart", and he and the leadership team will address it and respond within 48 hours. In addition, Stuart and the executive team will lead from the front when it comes to being "one M&S team" close to the front line and the customer. They will be running a store for a week at least once a year, and every support centre colleague will be expected to spend a minimum of five days a year with colleagues serving customers, either in stores or e-commerce distribution.



New technology

By investing in new technology – including digital headsets – we're helping our store colleagues deliver seamless experiences for our customers.

SUSTAINABILITY

EXTENDING AND EXPRESSING OUR SUSTAINABILITY LEAD

M&S was a pioneer in creating an industry-leading, fully integrated sustainability plan under the "Plan A" banner, launched in 2007, which reflected values that have been core to M&S' culture since its inception. During the year we reset Plan A with a singular focus on cutting our carbon footprint by one third by 2025 and becoming a net zero business across Scope 1, 2 and 3 by 2040. As an own-brand retailer, M&S is very well positioned to work with its supplier partners to find better ways of doing things. We have developed a multi-stakeholder plan spanning customers, colleagues and suppliers to deliver on this target.

This reset includes the return of the Group's iconic "Look Behind the Label" campaign, focusing customers on the stories behind five everyday products, from coffee to cotton, which are responsibly sourced. We also identified 100 colleagues as "Carbon Champions" in leadership positions in key roles in buying, sourcing and operations and identified key targets for 2025.

Following the reset of Plan A, we agreed to link our new £850m revolving credit facility to the delivery of our net zero targets. These targets span activity on our net zero roadmap across the value chain, including commitments to zero deforestation in soy sourcing, sourcing more sustainable fibres, reducing emissions in our property estate and eliminating millions of units of single-use plastic packaging.

During the year we launched new initiatives to help customers lead lower-carbon lives, including:

- Removing 75 million items of plastic packaging from our food products and installing plastic take-back bins in over 500 of our stores to make it easier for customers to recycle soft plastic.
- A new incentive programme to reward Sparks customers when they donate pre-loved clothes to our "Shwopping" partnership with Oxfam.
- A "test and learn" trial in an important growth market, clothing rental, with a Founders Factory joint venture investment in the Zoa Group, the operator of leading clothing rental website, Hirestreet.
- In January, a Sparking Change National Challenge, inviting 14 million Sparks customers to try a lower-carbon diet, to feel healthier and potentially save money.

While we have leading positions in customer perception, there is much more to do in Plan A to communicate our practices. In the year ahead we expect to accelerate our programmes and bring them through much more strongly to the shelf edge both within the store environment and during the online shopping experience. We believe that wider sustainability concerns are here to stay, resulting in opportunities for our brand to enter new markets. Through our deep relationships with customers through Sparks, our longstanding trusted supplier partners and our portfolio of innovation partners, we are well placed to develop customer propositions in areas such as circular fashion and low-impact farming.

Sustainability Report

Shareholders can read a full update on our progress in our sustainability report at marksandspencer.com/sustainabilityreport2022 →

ESG committee report

Read our ESG committee report on p70 →

OUR PARTNERSHIP *with dotte*

Supporting the circular economy

In April, we joined the dotte collective, the UK's first fully circular kidswear peer-to-peer marketplace where parents can buy, sell, donate and recycle outgrown kidswear. We share a commitment with dotte to finding more circular solutions which incorporate both new and pre-loved clothing. dotte addresses the challenges parents face when buying secondhand – through our partnership, those who sell a pre-loved M&S item on the platform will receive a M&S voucher for £5 off when they spend £25 in our stores or online. Sustainability has been at the heart of M&S Kids' thinking for over a decade, and we're continuing to develop the sustainability credentials within our ranges. Our schoolwear is made to offer quality that can be handed down and this is proven in the fact that M&S is one of the most popular brands on dotte for resale, with over 400 items listed on the site.

NON-FINANCIAL INFORMATION STATEMENT

The statements below reflect our commitment to, and management of, people, communities, the environment, human rights, anti-bribery and anti-corruption in the last 12 months. Full details of all our policies on these matters can be found at **marksandspencer.com/thecompany**.

PEOPLE

We are committed to providing all of our colleagues with a safe working environment and an organisational culture which promotes inclusion, diversity, equal opportunities, personal development and mutual respect. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. We know that our Board and leadership team play a vital role in this commitment, which is why we have laid out our progress in balanced leadership on pages 68 to 69. Further detail on social matters can be found in People & Culture on pages 26 to 29, and our Section 172(1) statement on pages 32 to 34.

Read more on our commitment to people in our:

- People Principles
- Code of Conduct
- Responsible Marketing Principles
- Inclusion, Diversity & Equal Opportunities Policy

COMMUNITIES AND ENVIRONMENT

We have supported our local communities throughout our 138-year history, because we know that vibrant communities are essential for our success. We aim to take a progressive approach to our community engagement, which is reflected in our sustainability commitments. Sustainability is also core to the M&S brand. This framework brings together individual business unit strategies into a shared programme to drive behavioural change and ensure the whole business operates in a more sustainable way.

Read more on our commitment to communities and the environment on our dedicated corporate website areas:

- Our Communities
- Plan A: Our Planet

Read more on our activities in these areas this year:

- Environmental commitments and progress can be found in the ESG Committee Report on pages 70 to 77. Details of our greenhouse gas ("GHG") emissions are on page 76.
- Our contributions towards, and consideration of, communities is integrated throughout the report and can also be found in our Section 172(1) statement on pages 32 to 34, and in the ESG Committee Report on pages 70 to 77.

HUMAN RIGHTS

M&S has a long history of respecting human rights in the UK and standing up for those values internationally. Our commitment to human rights is reinforced in our Human Rights Policy and Code of Conduct and, for all suppliers and business partners, in our Global Sourcing Principles. We are also a signatory to the UN Women's Empowerment Principles and the principles of the United Nations Global Compact. We strive to be a fair partner by paying a fair price to suppliers, supporting local communities and ensuring good working conditions for everyone working in our business and supply chains. We are committed to building knowledge and awareness on human rights for all of our colleagues and suppliers, encouraging them to speak up about any concerns without fear of retribution – the outcomes of which also enable us to comply with legislation and meet the expectations of shareholders.

Read more on our commitment to human rights in our:

- Modern Slavery Statement
- Human Rights Policy
- Code of Conduct
- M&S Global Sourcing Principles
- Child Labour Procedure
- M&S grievance procedure for Food and Clothing & Home supply chains

ANTI-BRIBERY AND ANTI-CORRUPTION

M&S is committed to the highest standards of ethics, honesty and integrity. We have a zero-tolerance approach to any form of bribery and corruption and operate a compliance programme to prevent bribery and corruption in our business and supply chain.

Our Anti-Bribery and Anti-Corruption policies outline the expected standards of conduct that colleagues, contractors, suppliers, business partners and any other third parties who act for or on behalf of M&S are obliged to follow. The Group Policy outlines core principles and approach, while the Colleague Policy provides detailed guidance and sets out the applicable procedures for colleagues, workers and contractors. The Business Partner Policy identifies the requirements for service providers, suppliers and other business parties.

Our programme includes detailed procedures and controls around giving and receiving gifts, hospitality and entertainment; procedures for engaging new suppliers and partners, specifically those who are based in higher-risk jurisdictions; and standard contract clauses and clear reporting channels, including confidential reporting. All colleagues are required to undertake mandatory Anti-Bribery and Anti-Corruption e-learning. The Company will consider taking disciplinary action against anyone who fails to comply with its Anti-Bribery Policy, up to and including dismissal. Any potential incidents reported internally or to the external confidential reporting channels are followed up and full investigations launched where such action is deemed appropriate after preliminary enquiries. All investigations are subsequently reported to the Audit Committee.

Bribery Risk Assessments are conducted on an annual basis and an annual report issued to the Audit Committee.

Read more on our commitment to Anti-Bribery and Anti-Corruption in our:

- Business Partner Anti-Bribery and Anti-Corruption Policy
- Code of Conduct

ENGAGEMENT & DECISION-MAKING

SECTION 172(1) STATEMENT

We believe that considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term. During this financial year, in the midst of recovering from a global pandemic, balancing the needs and expectations of our stakeholders has never been a more important or challenging task.

Board directors are bound by their duties under the Companies Act 2006 (the "Act") to promote the success of the Company for the benefit of our members as a whole. In doing so, however, they must have regard to the interests of all of our stakeholders, to ensure the long-term sustainability of the Company. The Board is therefore responsible for ensuring that it fulfils its obligations to those impacted by our business, in its stakeholder consideration and engagement. Stakeholder consideration is embedded throughout the business, with the Executive Committee ("ExCo") and senior management actively engaged in communication and involvement initiatives.

The following pages comprise our Section 172(1) statement, setting out how the Board has, in performing its duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Act, alongside examples of how each of our key stakeholders have been considered and engaged. Further information can also be found throughout the Strategic Report and in our exploration of key strategic decisions made in the Governance Report.

Read more:

- Strategic Report, p2-55
- Key Board Decisions, p34, p63-64
- At **marksandspencer.com/thecompany**

STAKEHOLDER ENGAGEMENT & CONSIDERATIONS

SHAREHOLDERS

M&S

Why they matter

Securing our shareholders' trust through continuous engagement ensures their ongoing investment and support.

Key priorities

For some, delivering sustainable, profitable growth over the long-term. For others, seeing immediate returns on their investment. Increasingly for all, seeing proactive and conscientious Environmental, Social and Governance ("ESG") plans being formed and corresponding good performance in ESG areas.

How the Board engages

- The Annual General Meeting ("AGM") is the Board's primary opportunity to interact with shareholders, and at last year's digital meeting the Board engaged with nearly three times as many shareholders than at the last physically held AGM in 2019. Almost 1,700 individual shareholders engaged with our AGM platform, either to watch, vote or submit questions. The Board intends to continue with this improved engagement trajectory, by hosting another digital meeting this year.
- Our Private Shareholder Panel is a group of randomly selected private shareholders who have the opportunity to attend regular meetings with our Board and senior management, during which they can hear more about M&S and provide their input on the business' direction of travel.

How M&S engages

- Our Investor Relations team, alongside the Chairman and senior management, maintains a regular dialogue with key institutional investors. Over the course of the past year, the team met with (via video conferencing, over the phone and in-person) over 120 institutional funds, engaging with investors who we estimate represent over half of our issued share capital.

Governance considerations

- Dividend decision-making, balancing the desire of shareholders for immediate returns, against the need to preserve liquidity and ensure the long-term sustainability of the business.
- Overarching strategy and purpose setting, aimed at delivering against shareholders' needs for long-term, sustainable and profitable growth.
- Audit Committee oversight of internal and external audit processes, ensuring the business' internal framework of controls is sufficient to protect shareholder investment, and that the presentation of the financial statements provides investors with an accurate, fair and balanced view of performance, strategy and operations.

CUSTOMERS

Why they matter

Our customers are at the heart of our business. Maintaining and increasing their enthusiasm and loyalty for the M&S brand ensures the enduring success of our business.

Key priorities

Great quality and value products; having good availability across product lines; a store estate and an online offer that are easy and enjoyable to shop in; a conscientious corporate citizen who customers can rely on to have acted ethically and sustainably when sourcing the products they wear, eat, and bring into their homes.

How the Board engages

- Customer feedback is incorporated into business updates and proposals for the Board's review and consideration.
- Our non-executive directors regularly attend store visits throughout the year, seeing first-hand how stores operate and how this impacts customer experience.

How M&S engages

- This year we introduced our Voice of the Customer programme, to measure customer satisfaction and experience with short, targeted surveys across approximately 1.5 million touchpoints online and in store.
- We regularly monitor customer mood and topical issues through a monthly survey of 1,000 customers. This helps us to understand how customers are feeling and what is going on in their lives, so we can shape content and tone across our communication channels.
- We conduct focus groups, in-depth interviews and surveys throughout the year on our strategic priorities. This year, in-depth discussions have been held with over 400 customers, and another 9,000 have been surveyed, on a range of topics including: website experience; delivery and collections proposition; Spring and Autumn campaigns response; and Christmas store experience.

Governance considerations

- ESG Committee review of customer insights and perceptions on M&S' sustainability credentials, to inform the Plan A reset and future strategic aims on sustainability.
- Budget and three-year plan discussions, agreeing pricing strategies to take account of customer impact amidst inflationary pressures and the energy price crisis.

