



Never the Same Again

Forging a reshaped M&S

Marks and Spencer Group plc

Annual Report & Financial Statements & Notice of Annual General Meeting 2021

Company registration number: 04256886

AT A GLANCE

M&S IS A BRITISH VALUE FOR MONEY RETAILER

focused on own label businesses, including Food, Clothing & Home and Bank & Services in the UK and internationally.

Today, we operate a family of businesses, selling high-quality, great-value own-brand products in the UK and internationally, from 1,509 stores and over 100 websites globally. Together our 70,000 colleagues across our stores, support centres, warehouses and supply chain serve nearly 30 million customers each year.

The objective of our **transformation programme** is to restore the M&S business and brand, to deliver long-term, sustainable, profitable growth for our investors, colleagues and wider communities.

In a year defined by the pandemic, through our **Never the Same Again** programme, we have accelerated our transformation and forged a reshaped business as we emerge from the crisis.

GROUP OVERVIEW

£9.0bn ^{-11.8%}

Group revenue

(9.8)p ^(19/20: 1.3p)

Basic loss per share

No dividend paid for 20/21

£(201.2)m ^(19/20: £67.2m)

Group loss before tax

£41.6m ^{-89.7%}

Profit before tax and adjusting items

£1.11bn ^{-20.1%}

Net debt excluding lease liabilities

1.1p ^(19/20: 16.7p)

Adjusted earnings per share

50.5% ^(19/20: 22.5%)

Percentage of UK Clothing & Home sales online

67% ^(19/20: 63%)

Food: Value for money perception

81 ^(19/20: 68)

Stores: Net promoter score¹

51 ^(19/20: 57)

M&S.com: Net promoter score¹

Cover

Our colleagues, including Vicky in our York Vanguard store, seen here with our new Family Dine in offer, went above and beyond this year to serve our customers and local communities

Alternative performance measures

The report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards as adopted by the EU. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 191 to 195 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.

53 week year

This year we are reporting statutory results on the 53 weeks to 3rd April 2021. In order to provide a meaningful comparison with last year's 52 week period financial information above has been presented on a 52 week basis. Statutory results: Group revenue: £9,155.7m, Loss before tax: £(209.4)m, Basic loss per share: (10.1)p.

¹ Net promoter score (NPS) equals percentage of 'promoters' minus the percentage

Inside this report

Strategic report

- 02 Chairman's letter
- 04 Chief Executive's statement
- 07 Our strategic priorities
- 08 Market context
- 09 Business model
- 30 Plan A review
- 33 Non-financial information statement
- 34 Engagement & decision-making
- 37 Key performance indicators
- 38 Financial review
- 47 Risk management
- 48 Principal risks and uncertainties

FOOD

➤ See p10

CLOTHING & HOME

➤ See p16

STORE ESTATE

➤ See p24

INTERNATIONAL

➤ See p22

PEOPLE & CULTURE

➤ See p26

Governance

- 58 Chairman's governance overview
- 60 Leadership and oversight
- 61 Board composition and meeting attendance
- 62 Our Board
- 64 Balanced leadership
- 66 Board activities
- 70 Board review
- 71 Nomination Committee report
- 73 ESG Committee report
- 77 Audit Committee report
- 84 Remuneration overview
- 88 Remuneration in context
- 90 Remuneration Policy
- 94 Remuneration report
- 106 Other disclosures
- 111 Independent auditor's report

DIRECTORS' REPORT

Financial statements

- 123 Consolidated financial statements
- 129 Notes to the financial statements
- 182 Company financial statements
- 184 Notes to the Company financial statements
- 189 Group financial record
- 191 Glossary

196 Notice of Annual General Meeting

- 210 Shareholder information¹
- 212 Index

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

Go digital

- ☒ Access to more detailed and interactive content
- ☒ The money saved on printing and postage will help lower our costs
- ☒ Reduces our carbon footprint and saves paper

Join our Digital First community and sign up for online communications only, in time for next year's report. It's much less fuss, much more interactive and you'll be helping M&S to reduce its impact on our environment.

To register, visit shareview.co.uk, a secure platform provided by our Registrar, Equiniti. From the home page, simply click "Portfolio", followed by "Open Portfolio Account", and follow the on-screen instructions. You will need your shareholder reference number and activation code to register; these have been posted to you in this year's Notice of Availability.

CHAIRMAN'S LETTER

“

For all of our businesses we believe we will come out of the pandemic year not just changed but stronger.”

Archie Norman, Chairman

The 'Magic' of M&S Food

Market-leading innovation, such as our Taste Buds range which was developed with Great Ormond Street Hospital for children aged 4-10, is a key part of our Food strategy

Dear shareholder,

In the last year the Covid-19 pandemic has thoroughly distorted our trading and operations in all our businesses. For large parts of the year, the majority of our floor space has been closed and even in Food large parts of the business have been unable to trade. As a result, financially it has been a “lost year”. Shareholders and colleagues alike have borne the burden of no bonus, no pay increase in 2020 and no dividend.

With that, Covid-19 and the associated lockdowns have accelerated changes in the market that were previously proceeding in the slow lane. In many areas, it has been a case of “five years in one”. The dramatic increase in the move to online, including in food, the shift to “informal” in clothing demand, the use of technology to connect colleagues, suppliers and customers, and the demise of many high streets and shopping centres are trends which will never reverse. To add to this, Brexit has made it much more costly to trade our businesses in the EU and Northern Ireland. For customers, competitors and suppliers, the landscape has changed forever.

For a business like M&S in the third year of a gargantuan transformation programme, still wrestling with an old slow culture and only halfway through profound change, this posed a huge additional challenge. Early on, therefore, we launched our “Never the Same Again” programme to recognise that things would never go back to “normal” and it was time to change for good. We were and are determined to embrace the changes and get ahead of them.

Probably the most profound acceleration strategy in the year has been the substantial shift to online and digital. In September, M&S Food and a selection of clothing basics successfully launched on the Ocado platform through our partners. In November, we announced the creation of MS2, our integrated Clothing & Home online and data business. We have as a result pivoted towards online in both sales and management organisation to become a business selling through multiple channels. The next stage will be to create a seamless single face to the customer to become “omni-channel”.

At the same time bringing forward technology innovation in the store channel has moved us to a much faster, more flexible way of working, which in turn enabled a significant reduction in the numbers of colleagues. As a result, some 8,000 colleagues left the business, mostly through voluntary redundancy, in 2020.

For all of our businesses, we believe we will come out of the pandemic year not just changed but stronger, and we look forward to a resumption of full trading across the estate. Our Clothing & Home ranges were already going through profound change to improve style and buy fewer products in greater depth. The Food business, which was performing strongly prior to Covid-19, coped well with the headwinds caused by lockdowns, the closure of travel locations and hospitality, and the shift to scratch cooking.

Some people have commented that our transformation seems “perpetual” and I understand why they say that, but we are addressing decades of torpidity at a time when the world is moving on at an ever faster pace. One of our values is “talking straight” and we are a long, long way from declaring victory. There is more to do in every aspect of the business but especially in reforming our supply chain and modernising the legacy store estate where the need to speed up is absolute.

Retail is at heart a people business and tackling what is probably the biggest turnaround in UK retailing needs a top team supported by an experienced and engaged Board. We continue to strengthen the talent in the business at all levels and the Board has had a busy year, often coming together for short sharp weekly meetings to support the executive

as events came up through the windscreen into view. We have been delighted to welcome Eoin Tonge as a strong new Chief Financial Officer and Richard Price as Managing Director of Clothing & Home. At non-executive Board level, Tamara Ingram and Sapna Sood joined nearly a year ago and Evelyn Bourke, the former Chief Executive of BUPA, joined in February. Fiona Dawson, Global President of Mars Food, has recently joined the Board and she brings extensive experience in food retailing and transformational change. Pip McCrostie, who lit up our boardroom for three years with her good humour and insight, stood down with our heartfelt good wishes and thanks. With great regret, we learned shortly afterwards that she has left us. Her contribution and what she stood for will remain bright in our memory for years to come.

For everyone in our business and all our shareholders, this year has been a year like no other. But we are emerging stronger, leaner and fitter. It has brought out the best in the M&S family of colleagues, suppliers and customers. Many colleagues have had to change role to put all hands to the pump. Others have been furloughed and come back in good heart. And some have lost colleagues or family members from the pandemic. It has truly been a year of “all in it together” and we thank them all.

As ever,

Archie Norman, Chairman

Reopening

As retail across the UK reopened, we concentrated on helping customers look ahead to brighter days and highlighted our flexible, easy shopping experience

Renewed C&H Product Engine

Focusing on contemporary design and customer relevancy in the wake of the pandemic has underpinned our reshaped Clothing business.

CHIEF EXECUTIVE'S STATEMENT

“

We are taking the right actions and a more resilient, reshaped M&S is emerging from the crisis. ”

Steve Rowe, Chief Executive

Our 2020/21 report bears the impact of the pandemic, spanning the beginning of the first UK-wide lockdown through to near to the end of the third lockdown in the UK. However, it also reflects an acceleration of transformation which has enabled the business to deliver a resilient performance thanks to the enormous efforts our colleagues. Within its chapters we outline how we have used this period to accelerate transformation under our Never the Same Again programme to ensure a reshaped business emerges from the crisis.

A RESILIENT FINANCIAL PERFORMANCE IN A YEAR OF DISRUPTION

The Group has delivered a profit before tax and adjusting items this year of £41.6m (19/20: £403.1m) alongside a statutory loss of £201.2m.

Disciplined cost management has helped us to deliver a stronger balance sheet than first thought. In addition, reduced discretionary costs, managed stock flow and a focus on working capital resulted in net debt, excluding lease liabilities down £278.6m to £1.1bn and strong liquidity. We are grateful for total government support of £306.1m which has partly offset the effect of lost trade.

Strong underlying Food performance

M&S Food delivered strong underlying life-for-like (LFL) growth of 6.9% adjusting for the closure of hospitality and the adverse impact on franchise sales. Operating profit before adjusting items of £213.6m (19/20: £236.7m) reflected the negative effects of product mix and the impact of Covid-related costs on convenience and hospitality businesses

The strong underlying LFL growth was delivered in the face of further additional headwinds, including the exposure to office and shopping centre locations. Unlike some competitors M&S Food reported sales do not benefit from a direct online grocery presence, with these sales reported through Ocado Retail.

Lockdown also resulted in steep declines in convenience categories, such as Food on the move given reduced footfall and ready meals as customers switched to home cooking. However, the repurposing of space towards core categories, such as grocery, household and meat, fish and poultry, together with the continued transformation of our ranges and value position, helped to offset the loss of convenience trade.

Our Food business had a good Christmas and a very strong Easter in 2021, which fell into week 53 of the financial year.

The Food business incurred extra costs to support customer and colleague safety of £49.4m and incentives for non-furloughed colleagues working through the pandemic of £22.0m. Customer and colleague safety is vitally important to us and we believe we ran the most secure stores in the industry. In addition £9.9m of costs were incurred as a result of Brexit which are set out in more detail in the Financial Review.

Exceptional Ocado Retail contribution to results

Ocado Retail delivered 43.7% revenue growth over the 52 weeks ended 28 February 2021 and contributed a share of net income of £78.4m.

This has been an exceptional period for grocery online and Ocado Retail performed strongly. Higher than normal basket size and a smoothed trading profile

across the week, together with reduced marketing costs, delivered a strong improvement in profitability. The overall result included the Group's share of insurance receipts related to business interruption at the Andover customer fulfilment centre ("CFC").

The well planned switchover went smoothly as we took M&S Food online for the first time, with an overall positive customer response and the M&S share of basket exceeded the Waitrose level prior to switchover.

Accelerated Online growth of 53.9% partially offsetting store decline of 56.2% in Clothing & Home

The overall Clothing & Home result for the year was heavily impacted by lockdowns, ongoing social distancing, steep decline in formal and occasionwear, the location of many of our stores in towns and shopping centres, and the priority to clear stock.

As we implemented MS2 and took multiple steps to improve online operating performance, we were able to capitalise on the change in customer shopping patterns and saw a progressive increase in online sales through the year. This was a result of strong traffic, active customer growth, improving frequency and lower returns. The business had a good service and fulfilment performance supported by previous investment in the Castle Donington distribution centre and substantial expansion of our fulfilment from store capability.

As reported for Food, stores in high streets, shopping centres and city centres created an extra drag on sales performance, with these channels representing c.70% of prior year store sales.

Within categories, casual clothing, kids and home outperformed but not sufficiently to offset the adverse sales mix in categories such as formal clothing and holiday. As a result total revenue declined 31.5%.

Clothing & Home recorded an operating loss before adjusting items of £129.4m as lower sales were only partly offset by reduced operating costs. Losses substantially reduced in the second half as the actions we took to accelerate online growth partly compensated for losses in store. Overall, online had strong profitability, with an operating margin of c.14%, for the year. Conversely, the operating loss in stores represented a

margin on sales of c.(26)%. Stringent action to reduce or postpone orders, together with measures to hibernate a small amount of stock, resulted in a relatively clean stock position by the end of the year.

Resilient International profit as a result of franchise partnerships and strong online growth

International sales reflected the pandemic impact across markets, offset by the strong switch to online, which saw sales growth of 114.3% at constant currency.

Operating profit before adjusting items of £45.1m reflects in large part the lower Clothing & Home sales.

The International business incurred Brexit-related costs of £6.2m in the year.

Relaunched Sparks loyalty scheme and M&S Bank customer offer

We relaunched the Sparks loyalty scheme in July, shifting from a points-based plan which was delivered through a physical card to a more customer friendly digital experience. Since relaunch total membership has grown to over 10m customers. Alongside Sparks we are repositioning M&S Bank, closing down branches and moving away from traditional banking accounts, focusing instead on credit, currency services and payments.

Balance sheet strengthened

At year end, the Group's net debt excluding lease liabilities declined by £278.6m and total net debt was down £434.7m. Cash flow was preserved through a combination of actions, to improve working capital, including new terms with suppliers, adjustment to arrangements with landlords, reduced discretionary costs, careful management of capital and government support.

During the period, the business strengthened its overall liquidity position by reducing net debt, refinancing its 2021/22 debt maturities and managing its standby liquidity facility with its banks.

Adjusting items reflect cost restructuring and the accelerated store rotation programme

We have reported adjusting items of £259.7m for the 53 week period. Significant charges include £133.7m relating to the costs of organisational change, including the restructuring of operations announced in the summer of 2020 and in the Republic of Ireland. We have also provided £95.3m for accelerated depreciation and impairment as we increase rotation of the estate, to address the drag of legacy stores unsuitable for modern trading or in declining locations. A charge of £79.9m has been recognised for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid-19 inventory provision made in the prior year.

A RESHAPED M&S EMERGING FROM THE PANDEMIC PERIOD

Over the past three years, the objective of the transformation has been to restore M&S to sustainable growth through "facing the facts" that the business had failed to address. From the start of the pandemic, we recognised that it would accelerate market trends, providing an opportunity to bring forward the transformation to emerge as a reshaped business under our Never the Same Again programme:

- **Broadening M&S Food appeal:** The Food business is broadening its appeal through more relevant family-focused innovation and improved value perception led by the expansion of "Remarksable Value" lines. Growth is supported by significant cost reduction, including synergies from growth on Ocado, systems upgrades to reduce waste and the Vangarde supply chain programme, which is delivering better availability.
- **Transition to M&S product on Ocado Retail completed:** Penetration of M&S lines on Ocado is consistently over 25% of Ocado Retail sales, outperforming Waitrose. The next stage is to grow capacity by c.50% in the next 18 months and to realise the further potential of the joint venture.
- **Omni-channel Clothing & Home business emerging:** Substantial reshaping has created a product engine providing a more contemporary, focused M&S range. In addition we are beginning to partner with a curated range of guest brands. This helps us build strength in hero categories and relevance where we are weaker. We are already trading with over 21 partners and the customer response has been positive. The creation of MS2 has brought together the data and online teams to prioritise online trading and growth while leveraging our store estate more effectively. MS2 draws on the data engine and the relaunched Sparks loyalty scheme, which has grown to over 10m members enabling a more personalised relationship with customers.
- **Accelerating rotation of the store estate:** The drag on performance of the legacy estate has been exacerbated by Covid-19, bringing forward the decline of some locations but also creating opportunities for rotation. We are increasing the speed of change to create a group of well-invested full line stores in c.180 prime and core markets. The costs of the rotation programme will be largely funded by the release of cash from the development of freehold and long leasehold sites.
- **An International business focused on major partnerships and online:** Online sales doubled in 2020/21 and we are now investing in increasingly localised fulfilment, expanding our

presence on marketplaces such as Zalando and the launch of websites including in a further 46 markets announced in March. Digital trading improvements, partner store modernisation and supply chain development are positioning the business for rapid recovery as lockdowns end. Following Brexit, the business is reconfiguring trading with its EU businesses to reflect the challenges of exporting to the EU.

BUSINESS POSITIONED WELL FOR THE MEDIUM-TERM DESPITE NEAR-TERM UNCERTAINTY

Overall trading for the first six weeks of the financial year has been ahead of the comparable period two years ago in 2019/20 and our central case. Core Food is in strong growth although hospitality and franchise remain adversely affected, with Clothing & Home sales growing since reopening and online remaining robust.

While encouraging, it is unclear how the recovery will develop and if consumer activity will sustain in Clothing & Home as well as what the eventual pace and shape of recovery in hospitality and convenience in Food will be. We have a strong programme of capacity growth at Ocado Retail although we expect some normalisation of shape of week with

Driving app growth

With store restrictions in place, we made sure M&S was at our customers' fingertips through our app. Knowing app shoppers are among our most engaged and valuable customers, Sparks was relaunched in summer as a Digital First loyalty programme, fully incorporated into our app. New digital services improved the app further – from Sparks Book & Shop – allowing customers to reserve a shopping slot at a time that suits them – to our Scan & Shop checkout-free payment service, enabling them to shop direct from their mobile. In 2020 downloads increased by over 150% on the previous year and in the Autumn the M&S app topped the Apple download charts following the Sparks relaunch.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

respect to its economics. The business also continues to face headwinds with ongoing disruption in various International markets, both the Clothing & Home and Food supply chains and the costs of Brexit.

Our central case for the current year therefore assumes a gradual return towards more normal customer behaviour in stores in Clothing & Home and hospitality and franchise in Food. With that, we are assuming the receipt of business rates relief in line with government guidance. Our scenario does not assume further lockdowns.

In this central case UK costs normalise to levels broadly consistent with 2019/20 underpinned by the benefit of the restructuring announced last year, which will largely offset an increase in base pay rates, costs related to transformation and higher variable costs such as online fulfilment.

The business is now exposed to additional costs following Brexit, largely due to the administrative burden on exports of food, particularly to the island of Ireland. This includes additional supply chain costs at Motherwell and Faversham depots, as well as costs of a digital track and trace platform, additional variable cost per tray, veterinary certification, and costs of change. Potential tariffs relate to duty on exports of Clothing & Home and elements of the Food catalogue into the EU.

The total estimated cost impacts for the business are included in the Financial Review. Around £27-33m relate to operations on the island of Ireland. We have provided a range of potential tariffs depending on the solutions implemented. We are also working on longer term

initiatives including a review of European business models, local sourcing and re-routing product through European hubs.

Capital investment for the Group will increase to similar levels to 2019/20 as we invest in the transformation, restart a programme of store maintenance and accelerate rotation.

Our central case is therefore that we will generate profit before tax and adjusting items between £300-350m and our ambition is for a further reduction in net debt.

A path to a transformed business in the medium term

As the business emerges from Covid-19, we have an ambitious plan for future growth with a clear path to a transformed business.

Food is delivering growth in core categories with larger baskets and is now positioned to expand further in convenience, build sales through larger renewed stores and progressively improve profitability. In addition, Ocado Retail has already announced plans which will increase peak day capacity by c.50% and has a structurally profitable long-term model for growth.

In Clothing & Home the new buying approach and expanded online capability is gaining traction with customers. We have more active online customers and stores are positioned for recovery. We are targeting in excess of 40% of Clothing & Home revenue online in three years, with an overall operating margin ahead of 2019/20 levels. International has ambitious plans to grow online sales, working with partners in key markets and in time to offset the costs of Brexit.

Capital Allocation to prioritise the transformation

The priority is to fund investment in the transformation and to rebuild balance sheet metrics towards levels consistent with investment grade. Our approach will prioritise building omni-channel capability, including investment in the supply chain and maintenance of the changing estate, with an expectation of capital investment recovering to pre-Covid levels. As above we are seeking to fund the costs of rotation of the store estate with the realisation of funds from our asset management programme.

As we recover balance sheet metrics consistent with investment grade, we will assess the reintroduction of dividend payments, although as we focus on restoring profitability this is unlikely in the current year.

In a year like no other we have delivered a resilient trading performance, thanks in no small part to the extraordinary efforts of our colleagues. In addition, by going further and faster in our transformation through the Never the Same Again programme, we moved beyond fixing the basics to forge a reshaped M&S. With the right team in place to accelerate change in the trading businesses and build a trajectory for future growth, we now have a clear line of sight on the path to make M&S special again. The transformation has moved to the next phase.

Steve Rowe, Chief Executive

Bringing the best together

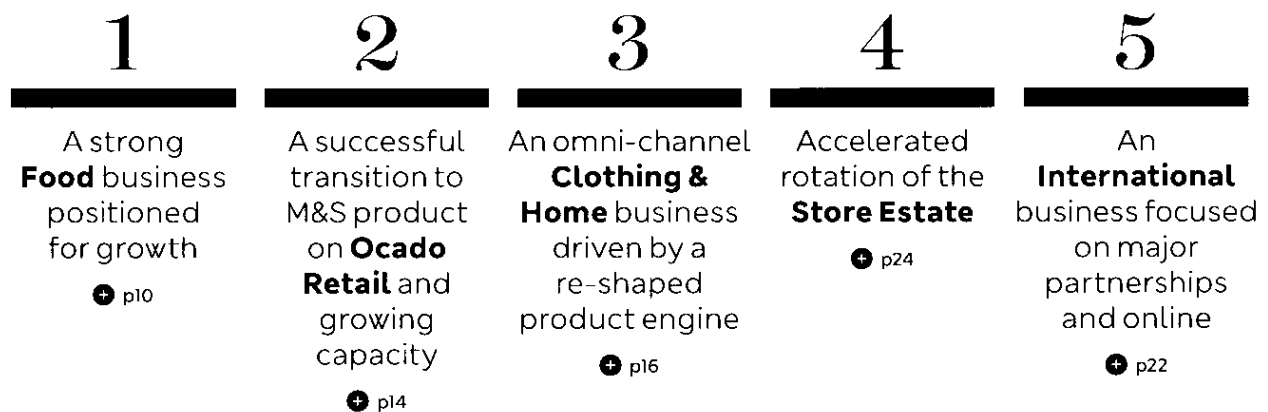
M&S and Ocado

1st September marked the beginning of the transformational partnership between M&S and Ocado, as customers were able to order their favourite M&S products online and have them delivered as part of their weekly shop. The launch has brought together M&S' 6,000-strong high-quality, innovative Food products and 800 great-value everyday Clothing & Home products, with Ocado's award-winning online service. Over 750 new M&S Food products were created for the launch to offer customers a bigger, better range at the same or even better value. Ocado Retail can currently reach over 74% of British households and is making significant investment to expand capacity, which will increase by c.50% over 18 months and much further beyond.

OUR STRATEGIC PRIORITIES

The aim of our transformation is to restore the business to sustainable, profitable growth and make M&S special once again. This objective remains unchanged. This year, under our Never the Same Again programme, we have accelerated the parts of our transformation necessary to increase our relevance in a changed consumer landscape. As a result of the action taken, a substantially reshaped M&S is emerging from the pandemic.

Within the chapters of this report, we set out our strategic priorities for the year ahead, as follows:



STEP ONE
**FIXING
THE BASICS**

STEP TWO
**SHAPING
THE FUTURE**

STEP THREE
**MAKING
M&S SPECIAL**

MARKET CONTEXT

2020/21 has been a year beyond comparison for retailers globally. The impact of the pandemic on the sector, with three UK-wide lockdowns and restrictions on non-essential retail around the world during most of the year, has been profound and led to radical shifts in how, where and what customers shopped.

Following the first ever decline recorded for retail sales in 2019, total retail sales in 2020 contracted a further 0.3% year on year, the worst year on record according to the BRC/KPMG Retail Sales Monitor.

This continued into the early months of 2021 as the impact of the UK's national lockdown continued to be felt.

In contrast, 2020 was also the year where online shopping boomed,

with online retail sales experiencing five years' worth of growth in just one year, as customers across all demographics turned to digital channels to make purchases.

FOOD

The grocery market returned growth of 12% for the 52 weeks ended 22 March 2021 to grow to £131bn (Source: Kantar).

What customers bought

The impact of lockdowns led to marked shifts in which categories customers were buying into. With local restrictions in place and more time spent at home, hospitality and our convenience categories such as Food on the move and prepared meals declined. Customers instead turned to scratch cooking, and we saw increases in our core categories such as meat, fish and poultry in comparison to last year, as well as grocery and household items, with this shift best illustrated in the tables below. The adversely impacted categories together accounted for around a third of prior year sales. We reset our ranges in stores to adapt to this and played to our events strengths across Easter and Christmas during the year in order to maintain a relevant offer, helping to also offset the loss of convenience trade.

% change to 19/20		% change to 19/20	
Meat, fish, poultry, deli	13	Hospitality	-81
Produce & flowers	8	Food on the move	-47
Beers, wines, spirits	25	Bakery	-7
Grocery & household	27	Prepared meals	-5
Frozen	36	Confectionery	-4
Total	15	Total	-26

Where customers shopped

Online continued to be the fastest growing channel in the market with 87% year on year growth versus 5% decline in stores, as more customers turned to home deliveries as lockdowns came in to force, resulting in declining footfall in stores particularly in city centres. Our partnership with Ocado launched M&S Food online for the first time in September and positioned the business strongly for growth (as outlined in more detail on page 14).

CLOTHING & HOME

The clothing market declined by 20.9% year on year for the 52 weeks to 4 April 2021 to a total value of £26.3bn (Source: Kantar Worldpanel Fashion) as customers restricted their purchasing behaviours resulting in the largest ever fall in the number of products bought during the year (source: ONS).