COLLEAGUES

Why they matter

We cannot operate and achieve our strategic goals without an engaged colleague base that feels appreciated, and is motivated to deliver for our customers and the business' success.

Key priorities

Feeling valued and appropriately rewarded; having an inclusive and diverse place to work with a respectful corporate culture; being able to share their views and have their colleague voice heard in decision-making.

How the Board engages

- Our Business Involvement Group ("BIG"), a network of elected representatives from across all parts of the business, facilitates engagement with colleagues, with local BIG teams regularly feeding back to National BIG. The chair of BIG represents the collective colleague voice by attending a number of Board and Remuneration Committee meetings throughout the year.
- Board members hear from and engage with our colleagues directly during store visits, through listening groups, and also regularly join leadership team meetings across the business.

How M&S engages

- Colleague updates on performance and strategy are provided by ExCo members and senior management through regular business area "huddles", as well as by email, virtual meetings, and our Microsoft Teams communication and collaboration platform. Colleagues are encouraged to be involved in these forums by voicing their views, ideas and questions with the leadership team directly.
- This year, we introduced a new Colleague Voice programme, surveying our colleagues bi-annually to give the Board and ExCo an informed picture of how colleagues feel about working for the business. The progressive colleague engagement score through the year was 62%, with 75% of colleagues participating saying that they feel proud to work for M&S.

Governance considerations

- The Board's Group purpose setting and strategy discussions, highlighting the importance of colleague buy-in and consequently commissioning a colleague survey to invite views on purpose communication.
- In support of an "internal first" approach to growing talent and improving diversity in the workforce, and colleague survey feedback on development opportunities, the Board encouraged the continued launch of long-form learning and development programmes tailored to all career stages.

COMMUNITIES

Why they matter

Community acceptance and mutual respect provides us with a licence to operate and ensures we are a force for good for the people and places we impact. This includes the wider environment, where considerate use of resources contributes towards our long-term sustainability.

Key priorities

A fair and valuable contribution to society and the economy and for M&S to be a socially responsible corporate, that cares about its long-term impact on the communities and environment it operates in.

How the Board engages

- The Board and ESG Committee have reviewed key community initiatives in meetings, including as part of the sustainability strategy and, more recently, the business' approach to the invasion of Ukraine.
- Directors meet and engage with various community players in visits to stores and distribution centres.

How M&S engages

- This year, our charitable donations reached over £5.2m, and we fundraised more than £4m in donations from our customers, colleagues and partners. Our donations were made to our 35 Sparks charity partners, as well as to UNHCR and UNICEF in support of the crisis in Ukraine.
- The M&S Company Archive provided opportunities for people to enjoy M&S' rich heritage through a combination of popular online events, an expanded range of digital learning resources and relaunched visitor services at the "Marks in Time" Exhibition in Leeds. Visit **marksintime.marksandspencer.com** for more details.

Governance considerations

- In consideration of our community and to ensure the business' effective charitable giving, the ESG Committee overhauled and strengthened our governance process on charity partnerships and donations.

SUPPLIERS

Why they matter

Our trusted suppliers enable us to provide our customers with the high-quality, ethically sourced and produced goods they expect.

Key priorities

A long-term, productive relationship with M&S, allowing them to create great products, build volume at equitable prices and achieve their own strategic goals.

How the Board engages

- The Board and Audit Committee reviews and considers supplier relationships and feedback in operational, performance and risk updates.
- The ESG Committee monitors and critically evaluates sustainability and ethical trading in the supply chain.

How M&S engages

- We measure Supplier Satisfaction using the independent Advantage Report Mirror to survey a proportion of our supplier base each year. The annual Groceries Code Adjudicator survey also provides valuable insight on sector priorities and supplier perceptions.
- We have engaged with our M&S Select Farm farmers and growers on low impact farming to help address the challenges of global warming and climate change. As a result, we have established a network of 18 Indicator & Innovation Farms to trial new concepts, identify solutions for wider adoption and champion production systems that reduce carbon and improve wildlife habitats.

Governance considerations

- Audit Committee review of compliance with the Groceries Supply Code of Practice, using the results from the annual Groceries Code Adjudicator survey to focus management's activities with suppliers for the coming year.
- Review of our payment practices, ensuring that these are appropriate and our smaller suppliers are supported and also have access to our Supply Chain Finance solution.

PARTNERS

Why they matter

Our partners provide avenues to expand our reach and access to new customers - in the UK and internationally. We also have partners assessing and supporting our operations, to ensure we constantly evolve and improve.

Key priorities

A corporate partner who responds to concerns, acknowledges jurisdictional and technical expertise, and provides peer-to-peer support.

How the Board engages

- The Board has considered and approved contract extensions with existing partners, as well as approving the launch of a new strategic partnership with Costa Coffee, supplying chilled and snacking M&S food in over 2,000 Costa stores.
- Upon Russia's invasion of Ukraine, the Board quickly discussed the impact on our colleagues and customers in the region. The proposed response to our Turkish franchise partner operating in both Ukraine and Russia was also debated at length. The Board readily agreed that colleague welfare should be the priority and our partner should be engaged to ensure the safety of colleagues by any means necessary.

How M&S engages

- We have worked closely with our global franchise partners during the year to support them through the various challenges that Covid-19 has created in their markets. Frequently changing government regulations have impacted consumer sentiment and shopping habits; we have responded by supporting our partners with changes to product demand and facilitating multiple new selling channels to make it easier for partners to continue providing M&S products.
- At the Board's direction, we continue to engage with our Turkish franchise partner, FIBA, on the operation of stores in Ukraine and Russia. For the safety of colleagues, all operations in Ukraine were suspended on 24 February 2022. Shipments to Russian stores were suspended on 3 March 2022, and negotiations have now concluded with FIBA to fully exit from Russia.

Governance considerations

- The Board considered our Turkish franchise partner's needs at length in its decision to withdraw from Russia. Ultimately agreeing that, while our partner's interests and our ongoing relationship would likely be jeopardised, ceasing trade in Russia was the right thing to do morally.
- Investments in third-party brands, reviewing corporate and decision-making structures being implemented whilst considering the needs and support required by our new strategic brand partners.

STAKEHOLDER CONSIDERATIONS

During the year, as the Board made decisions implementing our strategic priorities, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered. In some cases, the interests and impacts between stakeholder groups conflicted, and the Board and ExCo had to assess these conflicts and attempt to balance them in their decision-making.

Here, we provide an overview of how some of these decisions were influenced by, and impacted, our six stakeholder groups.

THREE-YEAR PLAN AND STRATEGIC FINANCIAL MANAGEMENT

Background: The Board and ExCo complete a three-yearly root and branch review of the Group's strategic financial plans. This year's review was particularly focused on ensuring balance sheet strength for the next phase of our transformation.

M&S

Shareholders In its discussions, the Board carefully considered the need to deliver tangible value to shareholders, weighing their short-term desire for returns against the need to deliver long-term sustainable value. The Board discussed reintroduction of a dividend alongside overall capital management; in particular, investments in the transformation, and actions aimed at improving investment grade metrics. The Board agreed non-payment of a dividend continues to be appropriate in the context of strengthening the balance sheet and securing the business' long-term future for shareholders.

Customers Amidst inflationary pressures and the energy price crisis, the Board has been conscious of customers' perception of M&S' affordability and ensuring our pricing strategy does not add to pressure on households. It agreed early on in three-year plan discussions that increases in customer pricing should be avoided where possible, in favour of maximising internal efficiencies and resource allocation.

Colleagues Knowing that our colleagues will also be managing pressure on their household budgets, the Board agreed to incorporate in the plan inflationary pay rises for all colleagues. The payment of a bonus to c.5,000 employees was also approved, and to align colleague interests with shareholders, 50% of bonus entitlement is being deferred into shares exercisable in three years' time.

Communities In recognition of our Plan A commitments to our community and the environment, the Board has incorporated strategic investments into the three-year plan, ensuring the business can achieve its target of a one-third reduction in carbon emissions by the end of the three-year plan's duration in 2025, and is set up in the longer term to become a net zero business by 2040.

Suppliers The Board has considered how best to support suppliers. It has committed to mitigating cost pressures by absorbing inflationary impacts where possible, supporting smaller suppliers with access to supply chain finance and shorter payment terms, investing in local sourcing in the Food supply chain and considering near-shore manufacturing in Clothing & Home.

Partners The Board considered existing and potential partners in three-year plan deliberations. Ultimately agreeing that the use of partners could be beneficial to expand the M&S brand's reach and impact the bottom line (Costa) and would encourage a culture of innovation in the business (True Capital III Fund investment).

Outcome

The business' three-year plan focuses on supporting the next stage of the M&S transformation, setting the business up for longer-term sustainable value growth while considering and meeting various stakeholder expectations.

FRANCHISE PARTNERSHIPS IN UKRAINE AND RUSSIA

Background Upon Russia's invasion of Ukraine, the Board quickly met and agreed that any trading in Russia should cease immediately.

Colleagues The Board considered colleagues affected in the region first and foremost, agreeing that colleague safety is a priority and therefore Ukrainian stores should not trade while unsafe to do so.

Customers & Communities Anticipating that our customers and wider community would expect an M&S response, the Board encouraged decisive management action to donate and fundraise for charitable causes in support of Ukraine, including by activating till-point and online giving in the UK.

Partners Our Turkish franchise partner, FIBA, operates M&S stores in both Ukraine and Russia. Their interests were considered at length by the Board, noting that these and our ongoing relationship would likely be jeopardised if we ceased trade in Russia.

Outcome

The Board is wholly agreed that its approach is the right thing to do morally for all our stakeholders. As a result, the Group has recognised a charge of £31.0m representing the Group's full exit costs from Russia and business disruptions in Ukraine. See note 5 in the financial statements.

TALENT AND SUCCESSION REVIEWS

Background As part of its commitment to internal talent growth, succession and diversity, the Board has reviewed and directed the ExCo to develop succession plans for senior management across the business.

M&S

Shareholders: The Board considers that diversity of thought and appropriate succession planning at all levels in the business will positively contribute to shareholders' long-term returns.

Colleagues: Acknowledging colleague appetite to grow and develop their careers at M&S, the Board has supported the use of leadership programmes, enhancing the personal and professional development of colleagues at all career stages.

Customers & Communities: Noting the diversity of our customers and communities, the Board believes an equally diverse colleague base, championing products that they themselves would buy, will ultimately resonate with customers.

Outcome

Succession plans are in place for all key senior leadership positions, with longer-term development programmes being used to grow our internal talent.

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

52 APM

£10.9bn +6.9%

Group revenue before adjusting items increased 6.9% versus 2019/20, driven by Food sales up 10.1%, Clothing & Home sales up 3.8% and International sales down 0.8%.

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

52 APM

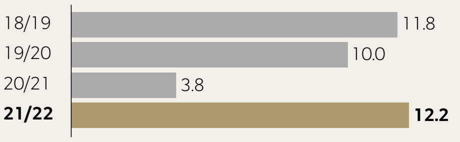
£522.9m +29.7%

The Group delivered profit before tax and adjusting items of £522.9m as a strong all-round performance combined with the benefits of the transformation delivered an encouraging performance across the business.

RETURN ON CAPITAL EMPLOYED (ROCE)

53 APM

12.2% +2.2ppt



Return on capital employed improved two percentage points on 19/20 following a rebound in earnings before interest, tax and adjusting items.

ADJUSTED EARNINGS PER SHARE (EPS)

52 APM

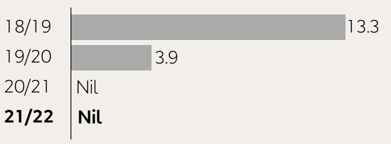
21.7p +29.9%

Adjusted basic earnings per share was 21.7p (2019/20: 16.7p; 2020/21 52-week basis: 1.1p) due to higher adjusted profit year-on-year.

DIVIDEND PER SHARE

APM

Nil (20/21: nil)

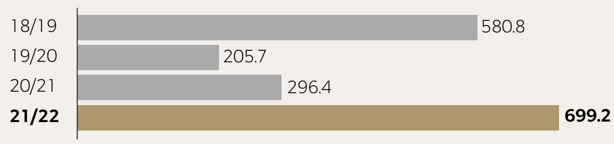


We did not pay a dividend for 2020/21, and the Board has decided not to pay a dividend this year. This is consistent with the announcement at the half-year results that payment of a dividend this financial year would be unlikely as we focus on restoring sustainable profitability and recovering balance sheet metrics consistent with investment grade.

FREE CASH FLOW (PRE-SHAREHOLDER RETURNS)

53 APM

£699.2m +239.9%



The business generated free cash flow of £699.2m, largely driven by the recovery in EBITDA, working capital inflow and reduced cash tax and capital expenditure.

APM Alternative performance measures as outlined on the inside cover.

52 These figures are reported on a 52-week basis.

53 These figures are reported on a 53-week basis.

FINANCIAL REVIEW

> DESPITE THE NEAR-TERM CHALLENGES, THE BUSINESS IS BETTER SET UP BOTH FINANCIALLY AND OPERATIONALLY TO INVEST FOR THE FUTURE.
>
> *Eoin Tonge, Chief Financial Officer*

FINANCIAL SUMMARY

52 weeks ended	2 Apr 22	27 Mar 21[1]	28 Mar 20	Change vs 20/21 %	Change vs 19/20 %
Group statutory revenue	**10,885.1**	**8,961.5**	**10,181.9**	**21.5**	**6.9**
Group sales before adjusting items	**10,909.0**	**8,972.7**	**10,181.9**	**21.6**	**7.1**
UK Food	6,639.6	5,994.8	6,028.2	10.8	10.1
UK Clothing & Home	3,332.2	2,198.6	3,209.1	51.6	3.8
International	937.2	779.3	944.6	20.3	-0.8
Group operating profit/(loss) before adjusting items	**709.0**	**209.7**	**590.7**	**238.1**	**20.0**
UK Food	277.8	213.6	236.7	30.1	17.4
UK Clothing & Home	330.7	(129.4)	223.9	n/a	47.7
International	73.6	45.1	110.7	63.2	-33.5
M&S Bank and Services	13.0	2.0	16.8	550.0	-22.6
Share of result in associates and joint ventures	13.9	78.4	2.6	-82.3	434.6
Interest payable on lease liabilities	(115.6)	(122.5)	(133.4)	-5.6	-13.3
Net financial interest	(70.5)	(45.6)	(54.2)	54.6	30.1
Profit before tax & adjusting items	**522.9**	**41.6**	**403.1**	**1,157.0**	**29.7**
Adjusting items	(131.2)	(242.8)	(335.9)	-46.0	-60.9
Profit/(loss) before tax	**391.7**	**(201.2)**	**67.2**	**n/a**	**482.9**
Profit/(loss) after tax	**309.0**	**(194.4)**	**27.4**	**n/a**	**1,027.7**
Basic earnings/(loss) per share	15.7p	(9.8)p	1.3p	n/a	1,107.7
Adjusted basic earnings/(loss) per share	21.7p	1.1p	16.7p	1,872.7	29.9
Dividend per share	–	–	3.9p	n/a	n/a
Net debt	**£2.70bn**	**£3.52bn**	**£3.95bn**	**-23.3**	**-31.6**

1. 2020/21 was a 53-week year and comparative periods are on a 52-week basis. To aid understanding, we have presented the unaudited 52 weeks to 27 March 2021; however, net debt is given on a 53-week basis.

Notes:

There are a number of non-GAAP measures and alternative profit measures ("APMs") discussed within this announcement, and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to the adjusting items table below for further details.

Given the exceptional nature of financial results last year due to the impact of Covid, all comparatives within this Financial Review are given against 2019/20 unless otherwise stated.

In the current period, we have introduced a new APM: 'sales'. All references to sales throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This new measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.

GROUP RESULTS

Group sales before adjusting items was £10,909.0m. Sales increased 7.1% versus 2019/20, driven by Food sales up 10.1%, Clothing & Home sales up 3.8% and International sales down 0.8%. Statutory revenue in the period was £10,885.1m, an increase of 6.9% versus 2019/20. The Group generated an adjusted profit before tax of £522.9m and a statutory profit before tax of £391.7m.

UK business rates relief of £59.8m (2020/21: £172.2m) helped to compensate for the continuing loss of trade from lower footfall to Clothing & Home stores in the UK, and in the Food hospitality business which was closed until mid-May 2021 and continues to trade well below 2019/20 levels.

Statutory profit before tax includes total charges for adjusting items of £131.2m.

For full details on adjusting items and the Group's related policy, see notes 1 and 5 to the financial statements.

UK: FOOD

UK Food sales increased by 10.1%, driven by the performance of core categories, partly offset by reduced sales from the recovering franchise and hospitality businesses. Excluding franchise and hospitality, sales grew 14.7%.

Change vs 19/20 %	Q1	Q2	Q3	Q4	FY
Food	9.4	11.5	12.4	7.0	10.1
Food ex franchise and hospitality	17.0	16.8	16.4	8.6	14.7

M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Footfall, m (average/week)	10.1	8.0	11.8	-14.4
Transactions, m (average/week)	8.0	5.6	9.3	-14.0
Basket value inc VAT (£)	15.9	20.6	12.6	26.2
Total sales ex VAT £m[1]	**6,639.6**	**5,994.8**	**6,028.2**	**10.1**

1. Includes M&S.com.

Footfall in the period, while recovering, remained below 2019/20, with a similar trend for the number of transactions. Revenue was driven by increased basket value as customers used M&S for more of their everyday shop. However, basket size has declined compared to 2020/21 driven by the gradual recovery of our hospitality and food-on-the-move businesses, which typically have smaller baskets, as well as a reduction in "core" basket size through the year as Covid tailwinds reduced. Although customer behaviour started to normalise in Q4, metrics remained ahead of 2019/20 levels.

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %
Sales[1]	6,639.6	5,994.8	6,028.2	10.1
Operating profit before adjusting items	277.8	213.6	236.7	17.4
Operating margin	4.2%	3.6%	3.9%	30 bps

1. 'Sales' is equal to revenue within the Food business.

The Food business in total generated operating profit before adjusting items of £277.8m compared with £236.7m in 2019/20.

The table below sets out the drivers of the movement in Food operating profit margin before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	**3.9**
Gross margin	0.2
Store staffing	1.4
Other store costs	0.4
Distribution and warehousing	(1.1)
Central costs	(0.6)
2021/22	**4.2**

- **Gross margin** increased c.20bps. The improvement in margin rate was a result of cost-saving programmes, including Ocado synergies, as well as lower net waste and reduced sales in our lower gross margin Franchise business. This was partly offset by investment in price, reduced sales from our higher-margin Hospitality offering, and additional warehousing and freight charges within margin.
- **Store staffing** costs decreased c.140bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing initiatives, partly offset by investment in colleague pay rates and Covid-related costs such as door hosts.
- The c.40bps decrease in **other store costs** relates to government business rates relief of £24.6m and lower depreciation charges as legacy store modernisations come to the end of their useful economic lives, partly offset by an increase in maintenance and store standards spend.
- **Distribution and warehousing** costs increased c.110 bps, reflecting investment in the Milton Keynes ambient depot to support volume growth, higher pay, incentives and sub-contracting related to warehouses and haulage, the cost to serve of online orders, and inefficiencies from EU border-related processes for serving Northern Ireland.
- **Central costs** increased c.60bps, driven by investments in technology, data and digital initiatives, including in forecasting, ordering and allocation systems, as well as colleague incentives. This was partly offset by technology savings from optimising the cost base and a reduction in the depreciation of technology assets as they reach the end of their useful lives.

FINANCIAL REVIEW
CONTINUED

OCADO RETAIL LTD

The Group holds a 50% interest in Ocado Retail Ltd ("Ocado Retail"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Full Year Results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 30 May 2021, 29 August 2021, 28 November 2021 and 27 February 2022.

All commentary in this section is against 2020/21 comparatives, as the acquisition of the investment in Ocado Retail Ltd by M&S was made part-way through 2019/20.

	Q1	Q2	Q3	Q4
Revenue growth vs 2020/21 (%)	8.4	-10.6	-3.9	-5.7
Active customers (k)	777	769	832	835
Average orders per week (k)	383	338	375	367

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods. Average orders per week refers to results of Ocado.com.

Revenue declined 4.4% compared to 2020/21 (-3.0% excluding Fetch) as trade annualised against sales growth during three national lockdowns in 2020 and towards the end of H1 was impacted by the fire at the Erith CFC on 16 July. These impacts were partly offset by the ongoing capacity roll-out in the period. M&S products continue to account for over 25% of the average Ocado basket.

£m	52 weeks ended 27 February 2022	52 weeks ended 28 February 2021	Change %
Revenue	2,248.8	2,353.2	-4.4
EBITDA before exceptional items	104.8	189.9	-44.8
Exceptional items	(14.4)	50.5	-128.5
Depreciation and amortisation	(41.3)	(36.2)	-14.1
Operating profit	**49.1**	**204.2**	**-76.0**
Profit after tax	27.8	156.8	-82.3
M&S 50% share of profit after tax	**13.9**	**78.4**	**-82.3**

Ocado Retail Ltd is reported as an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition. It is expected that full consolidation of Ocado Retail Ltd by Ocado Group plc will continue for at least five years from the formation of the joint venture, after which it is anticipated that control of the joint venture will pass to M&S following which it will consolidate the joint venture. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2021.

Ocado Retail EBITDA before exceptional items was down 44.8%, reflecting the normalisation of basket size and shape of week as well as an increasing higher percentage of immature capacity as we open new CFCs.

In addition, Ocado Retail has recognised £14.4m of net exceptional costs before tax, including £6.8m exceptional costs relating to the fire at Erith CFC and £6.2m relating to the development and introduction of IT systems as we transition away from Ocado Group IT services, tools and support. Exceptional items in the prior period relate primarily to the Andover fire insurance receipts.

As a result of lower EBITDA and net exceptional costs, Group share of Ocado Retail profit after tax was £13.9m.

UK: CLOTHING & HOME

Clothing & Home sales increased 3.8% as the continued growth of the online business offset the decline in store sales due to lower footfall. The online business remained robust throughout the period.

Change vs 19/20 %	Q1	Q2	Q3	Q4	FY
Clothing & Home sales	-4.2	2.0	3.2	17.3	3.8
Clothing & Home stores sales	-21.2	-14.3	-10.9	5.6	-11.2
Clothing & Home online sales	59.2	62.3	50.8	52.1	55.6
Clothing & Home statutory revenue	-4.6	1.4	2.4	16.0	3.1

Comparative figures in Q4 are impacted by the first Covid national lockdown, which we estimated had a £78m adverse impact on sales at the time, predominantly in stores. Adjusting for this, Clothing & Home sales increased c.3.9% in Q4 and c.1.4% for the full year.

Online

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Traffic (m)[1]	405.7	417.5	308.8	31.4
Active customers (m)[2]	9.0	9.0	5.9	52.5
Conversion (%)[3]	7.0	7.2	6.3	+70 bps
Average order value inc VAT pre returns (£)	55.4	49.7	51.5	7.6
Returns rate (%)	25.8	18.6	28.0	-220 bps
Sales ex VAT £m	**1,122.7**	**1,109.7**	**721.3**	**55.6**

1. Traffic: the number of site visits to M&S.com and the app.
2. Active customers: the number of unique customers who have made a purchase in the prior 52 weeks.
3. Conversion: the number of orders as a % of the number of site visits.

Following growth in 2020/21, online sales remained robust, with growth on both a one and two-year basis for the full year, despite elevated comparatives in Q4 2020/21 from the third national lockdown. Online traffic through the app was up over 200% on 2019/20 following the relaunch of Sparks in July 2020, which has helped to drive the increase in active customers. Increased app usage has driven better conversion and, encouragingly, app conversion for the full year remains consistent with H1 at over 9%.

As anticipated, as customer habits reverted to pre-pandemic trends, returns rates have normalised towards 2019/20 levels through the year. Average order value ("AOV") was ahead of 2019/20 levels driven by a full-price trading stance which increased average selling price ("ASP"), along with the benefit of third-party brands.

Stores

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Footfall, m (average/week)	4.0	1.9	5.9	-32.2
Transactions, m (average/week)	1.7	1.0	2.1	-19.0
Average basket value inc VAT pre returns (£)	34.9	30.6	32.3	8.0
Sales ex VAT £m	**2,209.5**	**1,088.9**	**2,487.8**	**-11.2**

UK Clothing & Home store sales decreased 11.2%: Average weekly footfall was below 2019/20 levels in the period, with the business continuing to be adversely impacted by the shape of the store estate. Excluding March, sales in high streets and city centres were down 22% and 26% respectively, while sales in retail parks were up c.1% on 2019/20 levels.