What customers bought

Demand across categories was polarised as customers increased time at home off the back of the pandemic restrictions, with declines in formal and holiday clothing, and customers instead buying into casual clothing, kidswear and Home, with these changes in customer trends versus last year illustrated in the tables below. Categories in the right-hand table below accounted for c 18% of prior year sales. Our Goodmove activewear range performed strongly off the back of this and our recent shift to a more contemporary product offering across our ranges positions the business well as more casual trends become established long term.

% change to 19/20		% change to 19/20	
Casual	61 -56	Formal	-15 -72
Kids	78 -43	Holiday	-31 -72
Lingerie & men's essentials	121 -54	Shoes & accessories	3 -68
Home & beauty	30 -47	Outerwear	15 -52
Total	66 -51	Total	-7 -69

Where customers shopped

Online saw a step change in growth by 56.1 percentage points to account for 58.9% share of total clothing sales across the market vs 29.9% last year, and supermarkets continued to make headway through stores growing share by 13.2 percentage points on last year to account for 26.8% of store sales. The actions we took to improve M&S.com under our Never the Same Again programme, alongside the launch of MS2 this year, helped us capture increased online demand from customers with our reshaped business set to enable more customers to shop with ease across all channels (as detailed on page 20).

BUSINESS MODEL

We operate a family of accountable businesses of Food, Clothing & Home, International, Services, and Property, and the strength and balance of our combined business model has been a source of resilience during the pandemic.

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 1,509 stores and online services in the UK and across over 100 international markets.

OUR COLLEAGUES

We employ c.70,000 colleagues across our stores, support centres, logistics operations and international teams, who 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.

THE GROUP

Our central team includes Group Finance, Corporate Governance, Strategy and support functions such as Communications and Human Resources. The Group supports the business as a whole, setting direction of its growth strategy, allocation of capital and overseeing cost efficiencies.

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 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 into 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 take advantage of the online growth opportunity.

STRATEGIC REPORT

— FOOD —

Financial highlights

£6.0bn ^{-0.6%}

UK Food revenue

£213.6m ^{-9.8%}

Operating profit before
adjusting items

Market fresh

Our Fresh Market Update campaign celebrated the efforts our Select Farm partners – including Scottish salmon farmer Sarah Last (pictured) – take to bring M&S customers great value, sustainable food. By building long-term trusted partnerships with our suppliers, we deliver exceptional-quality fresh produce and meat.

PERFORMANCE

The action taken over the last two and a half years to broaden the appeal of M&S Food meant we entered the crisis with momentum, growing ahead of the market and with the reshaping of the business well under way. However, our strong market position in convenience categories and hospitality, and substantial presence in city centre, travel and shopping centre locations meant the business was impacted by recurring Covid-19 restrictions as shopping habits changed. With "stay at home" orders in place, there was a shift away from these formats to larger out-of-town retail parks, meaning we saw more customers doing fewer, but fuller shops at M&S. Lockdown conditions saw customers switch from popular convenience ranges, such as ready meals and Food on the move, and enjoy more scratch cooking at home.

In the face of these Covid-19 headwinds, M&S Food delivered a strong underlying performance, with LFL growth of 6.9% when adjusted for the closure of hospitality and the adverse impact on our travel franchise business. Our operating profit before adjusting items of £213.6m reflects the negative impact on our product mix alongside the suspension of hospitality and the Covid-related costs to secure our operations, only partially offset by cost saving programmes and government support, as our colleagues worked hard to play their part in feeding the nation throughout the pandemic.

The good underlying LFL growth was delivered in the face of further additional headwinds, including the exposure to office and shopping centre locations. Unlike some competitors, M&S Food reported sales do not benefit from a direct online grocery presence, with online sales of M&S product instead reported through Ocado Retail. The strong growth and exceptional contribution made by Ocado Retail in the first full year of our partnership is set out on page 14.

The resilient performance is a result of the progress made against our transformation plan during and prior to the pandemic coupled with the incredible efforts of our colleagues and trusted supplier partners to respond swiftly to customers' changing needs and behaviours.

As customers shifted away from convenience, we dedicated more space towards the core grocery products our customers were now searching for, resulting in sales increases on last year. This action, combined with the significant overhaul of our ranges and value position already in train, progressively offset the loss of convenience trade.

In the absence of a direct online grocery offer, the team responded quickly to make our ranges more accessible to shielding customers through temporary partnerships with delivery firms and added capacity and new ranges such as two ambient essentials boxes to our gifting on M&S.com in response to sustained demand.

Dine-ins

Special event ranges offered our customers the chance to celebrate in style while staying at home. Our special Valentine's Day Dine In featured the Love Linguine and heart-shaped Churros.

Trick or treats

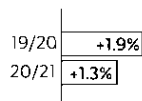
Identifying opportunities and trading hard in smaller events, including Halloween, drove a strong performance in our Food business.

STRATEGIC KEY PERFORMANCE INDICATORS

Like-for-like sales

Like-for-like sales performance improved in the face of Covid-19 headwinds.

+1.3%



Quality perception

The proportion of customers who rated us highly on quality. Our food strategy of "protect the magic" includes maintaining the quality our food products are famous for

88% (19/20: 86%)

Availability

We continued our drive to improve availability and reduce waste through the Vangarde programme, designed to improve the running of our stores.

95.5% (19/20: 93.3%)

Value for money perception

The proportion of customers who rated us highly on value for money. Our relaunched Remarkable range of trusted value, high-quality products now accounts for 10% of sales.

67% (19/20: 63%)

These figures are reported on a 52-week basis

FOOD CONTINUED

As customers celebrated events at home, we played to our strengths in special occasions. We had a good Christmas and a very strong Easter, which fell into the 53rd week of the year. Alongside award-winning great-value seasonal ranges, we offered more relevant innovation – making our special event ranges more accessible, such as extending Plant Kitchen, and introducing 30 products at Christmas which drove sales up 55% on the previous year. We also identified opportunities in smaller events, including Halloween and Burns Night, where we have historically under-traded and delivered 22% sales growth on last year in stores.

As families spent more time together, we provided more reasons to shop at M&S with the relaunch of the popular Dine In, including a family of four offer for £15. The new family offer is rotated with a different monthly theme, such as Italian, providing a great platform to show our new innovations and larger family pack sizes.

A RESHAPED M&S FOOD: REPOSITIONED FOR GROWTH WITH OCADO

The objective for Food is to 'protect the magic' by investing in our unique focus on own-brand innovation and fresh, easy-to-cook food and growing through larger, more inspirational stores while modernising the cost base and supply chain. With strong customer perceptions on quality and a reputation for innovation and trust, yet a small market share, the business has a substantial growth opportunity.

- **Protecting the 'magic' of our innovation:** The M&S Food range is built on deep supplier relationships and strong product knowledge to drive a high level of innovation. Over the past year, we created over 1,900 new lines to broadening appeal, in healthy and family product. To help deliver next-generation ideas, a "Food Innovation Hub" has been established, bringing together packaging, product innovation and nutrition in areas such as plant-based protein and sustainable packaging.
- **Delivering better value:** The aim for M&S Food is to be always great value, with better quality and ingredient content more than compensating for any difference in price. We have extended our position on trusted value led by the expanded range of Remarksable Value staple lines at an everyday low price (see below). This has supported a further improvement in value perception, which is now at its strongest level in almost three years.

- **Larger and more inspirational stores:** Food renewal aims to create larger stores with the efficiency of a supermarket and the "soul of a fresh food market" and has now been implemented in 15 stores with current year openings and renewals raising the total to around 40. As an own-brand retailer, our product range needs to be front and centre, so customers can see the breadth of our offer in terms of freshness and value, but this needs to be backed with efficient operations, and this is part of the test and learn pilot process. These stores offer an increased focus on produce, ambient, grocery and frozen in an inspiring environment. The initial trial stores outside Covid-affected city centres grew sales 15% last year.
- **Moving to digital marketing and sales:** Food marketing has shifted focus in the last two years, away from conventional promotional activity towards high-impact brand-building programmes and increased social media engagement. This helps create a new "shop window" to the brand, which can reach new audiences. As a result, while we have reduced marketing spend and promotional activity is down substantially, the share of spend on social media and digital marketing increased by c.35% on the prior year.

Remarksable Value

In August 2020, we relaunched our Remarksable Range – as a way of talking to customers about trusted value, with a promise to never compromise our quality or sourcing standards. Our TV campaign aimed to shift the dial on value perception, by reassuring customers they can shop with us for those everyday essentials found in their fridge, freezer and cupboards – showcasing products such as our sliced bread with added fibre and vitamin D for 65p and RSPCA assured milk for 85p. Our Remarksable Value offer now consists of over 340 products and accounts for c.10% of volumes.

Renewal stores

Our renewal store format, as seen here in Hedge End, puts our fantastic own-brand product range centre stage and offers customers a contemporary shopping experience.

- **Food on the move:** Despite the impact in office locations during Covid, we expect our sales in Food on the move to recover over time with further opportunities for growth through new channels to market. In addition, the M&S café offer has now been refreshed and simplified and this year will implement modern quick to serve menus, which are lower touch to prepare.
- **Upgraded systems:** High waste and low availability in some instances reflect a cumbersome and under-invested supply chain and high touch forecasting and range management systems. We are now commencing a programme to upgrade core systems to reduce manual interventions and improve efficiency. Most importantly, we are updating forecasting and ordering technology with an objective of reducing waste by more than 10%. In addition, we are replacing the space and range and display system, improving the tailoring of ranges to store.
- **Rolling out supply chain improvements:** The Vangarde programme is now operating in c.350 stores served by five depots, with sales uplifts from the first depot at over 3%, compared with control stores, partly as a result of improved availability. We will be rolling this out to the full estate over the rest of this year.
- **A new ambient distribution centre:** To support growth of ambient ranges and enable customers to do a fuller shop, we made a further investment in supply chain capacity, opening a depot in Milton Keynes. This enabled growth of 13% in ambient sales over the Christmas peak, with the next phase of capacity planned for 2021/22.
- **Lower cost to operate:** We have now delivered over £180m of cost of goods savings over the past two years to help mitigate inflation and enable the investment in trusted value. This includes optimising volume with strategic suppliers, reducing packaging costs and re-specifying ingredients.

LOOK AHEAD

M&S Food is well positioned to recover momentum, especially as the travel, hospitality and the convenience sectors begin to return. Our commitment to 'protect the magic' and modernise the rest – coupled with the accelerated actions taken under the Never the Same Again programme – mean M&S Food is set up for the future.

OCADO

PERFORMANCE

Over the 52 weeks ended 28th February 2021, Ocado Retail delivered 43.7% revenue growth and contributed a share of net income of £78.4m.

This financial year reflects a truly extraordinary period for the online grocery market, and Ocado Retail performed strongly. Higher than normal basket size and a smoothed trading profile across the week, together with reduced marketing costs, delivered a strong improvement in profitability. The result included insurance receipts related to business interruption at the Andover customer fulfilment centre ("CFC").

Within the year, September marked a milestone in our transformation, as the M&S Food range was made available online for the first time. The launch has brought together M&S' market-leading quality food and Ocado's award-winning service and given us a new platform to demonstrate the breadth and value of our range to new family customers and leverage our buying scale, through volume growth.

Ahead of the launch, the two businesses spent 12 months working closely together in preparation, resulting in a seamless switchover. M&S Food worked closely with

Ocado Retail to create a "one business" mentality, setting common operating procedures and business plans, and sharing talent. Ocado customers were introduced to a bigger, better range at even better value as M&S matched and improved on the approximately 4,000 Waitrose products with an extended range of M&S products (see opposite). Over 6,000 M&S Food lines and over 800 Clothing & Home lines launched on 1st September 2020 – including school uniform and other quality staples.

The customer response has been positive and M&S ranges consistently account for over c.25% of the average Ocado basket and around half of Ocado fresh category sales. The most popular products reflect our investment in everyday value and broader range, with our Remarkable Value range staples like super soft bread and British semi-skimmed milk topping customers' shopping lists.

The partnership supports our cost saving programme and the increased volumes sold through the Ocado switchover, generating over £20m of synergies in the year.

OCADO RETAIL BRINGING MULTI-CHANNEL TO M&S FOOD

The investment in 50% of Ocado Retail Limited ("ORL"), combined with the successful switchover to M&S own brand positions the business for a multi-channel offer working closely with our Ocado Group partners. The next stage is to aggressively grow capacity and to create further opportunities for both joint venture partners.

We have begun to explore opportunities for further collaboration across new product development, data and joint sourcing.

Over the next 18 months, Ocado Retail is investing in c.50% increase in peak day capacity, which will help meet unfulfilled demand. In March this year, a new mini CFC was opened in Bristol and Ocado Retail will also open two larger CFCs in Purfleet and Andover later in the year. These CFCs alone will provide an eventual 40% increase in sales capacity at full utilisation.

Further investments to increase the reach of the business into parts of the UK that Ocado Retail does not currently serve fully are likely in the months ahead. In addition, it plans to open more than 12 Zoom sites expanding its immediacy proposition across London and major UK cities.

We have a strong programme of capacity growth at Ocado Retail although we expect some normalisation of shape of week with respect to its economics.

In addition, Ocado Retail has already announced plans which will increase peak day capacity and has a structurally profitable long-term model for growth.

M&S and Ocado: Bringing the best together

Last summer, we officially welcomed Ocado into the M&S family. Our aim was to create the UK's best online grocer by bringing the best together: Ocado's market leading service with our delicious quality food range.

While the launch marked the beginning of our long term partnership, it was also an opportunity to show customers the full range of M&S products so they can see that we are serious about value whilst still maintaining our high standards.

As more families shop for M&S products online and reappraise our range, they will find that delicious, great quality M&S Food costs less than they think.

Exceptional growth

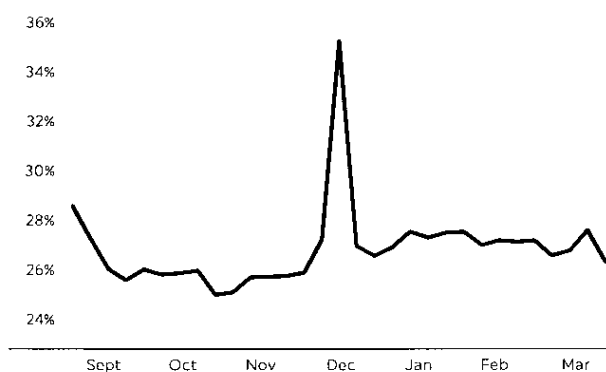
Revenue growth over the 52 weeks ended 28 February 2021

43.7%

Share of net income

£78.4m

Penetration of M&S products on Ocado



CLOTHING & HOME

PERFORMANCE

In recent years before the impact of the pandemic, we had set out a pathway to reversing the decline of our Clothing & Home (C&H) business. We set out to build a confident Clothing business which would offer modern, contemporary stylish products of great quality and value. But to achieve this, we needed to:

- Restore our style and value credentials and broaden our appeal.
- Reduce our range and option counts.
- Back our bestsellers and increase high-volume wardrobe staples in our market-leading categories.
- Modernise our end-to-end supply chain.
- Build to one-third of sales online by 2022.

Going into Covid-19, we were seeing the early green shoots of work done to reset categories. However, the impact of Covid-19 across the total market has been profound, which is best illustrated in the decline in customer spend (with 590m fewer items purchased in 2019 vs 2020). As reported at the half year, the dependence on stores in high streets, shopping centres and city centres created an extra drag on store sales performance, and many customers shifted their spend online instead. This store location headwind was combined with an adverse move in sales mix towards casual clothing and away from formal and occasion wear, markets in which M&S has strong shares. Kids and Home outperformed but not sufficiently to offset the demand mix.

In response to the initial impact of Covid-19, the team took swift and decisive action to mitigate the immediate effect on the business and adapt to the longer-term impacts:

- **Sold through and managed excess stock:** Stringent action to reduce or postpone orders together with measures to hibernate a small amount of stock after strong sell-through rates resulted in a relatively clean stock position by the end of the year.
- **Adapted our services and space:** Took action to accelerate online growth and adapted to the on-off restrictions across the UK ensuring that our clothing space and services traded in line with government guidance and enabled our customers to shop with confidence.
- **Responded to pandemic-driven product choices:** Boosted our product offer and quickly responded to changing customer trends by working collaboratively with our sourcing offices and suppliers. By improving efficiency and reducing duplication of work we were able to turn around products like our 'casual comforts' range from Turkey in 12 weeks.

The C&H result for the year is a reflection of this, with lockdowns, sharp changes in trends and purchasing behaviours, and our priority of clearing stock; partially offset by very strong growth in our online business of 53.9%.

Losses substantially reduced in the second half as the actions we took to accelerate online growth partly compensated for losses in store. Overall, online had strong profitability, with an operating margin of c.14%, for the year.

As a result, total revenue declined 31.5% and we recorded an operating loss before adjusting items of £129.4m (19/20 Profit of £223.9m).

Financial highlights

£2.2bn ^{-31.5%}

UK Clothing & Home revenue

£(129.4)m ^{-157.8%}

Operating loss before adjusting items

Brands at M&S

We've adapted our Clothing business to be more relevant more often to customers, by unveiling our Brands at M&S offer. It includes exclusive collaborations from contemporary womenswear brands Ghost (pictured), Finery and other adjacent third party brands

M&S × GHOST

CLOTHING & HOME CONTINUED

Autograph

Our in-house brands, including Autograph, Per Una and activewear range Goodmove, offer our customers unbeatable everyday style and value.

A RESHAPED AND INCREASINGLY OMNI-CHANNEL CLOTHING & HOME BUSINESS

Our objective is to deliver an omni-channel Clothing & Home business in the UK, backed by exceptional data and highly personalised customer relationships. All channels will be driven by a 'product engine' providing a more contemporary focused M&S range bought in greater depth alongside a family of internal and external partner brands with distinctive appeal to our customers.

A strengthened Clothing & Home 'product engine': M&S own-brand product, with contemporary design and sustainable sourcing, is our competitive advantage. Over the last three years, we have substantially reshaped our ranges, reducing option count, increasing depth of buy on core lines – we have made the big, bigger – such as our denim business which continues to go from strength to strength. By Autumn 2021 total option count is expected to be c.25% lower than 2018 with the team implementing new range management tools to maximise rate of sale of each option. We continue to focus on relevancy by responding to customer trends. For example the launch of the Goodmove activewear range in January 2020 delivered an exceptional performance over the past year (+40%) and a number one market share in full-price sales in its category. As a result of the work done, we have seen improvements in customer perceptions of style incorporating more contemporary fit and styling.

Launched MS2: In November, we announced the launch of MS2 which has brought together our digital, data and online teams to shift the focus of the business from a conventional model where M&S.com was run as an extension of stores, to prioritising online first. The actions taken alongside the rise in customers looking to shop online through the pandemic resulted in a strong online performance, as outlined in more detail over the next page. We also looked to drive the relevance of M&S by giving our customers more reasons to shop on M&S.com through the launch of a curated range of complementary third-party brands on our website for the first time, as seen here in our case study opposite.

Distribution networks to support online demand: We had already invested to simplify our distribution network and grow capacity at Castle Donington. As customer demand spiked, we supported this by permanently increasing our colleague numbers from the summer, as well by recruiting for peak with an increase of 1,000 colleagues for Christmas 2020 vs Christmas 2019. We also grew our in-store pick operation from c.80 stores to over 200 stores at our peak, and permanently expanded our Bradford distribution centre to support increased online demand, underpinned by cost-efficient automation across the site, helping to boost efficient and dispatch capacity. This will enable us to postpone the investment in a new fulfillment centre for 2-3 years.

LOOK AHEAD

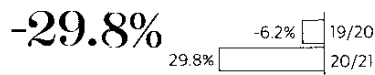
Our Clothing business is well placed as we start to emerge from the pandemic, in part due to the strong steps taken under Never the Same Again to revitalise our Clothing & Home product offering.

Over the last three years, huge strides have been made in reshaping the ranges around new trading principles, most notably to buy fewer lines in greater depth from fewer strategic suppliers. The extent of the shift in range has been obscured by Covid-19 and the related trading turmoil but we believe there is a marked underlying improvement in style, shape of buy, and value, which combined with our expanded online capabilities is helping to broaden our appeal.

STRATEGIC KEY PERFORMANCE INDICATORS

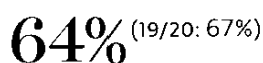
Like-for-like sales

Like-for-like sales reflect the impact on store sales of lockdowns and restrictions throughout the year. However, performance improved through the year as the online business built momentum.



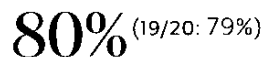
Value for money perception

The proportion of customers who rated us highly on value for money. We are accelerating our move towards trusted value for customers.



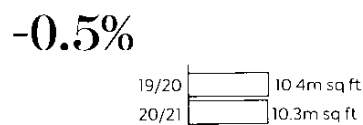
Quality perception

The proportion of customers who rated us highly on quality. Our reshaped Clothing & Home product engine is providing a more contemporary focused M&S range.



Clothing & Home space

We are focused on accelerating the reshape of our store estate for customers.



These figures are reported on a 52-week basis

Following an initial phase of wardrobe replenishment later this year, we expect there to be a permanent shift in demand, including a reduction in formalwear and tailoring.

With that, we have shifted to focus on growth categories, such as the 'new' office wear, kids, casual ranges and the Goodmove activewear range.

The emergence of platforms and the increasing cost of online customer acquisition for smaller retailers creates an opportunity for M&S to leverage its customer base, infrastructure and Sparks to partner with guest brands on the M&S platform. We can offer time-pressured customers a curated group of value for money, contemporary, stylish brands with sustainability credentials.

This work is being led by a stronger team under Richard Price. New additions include Heidi Woodhouse (joined in July to run Home) and Fiona Lambert (joined in February as MD of Jaeger). Anna Braithwaite will join shortly as Director of Marketing, with changing brand perception an important part of setting ourselves up for the future with energy, confidence and style.

Seasalt

**Womenswear brand
Seasalt was one of the
first wave of guest
brands to launch online
at M&S.com in spring
2021, alongside Hobbs,
Joules, Sosandar and
White Stuff.**

Brands at M&S

Last year, we announced we would add complementary and curated guest brands to M&S.com for the first time, offering our customers more reasons to browse and buy on the platform. Our first brand, Nobody's Child, launched in October and the sustainably minded offer has stretched appeal with nearly 10% of purchasers new to M&S Womenswear. To date, we have launched 21 brands under owned, wholesale, consignment or collaboration models – such as our three drops of the exclusive Ghost x M&S range. Popular brands have included Elle Junior for Kidswear and Seasalt Cornwall and Sosandar for Womenswear. These brands complement our own ranges and in-house brands (Autograph, Goodmove & Per Una), with each brand offering a curated range for M&S.com. Initial results from the brands launched have been encouraging; for instance, the top 10 lines in the dress collaboration with Finery sold strongly after just one week of trading.

As part of our brand strategy, in January we purchased much-loved heritage brand Jaeger for £6m and work is now well under way to reimagine the brand. We have made product we purchased from the sale of Jaeger available to buy on M&S.com and in selected outlet stores – the first capsule collection under the new in-house team will be available from Autumn/Winter 2021. The team is focused on protecting the independence and heritage of the brand for customers by creating product that is unique, stylish and has tangible quality, and leveraging M&S's reach, infrastructure and scale to achieve efficiencies.

Kidswear

Kids' casual ranges are one of the growth categories we're pivoting our ranges to focus on as clothing trends shift post-pandemic

STRATEGIC REPORT

MS2

DRIVING OMNI-CHANNEL GROWTH

At our Half Year Results, we announced the creation of MS2 to prioritise online growth, bringing together our data and online teams.

Growth in the past year means Clothing & Home now has a base of over 9m active online customers making it one of the largest platforms in the UK. With that, we have an objective to achieve in excess of 40% of Clothing & Home revenue through MS2 in three years' time.

The MS2 plan focuses on three core objectives:

Improving the online offer: Our priority is to increase availability in the online channel from historic levels of 80% in recent years introducing additional online only ranges, recognising the different rate of sale across channels, trialling "test and repeat" products. Given that around one-third of the M&S range is year-round product, we will also expand bestseller and never out of stock programmes.

Combined with a curated range of third-party brands, we expect a substantial improvement in the online offer in the coming year.

Creating a digital-led customer experience

Recognising that a mobile-led customer experience is central to online success, we have increased investment in optimising the site for mobile and growing the M&S app, which generated over 3.5m downloads last year as we relaunched Sparks. In addition, within the app we have built digital services such as scan and shop to pay by phone and video-powered retail services such as bra fit, beauty and furniture sales.

To support the programmes of change and deliver rewarding and convenient experiences with M&S for customers, M&S Bank, which is hosted by HSBC, announced the transformation of its product and service offering to create a digitally enabled and uniquely rewarding shopping and payment experience for M&S customers.

Relaunching our Sparks loyalty programme

Creating a digital experience

The M&S ambition for Sparks is to build the UK's leading retail loyalty scheme to support increased customer frequency and spend. In July, we relaunched the programme shifting from a points-based plan which was largely delivered through a physical card, to a digital experience enhanced with online services such as 'Book & Shop'. Since relaunch, total membership has grown to over 10m customers, of which the majority are active.

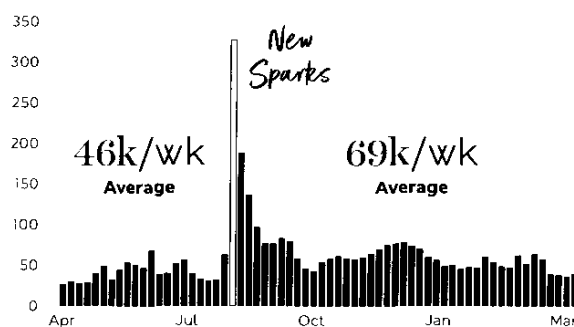
The relaunched Sparks enables M&S to build on recent investment in data science to create a more personalised relationship with members as opposed to the traditional model of targeted promotions.

The purpose is not to drive often unwanted promotions to large groups of customers, but to make their shopping easier by reflecting their personal requirements in the products and sizes we offer, when and where they need them.