Total Clothing & Home

The Clothing & Home business in total generated an operating profit before adjusting items of £330.7m compared with £223.9m in 2019/20.

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %
Revenue before adjusting items	3,308.3	2,198.6	3,209.1	3.1
Sales	3,332.2	2,198.6	3,209.1	3.8
Operating profit/(loss) before adjusting items	**330.7**	**(129.4)**	**223.9**	**47.7**
Operating margin	9.9%	-5.9%	7.0%	290 bps

The table below sets out the drivers of the movement in Clothing & Home operating profit before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	**7.0**
Gross margin	1.5
Store staffing	2.6
Other store costs	1.5
Distribution and warehousing	(1.7)
Central costs	(1.0)
2021/22	**9.9**

- **Gross margin** increased c.150bps. The continuing benefit of increased full-price trading and lower stock into sale more than offset cost headwinds of adverse currency movements and additional freight and warehousing costs.
- **Store staffing** costs decreased c.260bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing initiatives as well as lower variable staffing costs from reduced volumes. These impacts more than offset investment in colleague pay rates.
- The decrease in **other store costs** of c.150bps largely relates to government business rates relief of £35.2m, with lower depreciation charges relating to legacy store modernisations offset by increased maintenance costs in the store estate and reduced rates rebates.
- **Distribution and warehousing** increased c.170bps, largely relating to the higher costs to serve online demand, including an increased proportion of home deliveries, as well as increased pay rates, haulage incentives and fuel inflation. Note the higher courier costs of home deliveries were offset by delivery income, which is reported within sales. These overall higher costs were partly offset by savings from lower volumes and cost-reduction programmes.
- The increase in **central costs** of c.100bps was driven by investments in technology, data and digital initiatives, colleague incentives, additional costs to support brands, and higher pay-per-click marketing activity to drive online growth. This was partly offset by a reduction in the depreciation of technology assets as they reach the end of their useful lives.

Clothing & Home online generated an adjusted operating profit margin of c.9%, with the reversion towards 2019/20 returns rates reducing margin year-on-year as anticipated, as well as investments in data and digital initiatives to drive future growth. The adjusted operating profit in stores represented a margin on sales of c.10%, or approximately 9% after excluding the benefit of rates relief.

INTERNATIONAL

International sales increased 1.7% at constant currency ("CC") despite the continued impact of Covid on Asian markets, in particular in India during Q1, and the disruption and complexity arising from new EU border processes in Food supply chains, predominantly in France and the Republic of Ireland. There was solid growth in the Middle East and online sales continued to grow on both a one- and two-year constant currency basis, with both our own websites and marketplaces driving growth of 125.5% as we retained customers acquired during the lockdowns in 2020/21.

Change vs 19/20 %	Q1 CC	Q2 CC	Q3 CC	Q4 CC	FY CC	FY Reported
Total sales	-6.1	-0.3	5.1	7.9	1.7	-0.8

52 weeks ended Sales[1]	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %	Change vs 19/20 CC %
Clothing & Home	654.2	483.2	620.7	5.4	9.1
Food	283.0	296.1	323.9	-12.6	-12.1
Total	**937.2**	**779.3**	**944.6**	**-0.8**	**1.7**
Memo: Online sales	172.5	165.7	77.2	123.4	125.5

1. 'Sales' is equal to revenue within the International business.

Clothing & Home sales recovered to above 2019/20 levels, driven by robust growth in online sales and exceptionally strong shipments to the Middle East. India was heavily impacted in Q1 by Covid (c.-61% vs 2019/20) and again in Q4 (c.-3% excluding March vs 2019/20), but overall retail sales in the market grew 6%. Trading in the rest of Asia remained challenging. We saw a similar shape of trade in European owned markets, with Clothing & Home performance in the Republic of Ireland performing robustly.

Food sales declined due to disruption caused by EU border-related processes in European markets. This has resulted in significant cost and complexity in servicing the Republic of Ireland and a restructuring of our Food operations in continental Europe. Excluding France, Food sales were level with 2019/20.

Operating profit before adjusting items was down 33.5%, driven principally by the additional costs of new EU border processes and tariffs of £29.6m, and associated trade impacts such as lower availability and higher waste, which we estimate reduced gross profit by a further c.£15m.

FINANCIAL REVIEW
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The table below sets out the drivers of the movement in International operating profit margin before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	**11.7**
Gross margin	(0.1)
Store staffing	1.0
Other store costs	1.0
Distribution and warehousing	(3.0)
Central costs	(2.7)
2021/22	**7.9**

- **Gross margin** declined c.10bps primarily as a result of additional tariffs and waste due to inefficiencies from EU border-related processes for serving the Republic of Ireland. This was partly offset by growth of the online business.
- **Store staffing** costs decreased c.100bps primarily as a result of efficiency savings from retail restructuring in the Republic of Ireland.
- The c.100bps movement in **other store costs** largely relates to government relief in owned markets and rent concessions in India, which resulted in one-off savings in the period.
- **Distribution and warehousing** increased c.300bps, reflecting higher operational and administrative costs associated with EU border-related processes, as well as higher costs to serve online demand.
- **Central costs** increased c.270bps, driven by higher marketing spend associated with the growth of the online channel and colleague incentives.

M&S BANK AND SERVICES

M&S Bank and Services profit before adjusting items was down £3.8m to £13.0m. Adjusting items charges of £16.0m have been incurred relating primarily to the insurance mis-selling provision, resulting in a statutory loss of £(3.0)m.

Lower demand for unsecured credit and travel money is the primary driver for the lower profits. This was largely offset by the release of bad debt provisions, as economic conditions proved more favourable than anticipated.

NET FINANCE COST

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 £m
Interest payable	(85.1)	(89.9)	(80.5)	(4.6)
Interest income	9.6	4.7	14.5	(4.9)
Net interest payable	**(75.5)**	**(85.2)**	**(66.0)**	**(9.5)**
Pension net finance income	13.2	47.2	23.6	(10.4)
Unwind of discount on Scottish Limited Partnership liability	(4.4)	(4.9)	(6.9)	2.5
Unwind of discount on provisions	(3.8)	(2.7)	(4.9)	1.1
Net financial interest	**(70.5)**	**(45.6)**	**(54.2)**	**(16.3)**
Net interest payable on lease liabilities	**(115.6)**	**(122.5)**	**(133.4)**	**17.8**
Net finance costs before adjusting items	**(186.1)**	**(168.1)**	**(187.6)**	**1.5**
Adjusting items included in net finance costs	5.6	(6.8)	–	5.6
Net finance costs	**(180.5)**	**(174.9)**	**(187.6)**	**7.1**

Net finance costs before adjusting items decreased £1.5m to £186.1m. Lower pension income due to the reduced IAS 19 pension surplus compared with 2019/20 and the reversal of ineffectiveness on a currency swap within interest income in 2019/20 offset a reduction in the net interest payable on lease liabilities.

GROUP PROFIT BEFORE TAX AND ADJUSTING ITEMS

Group profit before tax and adjusting items was £522.9m, up 29.7% on 2019/20. The profit increase was driven by adjusted operating profit growth in Clothing & Home and Food and the additional profit from the Ocado joint venture, offset by a reduction in International and M&S Bank operating profits.

GROUP PROFIT BEFORE TAX

Group profit before tax was £391.7m, up £324.5m on 2019/20. This includes net charges for adjusting items of £131.2m (2019/20: £335.9m).

ADJUSTING ITEMS

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures (APMs) that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. For further detail on these charges/gains and the Group's policy for adjusting items, please see notes 1 and 5 to the financial statements.

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
Strategic programmes – UK store estate	(161.4)	(95.3)	(29.3)	(132.1)
Strategic programmes – UK logistics	21.9	(2.2)	(10.2)	32.1
Strategic programmes – Organisation	14.3	(133.7)	(13.8)	28.1
Strategic programmes – International store closures, impairments and other	0.4	(3.6)	(17.1)	17.5
Store impairments, impairment reversals and other property charges	60.0	6.9	(78.5)	138.5
Amortisation and fair value adjustments arising from the investment in Ocado Retail Limited	(32.5)	(14.2)	(16.8)	(15.7)
Directly attributable to Covid	17.8	90.8	(163.6)	181.4
M&S Bank charges incurred in relation to insurance mis-selling provisions	(16.0)	(2.4)	(12.6)	(3.4)
Franchise restructure	(41.3)	–	–	(41.3)
Intangible asset impairments	–	(79.9)	(13.4)	13.4
Sparks loyalty programme transition	–	(16.6)	–	–
Establishing the investment in Ocado Retail Limited	–	(1.7)	(1.2)	1.2
Remeasurement of contingent consideration including discount unwind	5.6	(6.8)	(2.9)	8.5
Other	–	(1.0)	23.5	(23.5)
Adjusting items	**(131.2)**	**(259.7)**	**(335.9)**	**204.7**

Adjusting items net charges incurred in the period were £131.2m.

UK store estate

A charge of £161.4m has been recognised in relation to store closures identified as part of UK store estate rotation plans. The charge reflects a revised view of latest store exits and underlying assumptions around estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores. Further charges relating to the closure and rotation of the UK store estate are anticipated as the programme progresses, with total future charges of up to c.£200m over the next nine financial years, bringing anticipated total programme costs since 2016 to c.£1bn. The anticipated total programme costs do not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next nine years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store the exit routes are not yet certain.

	Incurred up to 3 Apr 21 £m		Incurred in 52 weeks ended 2 Apr 22 £m	
	P&L	Cash	P&L	Cash
PPE and ROU asset impairments	(452.2)	n/a	(81.0)	n/a
Accelerated depreciation	(175.3)	n/a	(50.7)	n/a
Closed store rent, rates and onerous leases net of sublet income	(23.1)	(26.1)	(16.4)	(10.9)
Redundancy	(9.9)	(7.0)	(2.4)	(0.7)
Profit/(loss) or cash proceeds/(outflows) on disposal/surrender	(3.8)	11.4	(3.7)	(3.2)
Closure costs, strips, dilapidations	10.3	(39.7)	(4.0)	(11.0)
Other	(3.6)	(9.0)	(3.2)	(4.4)
Total	**(657.6)**	**(70.4)**	**(161.4)**	**(30.2)**[1]

1. Cash outflows include rent, reported within cash lease payments in the cash flow, and proceeds on disposal/surrender, which is net off against capex in the cash flow. Therefore, these cash outflows do not tie to UK store estate cash adjusting items

Other adjusting items

A net credit of £21.9m has been recognised in the period relating to UK logistics, reflecting in large part a gain on the disposal of distribution centres.

A credit of £14.3m has been recognised in relation to organisational change. This credit largely relates to an £11.9m reversal of an impairment associated with the centralising of the Group's London support office functions, with the remainder reflecting the finalisation of previous redundancy costs associated with this programme. No provision remains at the year end and there are no further charges anticipated.

In response to the strong Group performance and lifting of government restrictions, a credit of £63.4m has been incurred for the reversal of store impairments recognised in adjusting items in previous periods, partly offset by a £3.4m charge primarily relating to the impairment of assets in certain stores.

A charge of £41.3m has been recognised relating to the restructuring of certain International franchise operations. In September 2021, the Group restructured our French operations after an assessment of the profitability of the business under increased EU border costs and tariffs, at a cost of £10.3m. In March 2022, the Group made the decision to fully exit its Russian franchise. As a result, the Group has recognised a charge of £31.0m representing the Group's full exit costs from Russia and business disruption in Ukraine.

A charge of £32.5m has been recognised with respect to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail and related deferred tax charges of £14.9m predominantly relating to the substantive enactment of the Finance Act 2021 during the period, which will increase the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

A gain of £17.8m has been recognised as being directly attributable to the Covid pandemic. This relates mostly to the release of the remaining inventory provision made in adjusting items in 2019/20, driven by the sell-through of Clothing & Home stock being greater than anticipated.

Charges of £16.0m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The total charges recognised in adjusting items since September 2012 for PPI is £326.3m, which exceeds the total offset against profit share of £259.0m to date; this deficit will be deducted from the Group's share of future profits from M&S Bank.