The relaunch has also helped drive 3.5m M&S app downloads, with M&S topping the Apple download charts in the autumn. Not only are app customers typically highest spending, but the app is also the most cost-effective route to market for M&S.com as it reduces spend on search and third-party marketing.

Driving greater engagement through our app

Weekly average app downloads (k)



Due to launch in the summer, this will include a new reward credit card offering and a digital payment solution for M&S' growing Sparks customer base. This repositioning will offer customers a number of new ways to pay, while delivering personalised and rewarding experiences with M&S at the same time.

Maximising M&S's omni-channel advantage: Unlike pure play retailers, M&S has an advantage in its store network which provides an opportunity for rapid collection and returns and drives incremental in-store sales. Investment in Castle Donington, expansion of our site at Bradford and the repurposing of the Thornccliffe warehouse means that M&S has sufficient capacity for online deliveries for the next 2-3 years.

Building on the success of our "buy online ship from store" (BOSS) for fulfilment from store stock, we are investing in technology improvements to enable a low-cost rapid click and collect offer from store stock within hours. In addition as part of the omni-channel strategy, we have launched five "10x" stores. In these stores, we are targeting a substantial increase in the use of digital services, such as contactless click and collect and returns and digital payment and specific benefits for Sparks members.

Through MS2 and the outlined programmes of change, M&S is enabling more customers to shop their way, following the radical shift in purchasing behaviours seen in the last year, and is well positioned for further online growth as a result. Given this, we are targeting in excess of 40% of Clothing & Home revenue online in three years.

MS2

The creation of the MS2 division brings together our data and online teams to focus on creating a best-in-class online offer.

Strategic Key Performance Indicators

50.5% (19/20: 22.5%)

Percentage of UK Clothing & Home sales online

13.5m +40%

Traffic (visits per week)

51 (19/20: 57)

M&S.com net promoter score¹

¹ Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'

INTERNATIONAL

Our International business is doubling down on digital growth by modernising our operations, digitising our support for partners, and driving growth online through MS2.

Highlights

£45.1m ^{-59.3%}

Operating profit before
adjusting items

85 (19/20: 85)

Net promoter score

103 (19/20: 44)

International websites

PERFORMANCE

Previously, we have outlined the decisive actions our International business has taken to reshape itself: exiting loss-making markets, working with and supporting select partners in large markets with growth opportunities, and building our online international sales channels for customers.

After the initial onset of the pandemic in the final months of our 2019/20 financial year, last year we outlined the first actions taken which would be the basis for the year ahead in responding to the pandemic including: flexing our support for partners, optimising online channels and relevant product for customers and upskilling colleagues where needed. This resulted in:

- An ongoing flexible support model for partners in key markets – with key examples including partners having the facility to call off stock regularly rather than receiving infrequent shipments, or buy the relevant product for their customers through our remote buying fairs.
- Expanding our dedicated international e-commerce platform resulting in one adaptable website which we can localise and tailor to different markets and make it relevant and compelling for local customers.

Overall, International sales for the year reflected the pandemic impact and local restrictions across our owned and partner markets, offset by the strong switch to online sales from customers.

Clothing & Home sales declined 21.6% at constant currency, largely driven by lower store sales in the Republic of Ireland and working with partners to manage the effects of the pandemic in their markets partly offset by online sales which more than doubled.

Food sales were more resilient, particularly in the Middle East and Asia as Covid-19 disruption changed customer demand to favour eating in. This helped to offset a weaker performance in travel franchise sales in Europe and disruption from Brexit in quarter four.

Operating profit before adjusting items of £45.1m reflects in large part the lower Clothing & Home sales.

As outlined in the Chief Executive's statement, our International business incurred Brexit-related costs of £6.2m in the year.

International business focused on major partnerships and online

The International business has the objectives of delivering market-relevant product, great digital service for our partners and driving growth online through MS2.

Based on the strong online performance this year, we have an ambition to more than double International online retail sales. This will be delivered by investing in digital marketing, expanding our presence on major marketplaces such as Zalando, and entering into new markets such as the 46 countries announced in March. As the business scales up, we expect to build local warehouse and fulfillment capacity to drive more rapid customer service and to lower costs.

We are also modernising operations and digitising our trading interface for partners. This includes:

- Launching a fully "digital showroom". This transforms partners' ability to create curated ranges relevant to their markets and plan floors, windows and *campaign without the cumbersome and costly buying fairs previously held.*
- Driving faster rotation of the store estate with new digitally enabled stores. This includes a first '10x' trial, offering partners omni-channel innovations such as fitting room assistance, self-checkout and QR codes to access online ranges.
- Creating a UK hub for export at Hemel Hempstead. This avoids the need for International stock to enter the UK network where it is broken down for needless storage and keeps product consolidated for onward shipment. In addition, partners can continue to call off stock regularly and have flexibility in receiving shipments.

Expanding our international online business

As part of our focus to turbocharge our online business under our Never the Same Again programme, in March this year we launched 46 international flagship websites in new markets, instantly expanding our online reach to over 100 countries and enabling millions more customers to purchase M&S products online

LOOK AHEAD

Alongside the continuing uncertainty around the impact of the pandemic on all our International markets and our ongoing response, Brexit will be a major focus for the business.

The full cost implications are outlined in the Financial Review, but for our International business the most challenging effect of the Brexit deal is to make the supply of fresh and chilled product, especially prepared food, into the EU very lengthy and bureaucratic creating an enduring impact on availability and trading costs.

This situation is unlikely to improve in the near term and we therefore need to reconfigure trading with our EU businesses.

The most significant impact is on our Food operations in the island of Ireland and we are implementing multiple medium-term solutions to stabilise the business both in the North and the Republic. We have already modified food export into the Czech Republic and are working with our partners in France to review the model.

While these operations are relatively small in the context of the Group, changes to our EU businesses as a result of Brexit related costs may result in future restructuring charges.

STORE ESTATE

We're pressing fast forward on our plans to fully modernise our store estate and ensure our bricks-and-mortar presence is fighting fit for the future.

PERFORMANCE

Prior to the pandemic, we had outlined the challenges we faced with an underinvested and ageing store estate, which needed to be modernised to be fit for the future through:

- A store rotation programme.
- Redeveloping sites to unlock additional value and make the most of our space across the estate.
- Trialling new store formats.

Last year, in the face of the initial impact of Covid-19, we made it clear that establishing a store estate that could support the rapidly changing behaviours of our customers in terms of how and where they were choosing to shop was a key part of our transformation.

Since then, we have seen that a continued headwind to M&S brand perception and performance continues to be the legacy estate of full-line stores (selling both Clothing & Home and Food), often in declining locations or centres, with inefficient space which is difficult to shop and costly to replenish. We have closed or relocated 59 full-line stores overall, 16 Food stores and 8 outlets but the effect of the pandemic means we can move faster.

There has rarely been a better time to acquire new replacement space on good terms and we have approved 17 new or expanded full-line stores to open over the next two years, including a number of Debenhams stores, with the pipeline continuing to grow.

While long leases have historically constrained our ability to rotate, we plan to largely fund the future closure costs through the redevelopment of freehold and long leasehold properties.

ACCELERATING ROTATION OF THE STORE ESTATE

M&S had 254 full-line stores at year end. While practically all Clothing & Home departments in these stores contribute positive cash, a number are in long-term decline, struggle to cover their allocated central costs as a percentage of sales and cannot justify future investment.

Our objective for the full-line estate is to achieve a fully modernised core of c.180 stores. Our current best view of the future, based on stress tests, regional modelling, and current retail and efficiency requirements, is as follows.

- Around 100 stores in prime retail markets growing from the current base of c.80. In these markets we will invest in renewal, redevelopment or replacement of existing stores.
- Around 80 stores in core markets, growing from the current base of c.65 stores through investments such as the relocation of high street units to retail parks.
- In c.110 remaining, locations we will rotate the estate. This will mean either relocating to a Food only store or another full-line store as above, or consolidating multiple stores into one. In around 30 locations which can no longer support a store we will close, recapturing trade in nearby stores or online.

The overall benefit of well-located space is illustrated by the profitability metrics of each group shown right. The average Clothing & Home cash contribution margin in 2019/20 of prime leasehold stores was 25% of sales or £3.0m per store. This represents a higher percentage margin and more than 3x the average cash contribution per store of those out of which we plan to rotate.

Store Grouping	C&H cash contribution margin	Average cash contribution £m
Prime stores	25.4%	3.0
Core stores	23.4%	1.3
Rotation stores	18.5%	0.9
Total	22.5%	1.4

The financial benefits of rotation are compelling, for instance the table below illustrates the benefit of consolidating Northampton and Kettering stores into one at Rushden Lakes Retail Park prior to the pandemic. The previous stores were ageing, with sales in decline and no investment case to bring them up to modern standards. The new retail park, built between the two towns incorporates shopping, dining and leisure facilities on a site with good access and car parking. The disposal of the freehold of one store, helped to fund the closure and the lease costs of the remaining term of the other. The new store has generated a substantial uplift in cash profit and LFL sales were in growth pre-Covid. The net investment cost of the new store was just £2.1m resulting in a strong payback on the net capital invested.

Kettering closure	£m
Sales	14.3
Cash contribution	1.1
LFL 17/18 %	-12.3

Northampton closure	£m
Sales	24.2
Cash contribution	2.5
LFL 17/18 %	-7.0

Rushden Lakes	£m
Sales	39.0
Cash contribution	4.8
LFL 19/20 %	+6.5

LOOK AHEAD

To reduce investment risk and maximise returns to shareholders we have set a target payback for relocations including recapture of less than 4 years, with standard lease terms of 10 years.

1 Metrics for 2019/20 adjusted for Covid impacts in March 2020. Leasehold stores exclude long leaseholds

Highlights**9.7m** ^{-46%}**Footfall (average per week)****7m** ^{-41%}**Transactions (average per week)****81** (19/20: 68)**Stores net promoter score**

Returns outside of these parameters are considered where they enable an exit of long-term liability or in exceptional locations. We will work with landlords to negotiate appropriate terms at exit and repurpose or develop space. However in some cases it will be more economic and brand enhancing to have a vacant store rather than lose the opportunity to move to a better location.

Reflecting this at year end, further costs of c.£268m are estimated over the life of the programme, including for accelerated depreciation and impairment. When combined with the operational costs of closure, we currently expect to incur total cash costs of c.£260m over this period.

To fund the programme, we have a number of freehold and long leasehold properties which offer an opportunity to release cash from development. This includes our Marble Arch proposal (outlined in our case study on the right) and additional stores including a number for residential development. These properties tend to be in locations where land values for alternative use are higher than for existing use. We have an objective to release at least £200m from these projects.

While we acknowledge that the turbulence of the past year means uncertainty remains, we are currently forecasting for a gradual return to more normal customer behaviour, underlining the importance of reshaping our store estate to enable our customers to shop their way with M&S.

Redevelopment of Marble Arch

As part of our efforts to emerge stronger from the pandemic under our Never the Same Again programme, in March we announced a proposal to redevelop our flagship store on Oxford Street – Marble Arch. First opened in 1930, the building has been expanded and altered many times and as a result, despite being a much loved store, today offers an inefficient and confusing experience for customers.

M&S is in the unique position where 40% of our owned space is freehold or long leasehold enabling us to unlock value and fund our rotation of the estate through a programme of redevelopment and alternative use of space. These largely arise in locations where the rental cost of the existing store is below the cost for alternative use such as office or residential space – such as in the case of Marble Arch.

The redevelopment of the store will see M&S work with partners in creating a new building which combines a modernised M&S store offering a full range of trusted value products across the bottom three levels, while repurposing the upper levels to offer best in class, Prime Grade A sustainable office space, where we anticipate a rebound in demand in the coming years.

OUR PEOPLE & CULTURE

The M&S family has been at its best during the myriad of challenges presented by the pandemic. Our colleagues reacted to difficulty and uncertainty with pace, resilience and innovation.

Prior to the pandemic, we outlined how we were seeking to establish a culture that would draw on the foundations on which M&S was built and apply them in a modern setting, to build a renewed and reinvigorated workplace. Our aim was to create the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat structure.

Over the past year, some of what we are aiming to achieve has been accelerated and our colleagues have shown M&S at its best. With a focus on cost and clarity of purpose, colleagues have been adaptable, resilient, pacy, less hierarchical, commercially minded and innovative, all in service of doing what's right for our customers. At the same time, the way colleagues have supported each other, and the engagement from leadership with the front line, has rekindled the feeling of being part of the M&S family.

To embed these changes, and in recognition of the critical role our people have in our transformation, the executive team took direct accountability for our People Plan to drive real ownership and delivery as part of our Never the Same Again programme.

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 empowered, responsive and commercial leaders who are close to the front line.
- 4 Putting the voice of the stores back at the core of the business.
- 5 Creating a culture of plain speaking; data driven and focused on performance.
- 6 Moving away from hierarchy to an involving, engaging culture where everyone has a voice and can get on.

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

The crisis has enabled M&S to adapt and modernise, and we have built on the previous work to devolve accountability to each of the family of parallel businesses under our Never the Same Again programme this year. Radical changes have been made to our business in order to best serve our customers and support our long-term transformation.