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TAXATION

The effective tax rate on profit before adjusting items was 18.2% (2019/20: 20.7%; 2020/21: 50.3% on a 53-week basis). As part of cash-optimisation measures, no payments were made to the Marks and Spencer Scottish Limited Partnership ("SLP") during the year. As such, there has been no recapture of previous tax relief, resulting in a lower effective tax rate than prior years.

As well as there being no recapture of previous tax relief under the SLP structure in the period, future changes to the UK statutory corporation tax rate result in deferred tax assets being recognised at the higher substantively enacted rate of 25%. Restating these deferred tax assets from a rate of 19% to 25% results in a tax credit in the period, reducing the effective tax rate.

The effective tax rate on statutory profit before tax was 21.1% (2019/20: 59.3%; 2020/21: 3.9% credit on a statutory loss on a 53-week basis), which was higher than the effective tax rate on profit before adjusting items due to the impact of disallowable adjusting items.

Next year, we anticipate an effective tax rate on profit before adjusting items higher than the UK corporation tax rate of 19%, principally due to the recapture of previous tax relief as payments to the SLP resume.

EARNINGS/LOSS PER SHARE

Basic earnings per share was 15.7p (2019/20: 1.3p; 2020/21: loss of 10.1p on a 53-week basis), due to the increase in profit year-on-year. The weighted average number of shares in issue during the period was 1,958.1m (2019/20: 1,894.9m ; 2020/21: 1,953.5m).

Adjusted basic earnings per share was 21.7p (2019/20: 16.7p; 2020/21: 1.4p on a 53-week basis) due to higher adjusted profit year-on-year.

CASH FLOW

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
Adjusted operating profit	**709.0**	**222.2**	**590.7**	**118.3**
Depreciation and amortisation before adjusting items	510.7	603.1	632.5	(121.8)
Cash lease payments	(344.3)	(316.6)	(335.7)	(8.6)
Working capital	239.7	268.1	(67.8)	307.5
Defined benefit scheme pension funding	(36.8)	(37.1)	(37.9)	1.1
Capex and disposals	(213.5)	(203.8)	(325.9)	112.4
Financial interest	(79.9)	(76.0)	(79.5)	(0.4)
Taxation	(7.7)	(5.8)	(91.6)	83.9
Acquisitions, investments and divestments	(41.4)	8.7	(580.3)	538.9
Employee-related share transactions	39.1	18.5	9.7	29.4
Proceeds from rights issue net of costs	–	–	574.4	(574.4)
Share of (profit)/loss from associate	(13.9)	(78.4)	(2.6)	(11.3)
Cash received from settlement of derivatives	–	14.0	7.7	(7.7)
Adjusting items outflow	(61.8)	(120.5)	(88.0)	26.2
Free cash flow	**699.2**	**296.4**	**205.7**	**493.5**
Dividends paid	–	–	(191.1)	191.1
Free cash flow after shareholder returns	**699.2**	**296.4**	**14.6**	**684.6**
Opening net debt excluding lease liabilities	**(1,110.0)**	**(1,388.6)**	**(1,404.7)**	**294.7**
Free cash flow after shareholder returns	699.2	296.4	14.6	684.6
Exchange and other non-cash movements excluding leases	(9.3)	(17.8)	1.5	(10.8)
Closing net debt excluding lease liabilities	**(420.1)**	**(1,110.0)**	**(1,388.6)**	**968.5**
Opening net debt	**(3,515.9)**	**(3,950.6)**	**(3,981.5)**	**465.6**
Free cash flow after shareholder returns	699.2	296.4	14.6	684.6
Decrease in lease obligations	216.0	184.3	201.4	14.6
New lease commitments and remeasurements	(100.6)	(48.3)	(204.1)	103.5
Exchange and other non-cash movements	2.5	2.3	19.0	(16.5)
Closing net debt	**(2,698.8)**	**(3,515.9)**	**(3,950.6)**	**1,251.8**

The business generated free cash flow of £699.2m, largely driven by the recovery in EBITDA, working capital inflow and reduced cash tax and capital expenditure.

Cash lease payments increased £8.6m partly as a result of rental payments which were deferred from last year into this year as part of cash conservation measures enacted at the start of the pandemic. Cash lease payments relating to stores identified as part of the UK store estate strategic programme which are probable for closure totalled £54.8m.

For further detail on working capital movements, refer to the section below.

Defined benefit scheme pension funding of £36.8m reflects the SLP interest distribution to the pension scheme.

For capex and disposals, refer to the section below.

The reduction in tax payments of £83.9m is due to no UK corporation tax being paid in the period. This is driven by the utilisation of carried-forward tax losses from 2020/21.

Acquisitions, investments and divestments were driven principally by the payment of £33.8m of contingent consideration relating to the investment in Ocado Retail Ltd in the period. The final contingent payment for Ocado Retail Ltd of c.£156m plus interest will be paid in financial year 2024/25 if a specified target level of earnings in the financial year ending November 2023 is achieved. Based on the latest five-year plan of Ocado Retail Ltd, the performance target is expected to be met.

Other acquisitions and investments in the period include the strategic investment in the fast-growing brand platform “The Sports Edit”, a minority stake and funding for “Nobody’s Child” and a cornerstone investment in True Capital Limited’s seed-stage fund. These investments were offset by income from the disposal of a property investment company.

Employee-related share transactions cash inflows increased due to a change in policy to no longer purchase shares for issue in colleague incentive schemes, increased deferred colleague incentive share scheme payments, and increased uptake of employee share schemes during the pandemic.

Adjusting items cash outflow was £61.8m. This included £16.5m relating to the UK store estate strategy, £16.0m relating to the M&S Bank insurance mis-selling provisions, £15.9m of organisational restructuring costs largely relating to the Republic of Ireland, £9.4m largely relating to the restructuring of our French operations, and £3.7m for the restructuring of the UK Clothing & Home logistics network.

WORKING CAPITAL

The business generated £508m cash inflow from working capital over the past two years.

Most of this was driven by payables, partly as a result of changes to payment terms for Clothing & Home suppliers, in addition to higher outstanding payments over year end as a result of business growth.

As previously reported, receivables remain at a lower level than pre-Covid, partly due to the adverse impact of the pandemic on our Food franchise business.

Stock increased slightly over the period, driven primarily by inventory build in the Food business as we approached the end of March, as well as the timing of Clothing & Home intake over year-end.

As part of our focus on deeper, strategic supplier relationships, we are improving supplier payment terms in both Clothing & Home and Food. In Clothing & Home, we anticipate the benefits of longer supplier terms within these results to partially reverse in the coming year.

CAPITAL EXPENDITURE

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
UK store remodelling	50.1	27.0	60.3	(10.2)
New UK stores	49.9	14.9	33.3	16.6
International	18.2	6.7	15.7	2.5
Supply chain	28.6	25.2	39.2	(10.6)
IT and M&S.com	68.2	47.6	81.1	(12.9)
Property asset replacement	85.2	19.2	102.4	(17.2)
Acquisition of Jaeger brand	–	6.3	–	–
Capital expenditure before property acquisitions and disposals	**300.2**	**146.9**	**332.0**	**(31.8)**
Property acquisitions and disposals	(43.9)	(0.3)	(2.7)	(41.2)
Capital expenditure	**256.3**	**146.6**	**329.3**	**(73.0)**
Movement in capital accruals	(42.8)	57.2	(3.4)	(39.4)
Capex and disposals as per cashflow	**213.5**	**203.8**	**325.9**	**(112.4)**

Group capital expenditure before disposals decreased £31.8m to £300.2m compared to 2019/20; however, it was up on 2020/21 as we increased investment in the transformation.

UK store remodelling costs related principally to 22 full line and food renewal stores, some of which have not yet opened, as well as upgrades to Clothing & Home space.

Spend on new UK stores primarily related to eight new or extended Simply Foods and seven new or extended full-line stores in the current year, some of which have not yet opened.

Supply chain expenditure reflects the expansion of our Bradford warehouse to support online growth in Clothing & Home, Food equipment purchases, and investment in our Milton Keynes Food depot to support capacity increases.

IT and M&S.com spend includes costs related to technology replacement and upgrades in stores, the development of the Food ordering and allocation system and buying portals, website development and ongoing investment in digital capability in the support centre and stores.

Property asset replacement normalised towards 2019/20 levels as replacement of core assets across the estate, which had been de-prioritised during 2020/21 due to cash conservation measures, was re-prioritised. This includes roof works and replacement of fridges, freezers, boilers, lifts and escalators.

Property acquisitions and disposals primarily relates to cash inflows from the disposal of two warehouses in the third quarter.

Capital accruals were higher at year-end compared to 2020/21 as transformation spend increased in the second half. It should be noted that 2020/21 capital expenditure cash flow included some accrued spend relating to 2019/20.

NET DEBT

Group net debt decreased by £1.25bn compared to 2019/20, driven by free cash flow generation, and by £0.8bn since the start of the year.

There was a further reduction in the value of discounted lease obligations outstanding since the start of the year. New lease commitments and remeasurements in the period were £100.6m, largely relating to 20 new UK leases, lease additions in India and UK property and logistics liability remeasurements. This was more than offset by £216.0m of capital lease repayments.

FINANCIAL REVIEW
CONTINUED

The composition of Group net debt is as follows:

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	vs 19/20 £m
Cash and cash equivalents	1,197.9	674.4	254.2	943.7
Medium Term Notes	(1,529.5)	(1,682.1)	(1,536.2)	6.7
Current financial assets and other	99.4	83.2	96.1	3.3
Partnership liability to the UK DB pension fund	(187.9)	(185.5)	(202.7)	14.8
Net debt excluding lease liabilities	**(420.1)**	**(1,110.0)**	**(1,388.6)**	**968.5**
Lease liabilities	(2,278.7)	(2,405.9)	(2,562.0)	283.3
– Full-line stores	(919.5)	(982.6)	(1,054.8)	135.3
– Simply Food stores	(712.8)	(727.0)	(747.7)	34.9
– Offices, warehouses and other	(449.5)	(494.5)	(523.7)	74.2
– International	(196.9)	(201.8)	(235.8)	38.9
Group net debt	**(2,698.8)**	**(3,515.9)**	**(3,950.6)**	**1,251.8**

Full-line store liabilities include £225.3m relating to stores identified as part of the UK store estate strategic programme. We are seeking to fund the closure costs of rotation of the store estate with the realisation of funds from our asset management programme.

Of the remaining full-line stores lease liability, the average liability-weighted lease length is c.25 years, although the average lease term to break is shorter at c.19 years. However, these average lease lengths are skewed by five particularly long leases we hold, with the longest of these having 135 years remaining. These five leases, with a combined lease liability of c.£100m, are not deemed probable for closure in our UK store estate programme as they are currently trading well in locations we wish to remain in. Excluding these five leases, the average lease term to break is c.14 years.

Simply Food store liabilities include £30.9m relating to stores identified as part of the UK store estate strategic programme. Of the remaining lease liability, the average lease length to break is c.10 years.

Within offices, warehouses and other, £144.9m relates to the sublet lease on our Merchant Square offices. Average lease length of all other offices and warehouses to break is c.7 years.

International leases relate primarily to India (c.£85m) and Ireland (c.£66m). Average lease length to break in India is close to nil, as most of these leases are past the break point, and so we have the flexibility to exit these at any time on several months' notice. Average lease length to break in Ireland is c.10 years.

LIQUIDITY

At 2 April 2022, the Group held cash balances of £1,197.9m (2019/20: £254.2m). In addition, during the year the Group agreed a new £850m revolving credit facility expiring in June 2025 on terms linked to delivery of its net zero roadmap. With the facility undrawn, the Group now has liquidity headroom of £2.1bn. This liquidity position is as a result of free cash flow performance.

As part of our approach to liability management we have announced a tender offer for c.£150m of our near-term debt maturities.

DIVIDEND

We did not pay a dividend for 2020/21, and the Board has decided not to pay a dividend this year.

This is consistent with the announcement at the half-year results that payment of a dividend this financial year would be unlikely as we focus on restoring sustainable profitability and recovering balance sheet metrics consistent with investment grade.

PENSION

At 2 April 2022, the IAS 19 net retirement benefit surplus was £1,038.2m (2020/21: £631.4m). The increase was largely driven by an increase in discount rates towards the end of the period.