In August, the Group announced a programme to streamline its store operations, regional management structures and support centres. This included:

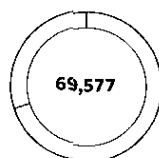
- A new retail management structure that reduced management layers and removed duplication through better use of technology and insight and enabled more time on the shop floor. All store manager offices have been opened up to symbolise this shift, and each store manager is now fully accountable to drive customer service, deliver their P&L, lead their team and manage performance, as well as maintaining store standards.
- A substantial restructuring and store cost reduction programme, which introduced new, more flexible working for store teams across departments, and a shift in focus and time to front of house customer service rather than backstage.

For our support centre colleagues, an M&S Flexible Framework has been put in place, moving to more dynamic arrangements rather than permanently office-based. The framework devolves accountability to colleagues and line managers to decide where and how they do their best work. This means spending more time with customers and suppliers, with a minimum of two days per month in stores and with partners, and spending c.3 days a week in support centres to enable collaboration, networking and development, while recognising that every role and every week is different.

COLLEAGUE REPRESENTATION MEASUREMENTS

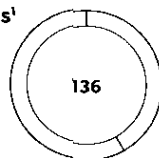
Total employees¹

- Female
48,727
- Male
20,850



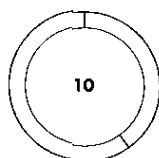
Total senior managers¹

- Female
57 (19/20: 52)
- Male
79 (19/20: 74)



Total Board^{1,2}

- Female
4 (19/20: 3)
- Male
6 (19/20: 5)



Senior managers from ethnic minorities

8% (19/20: 8%)

We remain firmly committed to our target of having 50% women and 15% BAME colleague representation in our senior management team by 2022, but have more to do to hit our targets. This year we continued to support and engage with our wide range of colleague diversity networks across the business.

Engagement

82% (19/20: 81%)

The progressive engagement score from our monthly 'Colleague Voice' survey. Our engagement score through the year was strong at 82%, with 91% of colleagues feeling proud to work for M&S. Nearly 50,000 of our colleagues chose to participate and voice their feedback and ideas, helping to give us an informed picture of how colleagues feel about the business.

Gender pay gap

12.3% (19/20: 12.9%)

Our gender pay gap, the percentage difference between average hourly earnings for men versus women, marginally decreased this year and remained lower than the UK average.

1. As at 2021 year end
2. As at 25 May 2021

OUR PEOPLE & CULTURE CONTINUED

All of these changes have been underpinned by the efficacy of our market-leading technology, as the lead retail partner of Microsoft.

2 Becoming a data and digitally enabled business

As outlined throughout this year's report, the shift to online by customers during the pandemic has had a profound impact on the retail sector. This year, we have taken decisive steps towards omni-channel retailing – including the roll-out of efficient digital solutions in stores, and capability and capacity upgrades to M&S.com and our supply centre, Castle Donington – helping us achieve strong online growth this year.

However, with this shift not expected to recede as we emerge from the pandemic, we know we have to accelerate our focus and culture to take advantage of the online opportunity. The creation of MS2 is set to drive our focus to establish an online first culture through:

- Bringing together our data, digital and trading teams under MS2, jointly led by Katie Bickerstaffe and Richard Price.
- Boosting our digital capabilities to support growth – in May, we announced the creation of 85 new technology roles, including 70 software engineers, as part of M&S' new Chief Technology Officer Mike Yorwerth's team, and 15 new trading roles in e-commerce.
- Empowering our colleagues through technology – over 90% of our front-line colleagues are now communicating through Microsoft Teams, either on their own devices or on tablets which have been rolled out to all management teams.

- A focus on placing data at the heart of decision-making. M&S has over 800 terabytes of data at our disposal and our data community is now over 800 strong, helping to decipher patterns and deliver the insights we need to support our growth.

- Launching a Beam Academy led by the Digital & Data team, hosting over 100 business-wide upskilling events on data with over 22,000 colleagues participating including our third Hackathon.

- Trialling new technology and omni-channel trading initiatives – such as video-powered retailing – in five "10x" digital trial stores, with data and digital teams working directly with store teams.

3 Creating empowered, responsive and commercial leaders who are close to the front line

M&S continues to be a destination for industry-leading talent. Eoin Tonge joined as Chief Financial Officer and Richard Price joined as Clothing & Home Managing Director in July, with Katie Bickerstaffe moving from the Board to the executive team as Chief Strategy and Transformation Director earlier in the year. They now make up half of the streamlined and strengthened central leadership team led by CEO Steve Rowe.

Following financial year end, the leadership team underwent a realignment in responsibilities as we move on from the "Fixing the Basics" phase of our transformation, with Katie Bickerstaffe and Stuart Machin becoming Joint Chief Operating Officers, to bring even more impetus to our core businesses. Alongside this Eoin Tonge took on responsibility for strategy and transformation planning as part of his CFO remit.

There is more to do to engender our wider leadership team with a sense of shared mission and accountability and putting in place a leadership development framework and reviewing leadership banding is a focus for this year.

4 Putting the voice of the stores back at the core of the business

The adoption of Microsoft Teams, already in train but sped up over the past year, has been a key enabler to connecting all colleagues, but critically also connecting the trading areas to the store teams. Whereas c.10% of colleagues were using Yammer, now 90% of colleagues are using Teams at least once a week, with 85% on their mobile devices. Teams has been key for connecting leaders to the front line, and every store colleague is part of a Team for operational and local communications, which is the relevant trading area they are part of, as well as receiving "all company" corporate news. Shifts are booked via Teams, with operational task management being rolled out on Teams currently. This is not only more efficient and delivers the right, targeted information to colleagues, but is also an enabler for building a more digitally adept workforce.

While Teams has been critical to the business operating over the past year, with many advantages, face-to-face contact remains key, and there has latterly been a focus on equipping managers and store colleagues with weekly briefs to support regular huddles. There is, however, more to do to ensure face-to-face engagement is happening regularly across every store, and that every leader in the trading businesses is engaging their best sellers to drive a virtuous cycle of engagement to get the right insight and buy-in to sell more.

Over the past year, the Suggest to Steve scheme – where anyone in the business can make a suggestion directly to the CEO – received 5,000 suggestions. Fantastic ideas have been progressed: from being the first retailer to introduce sunflower lanyards, creating "We're all in this together" charity bags, to ideas that were integrated into the relaunch of Sparks. While there was a peak during the early days of the pandemic, engagement began to drop off and steps have been taken to reinvigorate the scheme through moving it onto Teams and reconnecting it personally to the CEO, with calls and visits to successful or regular suggesters.

5 Creating a culture of plain speaking; data driven and focused on performance

Last year, we launched four core behaviours, with Talk Straight the one colleagues felt was most needed and relevant. While there is a need to "go again" on embedding the behaviours, slowly but surely a culture of more plain speaking is beginning to emerge.

The way the business reviews and rewards performance has been re-set, led by Stuart Machin as the executive lead for talent, with the aim to foster this more plain speaking style and drive a more performance-driven culture. In our stores, we have redefined what we expect of our colleagues, which is backed up by training and regular one-to-ones away from the shop floor to check in and update on performance. We're measuring this through specific questions in the colleague survey, proportion of check-ins being delivered every month, as well as the overall impact on customer NPS and sales. In the support centres, a clearer cadence and process around performance management has been put in place with a simplified but consistent approach to objective setting, more regular check-ins on performance, and a bigger focus on development and potential.

At the same time as improving our approach to performance, we have reviewed our pay and benefits package to modernise it and align reward more to the right behaviours and performance. Over 14,000 colleagues responded to tell us what mattered most to them. Getting the basics right was a strong message which is one of the reasons why we have invested significantly ahead of inflation for hourly paid colleagues so all permanent colleagues earn at least £9.50 per hour. Flexibility to support work-life balance was valued, prompting the re-introduction of Holiday Buy – more popular than additional leave – and extending our Celebration Time to support centre and logistics colleagues. Unsurprisingly, wellbeing was a key theme, and in addition to our existing support for colleagues, Salary Finance and an easy-to-access wellbeing app, Unmind, have been rolled out.

Underpinning our nascent, but now more focused, aim of driving a high-performing culture is the new people IT system – MyHR – which launches in August. It will remove bureaucracy and paperwork, better track the full colleague lifecycle and performance, and move to a more self-service model for managers and colleagues.

6 **Moving away from hierarchy to an involving, engaging culture where everyone has a voice and can get on**

BIC, our Business Involvement Group, has undergone its own transformation to drive a more engaging and involving place to work. It began with feedback through the BIG Conversation, with thousands of colleagues taking part. The output of this has been framed as making "BIG Bigger" with four key areas of focus: a simplified, more accessible constitution rebadged as the "Doing Business with BIC Charter"; investing in representatives so they have the right capabilities, with better induction, clearer accountability for line managers, and investment in their learning and development; more digital and dynamic communications, which are a move on from the more arcane, bureaucratic previous approach; a more structured dialogue with the leadership through "the BIC commitment", which sets out the rhythm and routine of BIC representatives and business leaders and holds leadership to account on what they have agreed to. The Chair of National BIC attends the Board four times a year, and holds quarterly meetings with the Executive Committee.

Leadership focus on formal colleague engagement surveys dissipated somewhat during the pandemic, with a focus on "in the moment" direct feedback. However, this has now been reactivated with an improved survey, more accessible to colleagues via Microsoft Teams, and – crucially – a much bigger focus from the executive team. Ensuring the feedback

received is acted upon swiftly, and collaboratively, is a key priority for the year ahead.

Learning and development remains an area where delivery is patchy, but following the Academies trialled in the Food business to develop behavioural and leadership skills, they are beginning to be rolled out more broadly. In addition, 34 Academy stores have been established as centres of excellence for learning. Academy teams have been supported with a bespoke learning offer to enhance their capability, including performance, emotional intelligence and resilience sessions. For the coming year, leadership capability and coaching skills will also be offered.

Building on our long-established Marks & Start programme, through which we welcomed 360 young people into the business in the last year, we are proud to be a lead partner for the government's new Kickstart programme. It is designed to help young people currently on Universal Credit who are at risk of long-term unemployment to jumpstart their careers, and not get left behind in the pandemic. We have offered 350 Kickstart places in our stores and have invested to ensure that the experience we offer is positive and consistent.

Clearly, other than the pandemic, the death of George Floyd was one of the defining moments of the last year. We were, like everyone, horrified by what happened and the groundswell of action it spawned was a wake-up call for all businesses – including ours – to do more. We can point to some small steps forward: inclusion and diversity training offered to all colleagues in an accessible way, with high levels of completion; participation in schemes such as the Black Interns Initiative; an enlivened Culture and Heritage network; and improved guidance on a wider range of issues for managers, such as about colleagues participating in Ramadan. We also continue to participate in the 30% Club. However, representation in our senior management population remains flat, progress has been frustratingly slow, and the fact is we have a huge amount more to do in the coming year.

Finally, fostering a sense of family within the business has led us to launch an alumni network, under the moniker "M&S Family", to capitalise on the pride and sense of belonging we know colleagues feel who have worked for M&S. The network is the first scale alumni programme in the UK, and since launching in February has over 6,000 members and is beginning to be a pipeline for recruitment. In the future, we are looking at how we can harness the power of this network, whether through mentoring or developing products and services.

PLAN A REVIEW

WE'RE ALL IN THIS TOGETHER

The full detail of the activity and progress made against our sustainability priorities is published separately in our Plan A 2021 report, which is available online at corporate.marksandspencer.com/Plan-A-Report-2021. The timeframe covered by the report reflects a 12-month period when families, communities, businesses and governments across the world have all had to face the once-in-a-lifetime challenge that the pandemic has placed on our society.

The enduring community spirit of M&S has borne out in our response to the crisis. We rallied these collective efforts under the banner "We're all in this together", as our incredible colleagues and trusted supplier partners stepped up to deliver for each other, our customers and the communities they serve. In turn, we supported our M&S family by topping up pay for colleagues on furlough, providing a financial hardship fund and investing in the wellbeing of the team – providing all colleagues with free access to Unmind – an independent workplace mental health app.

Whilst we know our colleagues continued to support their local communities, our structured community programmes were suspended and we were not able to formally track volunteering hours in 2020/21. The impact of the pandemic placed a huge strain on our NHS this year, and our customers and colleagues were keen to find ways they could support. In response, our 2020/21 community programme focused on raising funds for NHS Charities Together.

We acted quickly to launch a range of products and promotions allowing our customers to raise money from purchases – such as our Rainbow Sale, which donated 10% of the cost of every clothing item sold to NHS Charities Together, or our All in this Together t-shirt – which sold one t-shirt each second at launch with all profits donated onwards. As a result M&S donated £8.3m to support our fantastic NHS heroes during the crisis, and over 28,000 customers continue to support by selecting NHS Charities Together as their chosen Sparks charity, with M&S donating 1p for every purchase.

REINVIGORATING PLAN A

In the face of an unprecedented crisis, we did not lose sight of the goal of our transformation; to return M&S to sustainable, profitable growth and deliver long-term value for all our stakeholders.

Through Plan A – our multi-year sustainability action plan – we address the risks and opportunities that environmental and societal issues present to us as business. It drives us to make better choices to ensure M&S, and the precious resources and planet we rely on, are in better shape for the future.

While Plan A was launched in 2007, its roots can be traced back to our founders, who recognised the enormous value derived from building trusted partnerships, treating people fairly and taking a long-term approach to innovation and investment.