The most recent actuarial valuation of the UK DB Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. We continue to work constructively with the Trustees of the UK DB Pension Scheme with regard to agreeing the triennial actuarial valuation of the scheme as at 31 March 2021. Consequently, the results of the valuation are not yet finalised, although it is likely that there will continue to be a surplus.

With the pensioner buy-in policies purchased in September 2020, April 2019 and March 2018, the scheme has now, in total, insured around 80% of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group's exposure to changes in longevity, interest rates, inflation and other factors.

STATEMENT OF FINANCIAL POSITION

Net assets were £2,917.9m at the period end, an increase of 27.7% since the start of the year largely due to free cash generation.

Eoin Tonge, Chief Financial Officer

Important Notice:
Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any forward-looking statements are subject to various risks and uncertainties, including, but not limited to, failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions including, but not limited to, those related to the Covid-19 pandemic or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2022 Annual Report (pages 45 to 54).

The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RISK MANAGEMENT

The pace and nature of change in the external environment, combined with the need to successfully implement both transformational and core business initiatives internally, underline the importance of maintaining effective and agile risk management processes covering every part of our business.

APPROACH TO RISK MANAGEMENT

Our approach to risk management remains simple and practical. The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including identification of the principal and emerging risks facing M&S. To support the Audit Committee in executing on this responsibility, underlying processes are in place which are fully aligned to the M&S operating model, with each business and key function being responsible for the ongoing tracking and management of risks. These processes comprise the identification, assessment and effective mitigation of core risks, as well as monitoring for changes triggered by the dynamic and, sometimes, unpredictable environment in which we operate.

Our risk management process is underpinned by the Group Risk Management Policy which is subject to periodic review to ensure it remains appropriate for our business needs and delivers against our governance responsibilities.

The key activities forming a part of this process include:

- the development and maintenance of Board-approved **risk appetite statements** which align with business strategy, three-year plan, core operating activities and our purpose and values;
- **identification, measurement and reporting** of risks against a consistently applied criteria considering both the likelihood of occurrence and potential impact to the Group, with clear ownership sitting with relevant members of the leadership team;
- maintenance of **detailed risk registers and mitigation plans** by each business and function which are approved by their leadership teams and the appropriate Executive Committee members, and are also incorporated into related governance processes, such as the Environmental, Social and Governance (ESG) or Group Safety Committees;
- proactive monitoring of **emerging risks** where the full extent and implications may not be fully understood but need to be tracked;
- swift action to evaluate changes to the risk profile triggered by **new or unexpected events** – such as the rapid assessment of the business-wide consequences of Russia's invasion of Ukraine;
- **Continued assessment of risks** to reflect changes in the business operating model, accountabilities and reporting – for example, to incorporate the changes in Irish operations post-Brexit or the reset of Plan A;
- a formal **half-yearly review** of all risk registers by the Group Risk team to provide independent challenge and support cross-business alignment;
- **direct reporting to the Audit Committee** by each of our business and functional leadership teams on a rolling, scheduled basis, flexed to respond to changes or potential issues; and
- the compilation of an overarching view of Group risks, combining both **top-down and bottom-up** perspectives, which considers the impact of changes in the external environment, our strategy, transformation programme, core operations and our engagement with external parties.

The output from the above process is subject to periodic review and challenge with the executive directors and, subsequently, the **principal risks and uncertainties** are submitted to the Audit Committee ahead of final review and approval by the Board.

An overview of this process is presented in the diagram on the following page and the interaction of our principal risks with the strategic priorities is shown in the table on page 48.

The directors' assessment of the long-term viability of M&S is also reviewed annually, mindful of the principal risks faced. The approach for assessing long-term viability is set out on page 55.

RISK MANAGEMENT
CONTINUED

Risk management process and governance overview

The following diagrams provide an overview of the risk management process and activities undertaken within our business that allow the Board to fulfil its obligations under the Corporate Governance Code 2018.

1 Setting risk appetite
2 Risk identification & ownership
3 Risk assessment
4 Risk response
5 Monitoring, reporting & escalation

Internal reporting

Consolidated Group-level risks
- Consolidation of significant risks from underlying risk registers
- Overlay of Group-level risks
- Review and agreement of the principal risks by the executive directors
- Review and approval by the Audit Committee

Business and functional risk registers
- Development and ongoing maintenance of risk registers, including consideration of emerging risks, by the business and functional leadership teams
- Review and challenge of risk content and quality of mitigation plans by the Group Risk team
- Review and challenge of risks at leadership forums

Current issues and areas of change
- Monitoring emerging areas of change or issues that may become significant at a Group level

Parties involved

Top-down
- M&S Board
- Audit Committee
- Executive Committee
- Group Risk team

Bottom-up
- Group Risk team
- Business and functional leadership teams
- Policy and process owners

External reporting

Principal risks and uncertainties
- Full disclosure of Principal risks for external reporting
- Review and approval by the Board and Audit Committee

Maintaining an effective risk framework

In complying with the process and policy described above, some examples of how risk management has developed to remain relevant during the year include:
- a full refresh of our risk appetite statements, led by the Executive Team with full Board participation, to ensure alignment with business strategy and the ongoing transformation activities as well as the core requirements of business operations;
- refinement of the suite of underlying business and functional risk registers to mirror changes in our operating model, including the reset of Plan A and the need to manage climate-related risks and opportunities;
- using our established crisis management response to immediately assess the risk consequences of Russia's invasion of Ukraine; and
- re-evaluating the tools that support the continued maturity and effectiveness of the established process.

OVERVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES

Our principal risks and uncertainties have been assessed in accordance with the methodology outlined on the previous pages. At an overarching level, three ongoing issues are having a pervasive impact on the risks being faced – the continually evolving nature of Covid-19, the further consequences of the Russian invasion of Ukraine, and the cost of living crisis emerging in the communities in which we operate.

In previous disclosures we have explained how Covid-19 has had wide ranging consequences on our suite of principal risks and uncertainties and was not, therefore, presented as a single principal risk. This has not changed. The same approach has also been used in relation to the Russian invasion of Ukraine and the cost of living crisis, with the consequences of both being captured in the relevant principal risks rather than shown as stand alone items.

THE CONTINUED CONSEQUENCES OF COVID-19

The business continues to manage the ongoing consequences of Covid-19 and while these have, and may continue to evolve, they have become intrinsically linked with other prevalent external factors contributing to current uncertainty in the environment in which we operate. These include:

- labour shortages across transport, distribution, manufacturing and service industries;
- threats to supplier resilience and viability;
- continued and changing lockdown measures in a number of countries;
- economic volatility;
- evolving customer behaviours;
- disruption to the supply of natural, refined and manufactured resources; and
- the threat of new variants.

Each of these potential risks are incorporated, as needed, in the suite of principal risks.

THE RUSSIAN INVASION OF UKRAINE

Russia's invasion of Ukraine has already impacted our business and, while the conflict continues, may continue to do so. In line with our established ways of working, the crisis management and business continuity protocols were invoked at the time of the invasion and provided the structure and governance for our response and risk mitigation plans including:

- prioritising the wellbeing and safety of our Ukrainian colleagues in-country and those working elsewhere in the business;
- working with FIBA Group, our franchise partner in Ukraine and Russia, to understand the immediate and longer-term business implications;
- reviewing ranges to identify products that include materials or ingredients from Ukraine, Russia or Belarus, that could be impacted by shortages or corporate decisions to change supply and, where needed, developing alternative sourcing plans;
- protecting our brand and reputation;
- connecting with our customers to understand their perspectives and expectations;
- confirming our trade position in Russia; and
- tracking the potential impact of sanctions being introduced.

As explained elsewhere in this report, we have also now made a decision to exit from Russia. There may, however, be further potential consequences from the ongoing conflict. These have been incorporated in the relevant principal risks and include the:

- impact on our growth strategy for franchise operations;
- ongoing relationship with FIBA;
- effect on key materials and products including sunflower oil, grains, natural gas, fuel, fertiliser and nickel that could impact the manufacture of products, cost and availability;
- additional pressure on supply chains creating a shortage of labour and the potential risk of human rights exploitation;
- safety and integrity of our food as we substitute products from the countries of conflict;
- related effects on wider inflation, energy and raw material input costs;
- potential implications on cyber security; and
- further global socio-political tensions and fragility.

Due to the evolving nature of the invasion, there is a risk of further impact, and the business will continue to assess the implications.

OVERVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

THE COST OF LIVING CRISIS

The combined impact of Covid-19 and the Russian invasion have, along with other factors, triggered a cost of living crisis.

Rising energy prices, supply chain difficulties, product shortages and labour constraints are all contributing to significant price inflation, and associated rises in interest rates. This is now placing real pressure on household budgets both in the UK and in other markets, and impacting all aspects of people's daily lives – adding significant challenges to the choices they make, including where and how they shop.

The impact on our business will be dependent on a number of key factors including:

- the speed and scale of government action;
- our ability to respond to the inflationary pressures on both inputs and customer pricing; and
- the duration of the economic downturn.

KEY CHANGES TO OUR RISK PROFILE

The above issues, and changes in our business in the past year, have resulted in the following key changes to our risk profile:

- As the external environment grows more turbulent our **trading performance** risk is becoming increasingly influenced by the associated headwinds. As such this risk has evolved from being primarily internally focused to the challenges of maintaining performance improvement in a changing world.
- While our responsibility and commitment on safety has always covered all M&S products, our principal risk disclosure provided a specific focus on food safety. As we continue to expand our range of products and incorporate new acquisitions and investments, often in non-food areas, we have amended the risk to reflect all **product safety** responsibilities.
- The principal risk associated with the UK's exit from the European Union ("EU") has been refined to focus on how we continue to adapt to the complexity of moving goods across the **EU borders.**
- We have refined the social, ethical and environmental risk to focus explicitly on **climate change and environmental responsibility.** This reflects the importance of climate-related issues and better aligns with the reset of Plan A. Other business responsibilities continue to be reflected within the **corporate compliance and responsibility** risk.
- Our risk relating to technology and digital capability had previously been disclosed separately. This has now been disaggregated and incorporated in other principal risks including **business transformation, talent and capability** and **information security**.
- The positive cash generation over the last two years (since the start of the pandemic) has resulted in the **liquidity and funding** risk being less prominent than in recent years.

MONITORING OUR EMERGING RISKS

Our risks will continue to evolve as a result of future events and, therefore, an awareness of emerging risks is important in driving effective strategic planning. This will allow us to monitor and understand the potential implications and build these into our decision-making processes at the right time. Key emerging risks include:

- the potential unknown and/or unanticipated consequences from the Russian invasion of Ukraine, including those covered on page 47; and
- the impact of future regulatory changes, including in UK corporate governance requirements, adding additional responsibilities to our existing legal and regulatory compliance risk.

LINKING PRINCIPAL RISKS WITH OUR STRATEGIC PRIORITIES

The table below shows how our principal risks align with our strategic priorities, described on page 6.

	M&S FOOD high-performing business and market share growth	OCADO transitioning to strong capacity growth post pandemic reversion	CLOTHING & HOME on track for a more profitable model capable of growth	Building STORE ROTATION pipeline driving exit from legacy stores	INTERNATIONAL absorbing Brexit related costs, but embryonic global strategy encouraging
Trading performance in a challenging environment	✓	✓	✓	✓	✓
Business transformation	✓		✓	✓	
Ocado Retail	✓	✓			
Talent and capability	✓		✓	✓	✓
EU border challenges	✓				✓
Business continuity and resilience	✓		✓		✓
Product safety	✓		✓		✓
Information security	✓		✓		✓
Corporate compliance and responsibility	✓		✓	✓	✓
Climate change and environmental responsibility	✓		✓	✓	✓
Liquidity and funding	✓		✓	✓	✓

RISK	DESCRIPTION

1

An uncertain trading environment

Our ability to deliver continued improvements in trading performance could be significantly affected by the individual or aggregate impact of an increasingly complex set of external factors. The ongoing consequences of the pandemic, geo-political and economic uncertainties (both national and international) and the resultant cost of living crisis, are combining to generate difficult and unpredictable headwinds.