Throughout the year, we have made progress in embedding Plan A into our operating model as a family of accountable businesses and putting

sustainability into the heart of our commercial plans. In doing so, we have set better standards, which help us deliver on our customer promise of trusted value. We set new standards for one of our biggest hero categories, with the launch of our most sustainable denim range yet this Spring (see page 31 for more detail).

As part of our commitment to prevent deforestation, we are exploring alternatives to soy-based animal feed. In Food, we completely eliminated soya feed in our RSPCA Assured milk by replacing it with nutritious alternatives such as rapeseed oil and sugar beet, avoiding 4,000 tonnes of soy being used each year.

We made good progress on our commitment to redistribute all food surplus by 2025, thanks to the collaborative efforts of colleagues across the Food team and our stores. Working together, the roll-out of a new digital app to all our Food stores helped deliver a 126% increase in food redistribution.

Alongside the operational delivery of our Plan A priorities, over the course of the year we have committed to act on the bigger sustainability challenges facing businesses, our society and our planet.

Our most sustainable denim yet

All our cotton is responsibly sourced, with the majority through the Better Cotton Initiative – helping farmers to reduce their water usage and increase their profits. The wash is the process that gives denim its distinctive look and finish but it's typically a water-intensive process. M&S partnered with Jeanologia – the leader in sustainable finishing technologies – and innovated together to produce a range, which means that M&S jeans are now finished with 86% less water compared with the industry norm for denim finishing. As part of our enhanced chemical policies, M&S is switching from standard indigo dyes to cleaner alternatives that require less water and chemicals to produce. 50% of the 2021 spring/summer range has been made with this lower-impact dye.

Environment:

Now moving towards net zero

In November 2020, we extended our climate change commitment, with a pledge to build on the carbon neutral operations we have today towards net zero emissions by 2035. This builds on our existing science-based targets with a greater emphasis on delivering reductions in emissions that we currently offset.

We are preparing for the future adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We have demonstrated our progress on aligning our climate reporting with these recommendations and set out our plans for next year in our ESG Committee Report.

➤ Further detail on our climate disclosures is on pages 74–76.

Social:

Leading on human rights

Sourcing ethically – and reporting transparently on our supply chain practices – is core to how we do business. It's part of the promise we make to our customers and this year we have provided additional assurance that they can shop from M&S with confidence. In January 2021, we were the first major UK retailer to publicly support the Coalition to End Forced Labour in the Uyghur Region's "Call to Action", ensuring our supply chains are not linked to the human rights abuses in the Xinjiang region.

Setting standards in our own supply chains, however rigorous, can only set a baseline. To be serious about ensuring everyone who works with M&S is treated with decency and respect, we must hold a mirror up to make sure the reflection is true. That is why we asked Oxfam to conduct a gap analysis of our supply chain and we published the findings in full. As part of our response, we have taken action to scale our worker voice programmes and committed to share our learning to help drive meaningful industry-wide change.

Too good to waste:

Increasing food redistribution

Founded in 2015, our redistribution partnership with Neighbourly has been updated with newly designed app technology that enables stores to donate any food surplus more efficiently to those that need it most. Stores across the UK and ROI are matched to a network of more than 1,400 community partners – such as our Glasgow Pollok store, which partners with Indigo Eats to deliver childcare services for families with children from 6 weeks to 16 years old in the local area – who collect and deliver surplus such as fresh fruit, vegetables and bakery products daily. The new app was designed with our store colleagues, and their input ensured that it was successfully integrated into our store routines and processes. Since its launch, most of our stores have more than doubled the amount of stock they are donating. We donated a total of 11.8m meals in 2020/21 and reduced food waste in store by almost 5,000 tonnes.

OUR RENEWED PLAN A

As the world emerges from the pandemic, we believe customers will look to brands they can trust and have confidence in to offer quality and value through trading ethically. Under our Never the Same Again programme, we are forging a reshaped M&S, that is set up to compete in a post-Covid marketplace. This includes reinvigorating Plan A for 2021 to invoke the original pioneering spirit of the programme and put sustainability at the centre of our customer story.

Governance:

Our new ESG Committee

Helping our customers, colleagues, and communities lead happier, healthier and fulfilling lives is core to the M&S brand and great work continues to be delivered; but we need to continue to reinvigorate Plan A and put it back at the centre of our customer story. In December, we established a new Board Sub-Committee on Environmental, Social & Governance (ESG), chaired by Tamara Ingram, to provide focus and oversight of our Plan A programme across the business. The invaluable insight and experience of our Committee members provides robust challenge to our thinking as we look to reinvigorate Plan A in 2021.

➤ Further detail about the activity of the Committee is set out on page 73.

➤ Read more on Plan A:
corporate.marksandspencer.com/Plan-A-Report-2021

PLAN A REVIEW CONTINUED

PLAN A MEASUREMENTS

	Measurement	Progress	
FOOD WASTE	Donations of surplus in meals equivalent	11.8m meals	+126% on 2019/20
PACKAGING	Percentage of packaging classified as being easily recyclable	87%	+10% on 2019/20
WASTE TO LANDFILL	Percentage sent to landfill	Zero	Zero in 2019/20
M&S GREENHOUSE GAS EMISSIONS (CO₂e)	The gross carbon dioxide emissions from M&S operated stores, offices, warehouses and delivery fleets worldwide. In addition, we purchase renewable energy and carbon offsets to match these emissions, making our global operations carbon neutral	298,000 tonnes CO₂e	-13% on 2019/20*
MARKS & START	Number of UK placements offered	350	-81% on 2019/20*
COLLEAGUE VOLUNTEERING	Number of paid volunteering hours provided by M&S colleagues	Paused due to Covid-19	n/a
COMMUNITY AND CHARITIES	Donations raised by customers and colleagues	£2.4m	-64% on 2019/20*
	M&S donations relating to the Sparks loyalty scheme, the Rainbow Sale which supported NHS Charities Together and cause-related marketing	£14.9m	+210% on 2019/20*

In 2020/21, a number of Plan A measurements were materially impacted by the consequences of Covid-19. Whilst colleagues continued to support their local communities, a number of our structured programmes were suspended or disrupted. In 2021/22 we will rebuild participation in the Marks & Start scheme in addition to supporting the UK Government's Kickstart programme with 360 placements.

STREAMLINED ENERGY AND CARBON REPORTING

ENERGY AND TRANSPORT FUEL CONSUMED

	This year 2020/21 (GWhs)	Last year 2019/20* (GWhs)	% change
UK operations	787	827	-5%
International operations	18	23	-21%
Group	805	850	-5%

* Performance has been restated to use actual data sourced from international operations, in place of previous year estimates

2020/21 saw a significant impact to the operational space in our stores as we reacted to the national lockdowns, with entire trading floors closed for several months at a time. The closure of this space will have materially reduced the amount of energy consumed.

The principle measures taken to improve energy efficiency in 2020/21 include continued roll-out of new refrigeration shelf-edge technology, conversions to LED lighting and the trialling of new fan technologies at certain locations.

GREENHOUSE GAS (GHG) EMISSIONS

	This year 2020/21 (000 tonnes)	Last year 2019/20* (000 tonnes)	% change
Direct emissions (scope 1)	157	173	-9%
of which UK:	156	172	-9%
In-direct emissions from electricity (scope 2)	141	168	-16%
of which UK:	129	154	-16%
Total gross/location-method scope 1+2 GHG emissions	298	341	-13%
of which UK:	285	325	-12%
GHG intensity per 1,000 sq ft of salesfloor	15	17	-12%
Procured renewable energy	120	143	-16%
Total market-method scope 1+2 GHG emissions	177	198	-11%
of which UK:	164	183	-10%
Procured carbon offsets	177	198	-11%
Total net scope 1+2 GHG emissions	0	0	

GHG emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using DEFRA/BEIS 2020 Greenhouse Gas Reporting Conversion Factors, which include a 9% lower carbon intensity rating for UK grid electricity that reduces our emissions by 14,787 tonnes CO₂e compared with our location-based 2019/20 figures. For full details, please see our 2021 Plan A Report.

* Performance has been restated to use actual data sourced from international operations, in place of previous year estimates

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 diversity, inclusivity, 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 64 to 65. Further detail on social matters can be found in People and Culture on pages 26 to 29, and our Section 172(1) statement on pages 34 to 36 and 68 to 69.

➤ Read more on our commitment to people in our:

- People Principles
- Code of Conduct
- Responsible Marketing Principles
- Equal Opportunities Policy

COMMUNITIES AND ENVIRONMENT

We have supported our local communities throughout our 137 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 Plan A commitments. Sustainability is also core to Plan A and to the M&S brand. The 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:

- Community Engagement
- Delivering Plan A

➤ Read more on our activities in these areas this year:

- Environmental commitments and progress can be found in the ESG Committee report on pages 73 to 76 and the Plan A review on pages 30 to 32, which includes details of our Greenhouse Gas ('GHG') emissions.

- 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 34 to 36 and 68 to 69 and the ESG Committee report on pages 73 to 76.

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 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
- Confidential Reporting Procedures
- M&S Response to Covid-19: Workers in 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
- Confidential Reporting Procedures

SECTION 172(1) STATEMENT

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. Now, as we enter a new 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

for 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, p2-57
- + Key Board Decisions & S172(1) Considerations, p68-69
- + At marksandspencer.com/thecompany

STAKEHOLDER ENGAGEMENT & CONSIDERATIONS

SHAREHOLDERS



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, seeing proactive and conscientious "ESG" plans being formed and corresponding good performance in Environmental, Social and Corporate Governance areas.

Engagement approach

- Last year's **Digital AGM** was the Board's most engaging and constructive yet because we were able to reach shareholders directly in their homes, instead of only those able to attend a London-based meeting. Private shareholder engagement was nearly trebled with c.1,500 individual shareholders engaging with our AGM platform, either to watch, vote or submit questions. The webcast of the meeting has been available to watch on our website throughout 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. Due to the impact of the pandemic on planned activities, we extended the tenure of our 2019/20 Panel and continued to hold meetings with them digitally, to ensure that they had ample opportunity to share their views.

- 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 and over the phone) over 100 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 sustainability of the business throughout the Covid-19 pandemic and uncertainties surrounding recovery timings.
- 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 sufficiently adequate 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.

Engagement approach

- We monitored **Customer Mood during Lockdown**, surveying 1,000 customers a week to understand their thoughts, feelings, and mood, what they wanted from retailers, and how they felt about M&S during this period. With the insights directly influencing senior management in shaping our tone and content in communications and marketing.
- Having a great online shopping experience became even more important during lockdown. To improve our **Dotcom Experience**, we conducted 50 in-depth customer interviews across the whole end-to-end online journey, covering 135 interaction evaluations, and then did a similar exercise for a range of competitors to assess user experiences. The findings are directly contributing to the optimisation of our website to maximise online growth.
- We regularly conduct focus groups, in-depth interviews and surveys across the business. For example, this year, we held 8 focus groups and 20 in-depth interviews, and surveyed 2,000 customers to hear their thoughts on our **Lingerie** offer. Using the findings, management identified key customer priority areas to focus on and ensure we retain our number 1 market share position.

Governance considerations

- Approval of various organisational and operational changes for the business to adapt to the Covid-19 lockdowns, ensuring that customers could shop confidently and safely in stores, and that there was continuity of supply to meet customer demand online.
- Oversight of the programme for launching M&S product on the Ocado platform, ensuring workstreams were proceeding to schedule, with the ultimate aim of providing new and existing customers access to M&S Food products online for delivery.

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.

Engagement approach

- Our **Business Involvement Group (BIG)**, a network of elected representatives from across all parts of the business, facilitates our engagement with colleagues, with local BIG teams regularly feeding back to National BIG.
- 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
- The ExCo this year updated our **Inclusion & Diversity (I&D)** strategy, publishing seven new I&D training modules and a suite of new policies and line manager guides, aimed at supporting and highlighting to colleagues the importance of delivering an inclusive culture within a diverse environment. Our seven colleague-led I&D networks also continued to provide peer support and subject matter expertise to the business
- Our monthly **Colleague Voice Pulse Survey** gives the Board and ExCo an informed picture of how colleagues feel about the business. The progressive colleague engagement score through the year was 82%, with 91% of colleagues participating saying that they feel proud to work for M&S.

Governance considerations

- The chair of BIG represents the collective colleague voice by attending Board and Remuneration Committee meetings throughout the year, while ExCo members attend National BIG meetings to understand the issues that are important to colleagues
- Commissioning a comprehensive Reward and Wellbeing Survey across the business, aimed at ensuring colleague pay and benefits packages are fundamentally fair, reward the right behaviours and performance, and are competitively placed for us to retain talent.

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.

Engagement approach

- This year, our **Charitable Donations** reached over £14.9m to charities and good causes, including £8.3m donated to NHS Charities Together to support NHS workers and patients through the Covid-19 pandemic. In addition, we continued to support our long-term partners, such as Macmillan, Breast Cancer Now and the Royal British Legion, and expanded the Sparks rewards scheme to support 35 charity partners.
- We supported local communities with over £23m of product donations, including the donation of **11.8m Meals to Community Groups** through our foods surplus redistribution scheme
- The **M&S Company Archive** focused on digital opportunities for people to explore the rich heritage of M&S. These included downloadable learning packs for schools and home learning, and digital reminiscence resources that have supported older people in over 2,000 care settings across the UK. Visit marksandspencer.com for more details

Governance considerations

- Creating a Board Sub-Committee to oversee ESG matters. These included the refresh of our Plan A sustainability programme, in recognition of growing community and government interest in how we are addressing the climate crisis.
- Board oversight of initiatives to support communities throughout the Covid-19 pandemic, including clothing and food donations to local hospitals and the addition of charitable partners to our Sparks scheme.