Context

- M&S operates in an increasingly competitive sector against a backdrop of continued cost and pricing pressures, changing consumer behaviours and a broad range of macroeconomic uncertainties.
- Over recent months the consequences of Covid-19 have continued to evolve and combine with other external macro factors to contribute to widespread, ongoing uncertainty across the communities in which we operate. Continued lockdown measures; labour shortages across transport, distribution, manufacturing and service industries; threats to supplier resilience and viability; ongoing changes to customer behaviours; price inflation, including energy; the potential for further interest rate rises; increases in taxation; socio-political tensions; and disruption to the supply of natural, refined and manufactured resources, have combined to create a challenging environment for our, and all businesses, to operate within.
- The cost of living crisis will further influence customer behaviour and buying choices which could impact our performance and strategic decisions as we respond to these changes.
- The potential consequences of the Russian invasion of Ukraine further highlight the fragility linked to high-impact "shock" events. These include the long-term impact on our franchise operations in the region, and on key materials and products including sunflower oil, grains, natural gas, fuel, fertiliser, nickel and microchips that could impact manufacture, cost and availability of products.
- While the business has demonstrated continued resilience in the face of this range of pressures, and remained relevant to customers throughout the period, continued turbulence in the external environment could negatively impact the business's ability to continue delivering an improved trading performance.
- In addition, the possibility of future new variants of Covid-19 combined with restrictive government interventions, either in the UK or other countries, could negatively impact future performance.

Operational oversight by **Executive Committee**

Mitigations

- Strong, varied and complementary senior leadership team capabilities.
- Planned senior leadership continuity.
- An established operating model consisting of a family of accountable businesses who share M&S brand values, support functions, technology and customer data.
- A clear three-year plan constructed to remain relevant to the current challenges.
- Improved budgeting processes, including detailed sensitivity analysis to anticipate the potential impact of external uncertainty.
- Formal operating reviews for all business and functional teams to enable effective executive oversight and governance of each business.
- Effective business continuity and crisis management processes to support business-wide response to issues as they arise.
- Prioritised focus and discipline across the business on cost, range, trusted value and availability.
- Effective and proactive working with critical third parties – for example, a structured supplier engagement programme to both anticipate and support management of escalating issues such as cost inflation.
- Continued commitment to initiatives that maintain and support improved and sustained customer engagement including the Sparks loyalty programme, broader digital engagement, personalisation of offers and shop your way.

RISK MOVEMENT

No change **New/evolving risk** **Increased net risk exposure** **Reduced net risk exposure**

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK | DESCRIPTION

2 Business transformation

A failure to successfully implement the suite of critical transformation projects could impact medium- and longer-term growth ambitions. While each initiative is individually significant and has its own inherent risks, the aggregate impact of simultaneously delivering these challenging projects could also create further risks to successful implementation.

Context

While significant change is ongoing across the business, the three critical projects underpinning our transformation agenda comprise:

– modernising of our supply chain and logistics activities to improve speed, operational effectiveness and availability and reduce costs;
– improving our IT infrastructure and underlying systems while also adopting new technologies and digital products to support operational efficiency, improved data-driven decision-making, creation of a customer-centric "ecosystem", increased personalisation and the shift to omni-channel; and
– reshaping and modernising our UK store estate to be fit for the future, with the right-sized stores in the right spaces, supporting omni-channel growth and meeting the expectations of our customers.

The ability to balance cost-effective programme execution at pace and to deliver on time, while also managing the consequences of the external pressures discussed above, is key to improving operational efficiency, competitiveness and growth. Any significant delays, failure to achieve the anticipated outcomes, or excess implementation costs could also impact delivery of the planned business benefits.

Operational oversight by **Executive Committee, Property Committee**

Mitigations

– Clear prioritisation of the required transformation activities as part of our three-year planning process.
– Initiatives underpinned by function-specific strategic plans and leadership governance structures.
– Dedicated strategy and transformation roles to support focus, consistency and challenge across our family of businesses.
– Application of programme governance principles for all core projects, with clear accountabilities and milestones in place.
– Ongoing benefits tracking of initiatives in line with spend targets and value outcomes.
– Periodic reporting on key business activities to the Audit Committee.

3 Ocado Retail

A failure to effectively manage the strategic and operational relationship with Ocado Retail could significantly impact the value of our investment, the achievement of our multi-channel food strategy, our Brand and our ability to deliver shareholder value.

Context

The investment in Ocado Retail is part of our strategy for improving our online reach and capability.

There are three core aspects of our relationship with Ocado Retail that the business is actively focusing on:

– developing our relationship with Ocado Retail and evolving our ways of working to ensure alignment of strategies in a way that supports innovation and growth and prioritising areas for future investment;
– planning for our long-term strategic relationship with the partner, including its role in the M&S ecosystem; and
– maintaining a seamless supply process to support customer fulfilment – existing and in line with future growth – and seeking opportunities to expand and refine product ranges.

Operational oversight by **Executive Committee, representation on the Ocado Retail Board**

Mitigations

– M&S nominated directors are part of the Ocado Retail Board, with collective sign-off of business plans directing the growth of the business.
– Jointly agreed investment plans to support the continued investment in the Customer Fulfilment Centre network, to expand presence in the ultra-fast grocery delivery market and the planned migration to the new Ocado service platform.
– Established data and technology interfaces with Ocado Retail.
– A dedicated M&S Ocado delivery team, supported by senior leadership, to coordinate sourcing, product development, ranging, customer data and marketing.

RISK MOVEMENT
No change | New/evolving risk | Increased net risk exposure | Reduced net risk exposure

RISK | DESCRIPTION

4 Talent and capability

An inability to attract, retain and develop the right talent, skills and capabilities or to successfully adapt to the expectations of a post-pandemic labour market could impact the delivery of core operational activities and longer-term strategic objectives, including aspects of our transformation programme.

Context

The business employs more than 65,000 talented and passionate colleagues and remains an attractive brand to future colleagues. However, the current labour market conditions create a heightened risk around recruitment.

- The consequences of the pandemic, including skills shortages and wage inflation, have contributed to a tight labour market in some key specialist areas (including digital, technology and data science) and other critical operational roles (such as in supply chain and logistics).
- In addition, colleagues and potential candidates are demonstrating a preference for roles and employers that offer increasing flexibility to support life choices, work-life balance and career development in addition to attractive pay and benefits. Linked to these influences, the need for employers to demonstrate a cultural alignment in other areas such as sustainability, diversity and ethical values are becoming increasingly important.
- The broader implications on the availability of labour and key skills post-Brexit also continue to be monitored.

To support the continued delivery of improved trading performance and our transformation ambitions, it is essential that we have the right processes in place, underpinned by effective technology, to identify, develop and retain talented colleagues.

Operational oversight by **Executive Committee**

Mitigations

- Direct Executive Committee ownership of the people plan.
- Continued investment in internal and external talent to strengthen capability at all levels, develop our future leaders and drive internal career progression.
- Ongoing delivery of improvements in core people management systems and processes, including a refreshed performance and talent management process to drive consistency and improved decision-making.
- An established colleague skills framework to support role-based performance, development and progression.
- Ongoing review and maintenance of succession plans for key roles.
- Continued investment in skills and capabilities with a particular focus on driving digital literacy and capability building.
- Investment in pay and wellbeing benefits following completion of a business-wide reward review.
- A focus on externally benchmarked, market-relevant pay including full consideration of gender, ethnicity, disability and age.
- A well-established Business Involvement Group which is actively involved in business-wide colleague engagement and representation, including at Board meetings.
- Improved usage of our M&S Alumni community to engage, energise and re-attract great talent.

5 EU border challenges

A failure to manage the cost consequences and operational friction arising from the complexity of border arrangements following the UK's exit from the European Union (EU) or further developments in the Trade and Cooperation Agreement ("TCA"), including the Northern Ireland Protocol, could have a significant and long-term impact on our Irish business and overall trading performance.

Context

The business continues to manage a range of complexities that have arisen following the UK's exit from the EU. Key challenges include:

- continued uncertainty as the requirements of the Northern Ireland Protocol evolve and our ability to implement sustainable solutions to manage the impact on our Irish business, including the movement of goods across to the Republic of Ireland, our largest EU export business;
- further increases in the cost base following the introduction of checks to inbound goods from the EU to the UK (expected in 2022) and the consequent pressure on the supply base including viability of suppliers and the impact on product availability;
- managing the consequences of introducing more locally sourced products; and
- monitoring and implementing solutions for any longer-term divergence of UK and EU rules that may add additional cost and complexity to the business, particularly in Ireland.

Operational oversight by **Executive Committee**

Mitigations

- Regular engagement with the Board to discuss the actions being taken to manage evolving border challenges by our accountable businesses.
- Strengthening the management and accountabilities of Irish operations to support targeted mitigation of costs, including opportunities for local sourcing.
- Operation of a virtual customs warehouse environment and implementation of an EU hub to mitigate tariff costs.
- Continued engagement with key government departments and other external experts to represent M&S views and review our mitigation strategies. These include ministers, industry bodies, the Border and Protocol Delivery Group, the Department for Environment, Food & Rural Affairs (Defra), HM Revenue & Customs, the Foreign Office, and the Northern Ireland Executive.
- Ongoing work with Defra and our supply base in readiness for the rules for moving goods from the EU to Great Britain.
- Proactively managing our franchise arrangements with partners.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK | DESCRIPTION

6

Business continuity and resilience

Significant operational failures or resilience issues at key business locations, such as Castle Donington, our primary online Clothing & Home distribution centre, or any of our key international sourcing locations, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the pandemic or Russia's invasion of Ukraine, a shortage of raw materials or other products used in our business, or significant supply chain disruption, could also impact business performance.

Context

The business has continued to demonstrate resilience through the pandemic and in responding to other significant changes, such as the Russian invasion of Ukraine however, threats to business continuity remain:

- As our online business grows, the potential risk linked to our sales and growth ambitions from a sustained period offline or an inability to fulfil online orders due to a major incident at our Castle Donington fulfilment centre increases.
- The loss of, or major disruption at other locations, such as primary supply countries like Bangladesh, China or Sri Lanka; the dedicated warehouses that store specific food products in the UK; or support facilities (such as IT), could also impact us significantly.
- A specific, unexpected or unplanned shortage of product or materials such as those being created by Russia's invasion of Ukraine (including sunflower oil or fertiliser), or the global shortage of microchips, could also impact core trading or transformation activities.
- The potential widespread consequences from currently unknown/new Covid variants on both our business and third parties could also have severe operational consequences.
- In addition, our dependency on major third parties means that significant incidents, long-term resilience issues and recoverability in these businesses would also impact our own.

Operational oversight by **Executive Committee, Crisis Management Team**

Mitigations

- A dedicated and experienced Business Continuity (BC) team with established Group Crisis and Incident Management processes.
- Risk-based BC assessments for stores, sourcing offices and warehouses and validation of key supplier arrangements.
- Up-to-date BC plans for key activities across our operations, including offices, warehouses and IT sites, that continue to evolve in response to new threats including, where needed, work with critical third parties.
- Enhanced capabilities at Castle Donington to manage technology failure and fulfilment capabilities through in-store fulfilment and the use of other warehouses in our network.
- Proactive testing of plans for key business continuity risk scenarios.
- Live digital platform to support the business continuity governance programme.
- Active engagement with external organisations including the Retail BC Association, government-led forums and membership of the National Counter Terrorism Information Exchange.
- Enhanced incident reporting with live data-driven dashboard.

7

Product safety and integrity

Failure to prevent and/or effectively respond to a food or product safety incident, or to maintain their integrity, could impact customer confidence in our brand and business performance.

Context

- The safety of our products – food and all other product categories - is vital for our business and we need to effectively manage the potential risks to customer health and safety and consumer confidence that face all retailers.
- This includes considering how external pressures, including economic and environmental changes, could impact the integrity of our products and the ability to effectively operate and maintain all key controls throughout the supply chain.
- These external pressures, including the ongoing consequences of the pandemic, inflationary costs, labour quality and availability, and regulatory changes, are becoming increasingly acute. While some of these events are outside of our control, they must nevertheless be monitored and mitigated against.

Operational oversight by **Executive Committee, Group Safety Committee, Consumer Brand Protection Committee**

Mitigations

- Group-wide assessment of all safety risks with specific Executive Committee and business unit ownership.
- Relevant Safety Policy and Standards, Terms of Trade, product safety and "from farm to fork" specifications with clear accountability set at all levels, including processes to comply with overseas requirements.
- Compliance standards included in contracts with third-party brands.
- Risk-based store, supplier and warehouse audit programmes completed by independent third parties and own second-line functions, including franchise operations.
- Established processes for the development of products and the associated packaging, including independent review and approval before launch.
- Qualified Food and Product Technology teams with access to external experts where appropriate.
- Regular engagement with expert bodies and third-party consultants to understand and respond to changes in safety standards.
- Tested crisis management plan for safety incidents.
- Monitoring of product quality and customer complaints.

RISK MOVEMENT

No change | New/evolving risk | Increased net risk exposure | Reduced net risk exposure

RISK | DESCRIPTION

8

Information security

Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of information for our customers, employees or business and/or loss of stakeholder and customer confidence.

Context

- The sophistication and frequency of cyber-attacks in the retail industry continue to increase and highlight an escalating information security threat. This threat is further exacerbated by the pandemic and other external events, such as the increased threat of cyber warfare linked to current global uncertainty.
- As we continue to use data more intelligently across the business, move away from legacy systems to new technology and digital solutions, transition to the cloud, enhance omni-channel customer experiences and build a broader "ecosystem", the profile of information security and the overall threats landscape will continue to change.
- Our reliance on several third parties hosting critical services and holding M&S and customer data also means that continued assessment and monitoring is required to ensure that vulnerabilities in their cyber and data controls do not impact us or our customers.
- Longer-term changes such as the increase in customers using e-commerce, the growing number of digital and mobile shopping channels, the development of new technologies and digital touchpoints, and permanent changes in the pattern of office/home working, will all continue to impact the overall risk.

Operational oversight by **Executive Committee**

Mitigations

- Information security and data protection policies in place, with a mandatory training programme for colleagues.
- Information Security function, with multidisciplinary specialists, supported by a 24-hour Security Operations Centre and mature incident management plan.
- Network of Data Protection Officers in priority business areas.
- Continued delivery of our improvement programme with prioritised investment in response to an increase in security events, breaches and the potential threat of cyber warfare.
- Risk-based cyber security assurance programme, including assessment of controls in overseas locations.
- Information security obligations included in third-party contracts with a risk-based assurance programme to monitor our exposure.
- Active monitoring of our threat environment.
- Focused security assurance, architecture and hygiene around our digital product lifecycle, operations model and significant change activities, like omni-channel and new technologies.

9

Corporate compliance and responsibility

A failure to deliver against our legal and regulatory obligations or broader corporate responsibility commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers and other stakeholders.

Context

- The increasingly broad and stringent legal and regulatory framework for retailers creates pressures on business performance and management of market sentiment requiring frequent changes or improvements in how we operate.
- New and evolving regulatory requirements include: restrictions on the promotion of foods high in fat, sugar and salt becoming effective from October 2022; sanctions and export controls linked to Russia; extended producer responsibility for packaging plastics recycling targets; the proposed EU Directive on corporate due diligence and accountability in the supply chain; anticipated changes in UK corporate governance requirements, development of Taskforce on Climate-related Financial Disclosures (TCFD) requirements; and potential new reporting under the Taskforce on Nature-related Financial Disclosures.
- The diligence required to remain compliant is also impacted by the global nature of activities, particularly our supply chains, where changes in the external environment and challenging economic conditions, including the impact of Covid-19 and the Russian invasion of Ukraine, leave ethical and social responsibilities open to a heightened risk of mismanagement or exploitation.
- Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as impacting our reputation.

Operational oversight by **Executive Committee, Group Safety Committee, Consumer Brand Protection Committee, Bank and Services Compliance Monitoring Committee, Fraud Committee**

Mitigations

- Code of Conduct in place and underpinned by policies and procedures in core areas of regulation and responsibility that is shared with suppliers and third parties where relevant and published externally.
- Group-wide mandatory training programme for higher-risk regulatory areas, like health and safety, anti-bribery and corruption, data privacy, and information security.
- Established in-house regulatory legal team in place, including specialist solicitors.
- Dedicated subject-area leaders embedded in the business.
- Continuous horizon scanning, including monitoring of sanctions and export controls.
- Risk-based assurance and monitoring systems in place covering legal and regulatory compliance, and ethical and social considerations, including for our overseas operations and suppliers.
- Cross-business Fraud Committee and controls framework.
- A Confidential Reporting line to allow colleagues and other stakeholders to report areas of concern, including breaches.
- Established Worker Voice programme in the Food business and transparency initiatives within Clothing & Home.
- Active monitoring of customer feedback and public sentiment on compliance and responsibility, including social media trends.
- Proactive engagement with regulators, legislators, trade bodies and policy makers.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK DESCRIPTION

10 Climate change and environmental responsibility

An inability to reduce the environmental impact of our business and progress towards our net zero targets, including those linked to our supply chains, as well as managing the consequences of climate change on our business, would fail to meet the expectations of our customers, colleagues, investors and other stakeholders, impacting our brand, future trading performance and other business costs, including financing.

Context

- We operate in a world and sector with increasing pressure from carbon-conscious customers, investors and government bodies to operate in a more environmentally conscious manner, where sustainability forms a core part of decision-making. This includes, for example, our response to the growth in the circular economy, waste reduction, low-carbon products and use of recycled fabrics.
- Future business performance will be impacted by our ability to effectively manage the transition to a low-carbon economy – balancing commercial decisions with environmental responsibility, agreeing business-wide decarbonisation priorities and managing changes in customer preferences. This includes management of the increasing costs associated with sustainable materials, recycling, carbon pricing and further technological, policy and regulatory interventions.
- Early engagement and planning with partners and suppliers to support their decarbonising activities is also becoming increasingly important in the delivery of our net zero commitment.
- From an operational perspective, the physical impact of climate change on the availability of raw materials and food products, the geography of the locations from which we source and operate, and the condition of our buildings will need to be managed effectively to reduce the impact on trade and the income statement.

Operational oversight by **ESG Committee**

Mitigations

- Established Plan A programme with clear accountabilities for each area of the business relating to our environmental objectives.
- Net zero targets agreed with the Board.
- Alignment of carbon commitments with our revolving credit facility.
- Appointment of c.120 cross-business carbon champions, and launch of an internal Green Network with c.600 cross-business colleagues.
- Established product and raw material standards and processes outlining environmental and sustainability considerations for own activities and the supply chain.
- Clothing Quality Charter and Environmental and Chemical Policy in place for all suppliers.
- ESG Committee, with Board membership, in place to oversee the delivery of our carbon commitments and broader ESG risks.
- Developed our response to TCFD including quantitative scenario analysis in key areas (cotton, animal protein and property) to enhance external reporting.
- Inclusion of specific climate-related risks and mitigations linked to Plan A in business and functional risk registers.
- Linkage of financing with the delivery of our net zero roadmap.

11 Liquidity and funding

An inability to maintain short- and long-term funding to meet business needs or to effectively manage associated risks could impact our ability to transform at pace, as well as have an adverse impact on business viability.

Context

- While active management of our cash, liquidity and debt position through the pandemic and an improvement in trade have resulted in a strong cash performance, we maintain a continued focus on our liquidity and funding requirements.
- Availability of, and access to, appropriate sources and levels of funding remain vital for the continued operation of business activity and the next phase of our transformation. Our ability to repay debt and fund working capital, capital expenditures and other expenses depends on our operating performance, ability to generate cash and to refinance existing debt.
- We also have pension fund commitments that require active management and monitoring.

Operational oversight by **Executive Committee**

Mitigations

- A £850m undrawn, revolving credit facility and £1,197.9m of cash and cash equivalents.
- Review and refinement of our three-year plan, linked to strategic priorities, with sensitivity analysis to assess the impact of the changing economic environment.
- Continued focus on working capital management to continue to improve cash flow and reduce reliance on bank facilities.
- Ongoing scrutiny and challenge of discretionary expenditure and capital spend controls that were strengthened during the pandemic.
- Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics.
- Treasury operations are managed and monitored in line with a Board approved Treasury Policy.
- Frequent engagement and dialogue with the market and rating agencies.

RISK MOVEMENT

No change | New/evolving risk | Increased net risk exposure | Reduced net risk exposure

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

The UK Corporate Governance Code requires us to issue a "viability statement" declaring whether we believe the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls. In assessing viability, the Board considered a number of key factors, including our business model (see page 9), our strategy (see page 6), approach to risk management (see page 45) and our principal risks and uncertainties (see pages 47 to 54).

The Board is required to assess the Group's viability over a period greater than 12 months, and in keeping with the way that the Board views the development of our business over the long term, a period of three years is considered appropriate for business planning, measuring performance and remunerating at a senior level. This three-year period aligns to the Group's annual strategic review exercise conducted within the business and reviewed by the Board, and captures a large proportion of the Group's investment into its ongoing transformation programme as well as the renewal of its December 2023 bond.

The Group successfully renegotiated its revolving credit facility ("RCF") in December 2021, which is set to run until June 2025, and replaces the facility which was due to mature in April 2023. The new facility contains a financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually.

The Group continues to maintain a robust financial position, providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. At 2 April 2022, the Group had further strengthened its available liquidity over the year to £2.1bn (last year: £1.8bn). Furthermore, the Group's strong free cash flow generation has driven a reduction in net debt of £817.1m to £2,698.8m at 2 April 2022.

For the purpose of assessing the Group's viability, the Board identified that, although all of the principal risks detailed on pages 47 to 54 could have an impact on Group performance, the following risks pose the greatest threat to the business model, future performance, solvency and liquidity of the Group and are therefore the most important to the assessment of the viability of the Group:

- Maintaining trading performance in an increasingly challenging environment.
- Business transformation.
- Ocado Retail.
- Talent and capability.

In assessing viability, the Board considered the position presented in the approved Budget and Three-Year Plan. The process adopted to prepare the financial model for assessing the viability of the Group involved collaborative input from a number of functions across the business to model a severe but plausible downside scenario.

The severe but plausible downside scenario includes the following assumptions:

- There will be a period of economic recession in the UK in 2022/23 and 2023/24 (following the impacts of the Covid-19 pandemic, the unfolding humanitarian crisis following the invasion of Ukraine and the subsequent sharp increases in the cost of living), resulting in a decline in sales of 4.0% per annum, across all three business units.
- Utilities, fuel and other costs increasing by over £50m in aggregate across 2022/23 and 2023/24.
- In addition, a delay on transformation benefits results in incremental sales expected from the transformation declining by 10%, 20% and 40% respectively across the three-year period across both Food and Clothing & Home business units.

Other scenarios linked to key principal risks were also considered. However, the estimated financial impact of these risks cumulatively was comparable to the severe but plausible downside scenario outlined above. Moreover, the likelihood of these risks occurring concurrently would be so remote as to be considered a "black swan" event. As a result, further detailed modelling was not performed.

The Board has also considered the potential impact of changes to environmental factors which may affect the business model and performance in the future. As set out in the Taskforce on Climate-related Financial Disclosures ("TCFD") section on page 72, no material impact on the Group's financial performance is considered to exist in the short term.

The impact of the severe but plausible downside scenario has been reviewed against the Group's projected cash flow position and financial covenant over the three-year viability period. In the event of this scenario materialising, mitigating actions would be available, including, but not limited to, a reduction in labour, technology and head office costs, as well as deferring or cancelling discretionary spend (including discretionary bonuses) and reducing capital expenditure.

As a result, even under this scenario, which the Board considers to reflect a plausible, but remote, outcome, the Group would continue to have sufficient liquidity and headroom on its existing facilities and meet the measurement criteria against the revolving credit facility financial covenant. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board. The Board have also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

Reverse stress testing has also been applied to the model to determine the decline in sales that the Group could absorb before breaching any financial covenants. Such a scenario, and the sequence of events which could lead to it, is considered to be extremely remote, as it requires sales reductions of c.15% per annum compared to base expectations with no mitigations implemented before there is a breach in financial covenants. While the occurrence of one or more of the principal risks has the potential to affect future performance, none of them are considered likely either individually or collectively to give rise to a trading deterioration of the magnitude indicated by the reverse stress testing and to threaten the viability of the Group over the three-year assessment period.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and current liquidity, the Board expects the Group to have adequate resources to continue in operation, meets its liabilities as they fall due, retain sufficient available cash across all three years of the assessment period and not breach the covenant under the revolving credit facility. The Board therefore expects the Group will remain commercially viable and the Viability Statement can be found on page 111.

The Strategic Report, including pages 2 to 55, was approved by a duly authorised Committee of the Board of Directors on 24 May 2022, and signed on its behalf by

Steve Rowe, Chief Executive

24 May 2022