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.

Engagement approach

- The Chairman hosts a rolling programme of **Listening Groups** with suppliers.
- Our pool of dedicated dairy farmers are guaranteed a set price for fresh milk under our **Milk Pledge Plus** programme. Our price accounts for the cost of production and ensures that our supplying farms have sufficient profit to invest in infrastructure, animal welfare and environmental improvements to maintain their leading position. As a result, we were the first major food retailer to have all its milk-producing dairy farms assured by the RSPCA and have also removed soya from the cows' diet to guarantee a non-deforestation position for the environment.

- We measure **Supplier Satisfaction** using the independent Advantage Report Mirror to survey a proportion of our supplier base each year. In recognition of some challenging feedback we have received in recent years, and to ensure we continually improve how we work with suppliers, we have invested in a full-time Supplier Engagement Manager.
- As a result of site visit limitations during Covid-19, both in the UK in Foods and globally in C&H, our **Worker Voice Programme** was expanded, allowing us to hear directly from factory workers in our supply chain on their experiences.
- We have continued working with our suppliers on **Preventing Modern Slavery**, welcoming the Independent Anti-Slavery Commissioner's maturity framework, against which we have assessed ourselves predominantly as "Evolving Good Practice", with some activity "Leading on Human Rights Innovation". Further details are available online in our 2021 Modern Slavery Statement

Governance considerations

- Board and Audit Committee oversight of risks relating to the rapid growth of online sales during lockdown, emphasising the importance of supply chain preparedness
- Audit Committee review of compliance with the Groceries Supply Code of Practice, ensuring suppliers are treated respectfully and fairly, and any concerns raised are considered and addressed



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 critically 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.

Engagement approach

- This year, we invited Oxfam, as a critical friend, to carry out a **Gap Analysis** across our supply chains in India and the UK and provide us with honest insights about the experiences of those who work for, or with, us. To benefit others in our sector and help us shape clear priorities for action in 2021, we shared the report and our response in full on our corporate website (Working in Marks and Spencer's Food and Footwear Supply Chains).
- When we engaged with franchise partners on ways we could support their operations in lockdown, they told us that NHS Trusts were looking to them to stock more basic groceries in their **Hospital Stores**. We expanded our range as a result, to help our partners serve NHS staff working incredibly long hours

Governance considerations

- ExCo review of our various international franchise partnerships, ensuring that they are equipped to handle the increase in tariffs and administrative burden caused by Brexit.
- Consideration and approval of Ocado Retail's strategic five year plan, ensuring the enduring success of our partnership.

SECTION 172(1) STATEMENT

“NEVER THE SAME AGAIN” CONSIDERATIONS

During the year, as the Board made decisions implementing our strategy and Never the Same Again (NTSA) 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 had to assess these conflicts and attempt to balance them in their decision-making.

Here, we provide an overview of how decisions taken in furtherance of each of our NTSA priorities were influenced by, and impacted, our six stakeholder groups. Further analysis of stakeholder considerations in some of the Board's key decisions made during the year can also be found on pages 68 to 69.

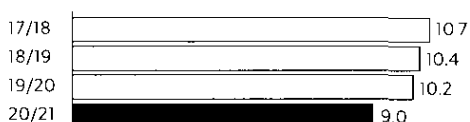
1	2	3	4	5
Faster Food growth with Ocado Retail	Capture value in the Food supply chain	Simplify range and value in C&H	Turbocharge growth at M&S.com	Store estate for the new world
<p>Key influences</p> <ul style="list-style-type: none"> Customers, and their increasing demand for online delivery services, particularly during lockdowns The potential for significant volume growth for existing suppliers, and introduction of new brand suppliers to the M&S Food offer. Improving M&S' share of Ocado Retail's returns, to ultimately contribute to shareholder value <p>Impacts</p> <ul style="list-style-type: none"> Valuable job opportunities have been provided in communities, by opening new customer fulfilment centres ("CFCs") While CFC capacity struggled to meet customer demand at the start of the Covid-19 pandemic, Ocado Retail's improving operations mean that it is now sustainably performing at capacity. The opening of a new CFC in Bristol and openings in the forthcoming year will continue to grow rapidly customer access to M&S Food 	<p>Key influences</p> <ul style="list-style-type: none"> Shareholders, and the efficient use of their investment to maximise returns through our Food business Customer demand for good availability of products at great prices The environment, and the need to reduce our waste levels and ensure that we can minimise our use of resources <p>Impacts</p> <ul style="list-style-type: none"> The continued roll-out of the Vangarde supply chain programme has improved availability in participating M&S Food stores, contributing to improving colleague and customer feedback Supply chain optimisation has been an enabling factor in our continued investment in Remarkable Value, meaning that customer value perception is improved 	<p>Key influences</p> <ul style="list-style-type: none"> Supplier relationships, and balancing the need to support smaller suppliers against the need to have fewer, strategic suppliers for a more simplified range Customer perceptions of our existing range, and their shifting demand throughout the year towards more lounge and athleisure wear. The potential impact on colleagues of simplifying the range and, as a result, streamlining operations <p>Impacts</p> <ul style="list-style-type: none"> Operational efficiency with our suppliers has improved, as we are now buying fewer product lines in greater depth This more economic buying has improved the use of shareholder investment However, restructuring our C&H operations to be fit for future streamlined activities has unfortunately resulted in colleague redundancies in support centres. 	<p>Key influences</p> <ul style="list-style-type: none"> The need to maximise shareholder return, and the opportunities for doing so presented by the shift in customer behaviours towards shopping online. Colleagues at distribution centres, and the pressures they have been experiencing while operating at maximum capacity to fulfil online orders The ongoing impact on the environment and customer perceptions of an inefficient distribution network, where orders are fulfilled and delivered from various locations. <p>Impacts</p> <ul style="list-style-type: none"> The creation of our MS2 division is improving the customer experience of M&S.com – with website and mobile app developments, and by using Sparks to have more personalised relationships with customers New partnerships have been formed by introducing third-party brands on M&S.com, adding to our style credentials with customers 	<p>Key influences</p> <ul style="list-style-type: none"> Various customer perceptions, for some, we have a declining store estate which generates a negative shopping experience. For others, they expect an M&S presence in the local community to be maintained, regardless of store condition. Colleagues and the importance of their job security in the event of any store closures. Removing the burden of long-term store leases on our balance sheet, to unlock shareholder value <p>Impacts</p> <ul style="list-style-type: none"> Customer perceptions and store performance will improve as our ageing, high-street stores are relocated to new premises that provide a better customer experience. While closing stores has inevitably led to some job losses, much of our store rotation is being achieved with relocations, where the vast majority of colleagues from closing stores are redeployed

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

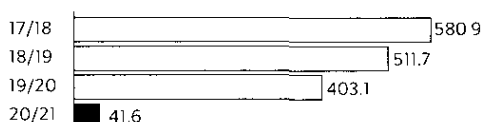
£9.0bn -11.8%



Group revenue before adjusting items on a 52-week basis decreased 11.8%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5%, and International revenue down 17.5%.

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

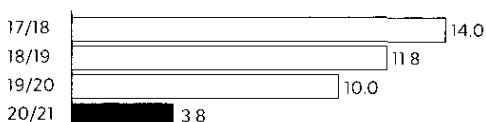
£41.6m -89.7%



The Group delivered profit before tax and adjusting items of £41.6m in a year characterised by unprecedented lockdowns, resilient performance and disciplined management of costs

RETURN ON CAPITAL EMPLOYED (ROCE)

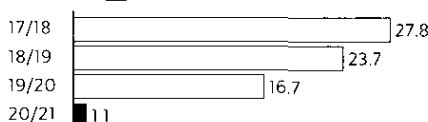
3.8%



The decrease in ROCE largely reflects the decrease in earnings before interest, tax and adjusting items.

ADJUSTED EARNINGS PER SHARE (EPS)

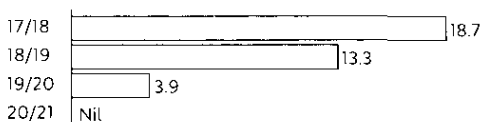
1.1p -93.4%



Adjusted basic earnings per share was 1.1p (last year earnings of 16.7p) due to lower adjusted profit year on year

DIVIDEND PER SHARE

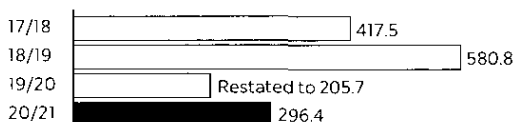
Nil



We did not pay a dividend in 2020/21. As we recover balance sheet metrics consistent with investment grade, we will assess the reintroduction of dividend payments, although as we focus on restoring profitability this is unlikely in the current year.

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

£296.4m



The business generated free cash flow of £296.4m, largely driven by working capital inflow, reduced capital expenditure and lower tax payments, which more than offset the lower adjusted operating profit

Alternative performance measures as outlined on the inside cover.

These figures are reported on a 52-week basis.

These figures are reported on a 53-week basis.

STRATEGIC REPORT

FINANCIAL REVIEW

Eoin Tonge,
Chief Financial
Officer

FINANCIAL SUMMARY

	53 weeks ending 3 April 21 £m	52 weeks ending		Change % (52 week)
		27 March 21 £m	28 March 20 £m	
Group revenue before adjusting items	9,166.9	8,972.7	10,181.9	-11.9
UK Food	6,138.5	5,994.8	6,028.2	-0.6
UK Clothing & Home	2,239.0	2,198.6	3,209.1	-31.5
International	789.4	779.3	944.6	-17.5
Group operating profit before adjusting items	222.2	209.7	590.7	-64.5
UK Food	228.6	213.6	236.7	-9.8
UK Clothing & Home	(130.8)	(129.4)	223.9	-157.8
International	44.1	45.1	110.7	-59.3
M&S Bank and Services	1.9	2.0	16.8	-88.1
Share of result in associates and joint ventures	78.4	78.4	2.6	2,915.4
Interest payable on lease liabilities	(124.9)	(122.5)	(133.4)	8.2
Net financial interest	(47.0)	(45.6)	(54.2)	15.9
Profit before tax & adjusting items	50.3	41.6	403.1	-89.7
Adjusting items	(259.7)	(242.8)	(335.9)	27.7
(Loss)/profit before tax	(209.4)	(201.2)	67.2	-399.4
(Loss)/profit after tax	(201.2)	(194.4)	27.4	-
Basic (loss)/earnings per share	(10.1)p	(9.8)p	1.3p	-
Adjusted basic earnings per share	1.4p	1.1p	16.7p	-
Dividend per share	-	-	3.9p	-100
Net debt¹	£3.52bn	n/a	£3.95bn	-10.9

¹ Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, the comparative amounts for net debt and free cashflow have been restated.

Notes:

This year, we are reporting on the 53 weeks to 3 April 2021. Profit metrics are provided on a 53-week basis in the Financial Statements. To provide a meaningful comparison with last year's 52-week period, all performance commentary in this section is stated on an unaudited 52-week basis, and all cash and net debt commentary is on a 53-week basis, unless otherwise noted.

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 on page 191. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

GROUP RESULTS

Group revenue before adjusting items was £9,166.9m on a 53-week basis. On a 52-week basis, it decreased 11.9%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5% and International revenue down 17.5%. The Group generated an adjusted profit before tax of £50.3m and a statutory loss before tax of £(209.4)m on a 53-week basis (or £41.6m and £(201.2)m respectively on a 52-week basis).

Statutory loss before tax includes total charges for adjusting items of £259.7m on a 53-week basis, including charges of £133.7m related to organisational change, £95.3m in relation to store closures identified as part of transformation plans, £79.9m for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid inventory provision made in the prior year. 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 revenue decreased 0.6%. Like for like (LFL) revenue grew in the first three quarters but declined in the fourth quarter as the UK-wide lockdown forced the hospitality business and parts of our franchise business to close again. M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

Excluding franchise and hospitality, core M&S Food categories performed strongly, particularly over key events, with LFL revenue growth of 6.9% for the year.

% change to LY	Q1	Q2	Q3	Q4	FY
Food	-2.1	1.6	2.2	-4.4	-0.6
Food LFL	2.0	3.4	2.6	-2.7	1.3
Food LFL ex franchise and hospitality	7.7	8.6	8.4	2.8	6.9

Operating profit before adjusting items decreased 9.8%, largely due to an adverse mix impact on gross margin, which was only partially offset by reduced costs which benefitted from government support.

52 weeks ended	27 March 21 £m	28 Mar 20 £m	Change %
Revenue	5,994.8	6,028.2	-0.6
Operating profit before adjusting items	213.6	236.7	-9.8
Operating margin	3.6%	3.9%	-35bps

The table below sets out the drivers of the movement in operating profit before adjusting items. To improve understanding we provide additional information on Covid-related impacts with adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 2019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£41.9m), were also incurred in 2019/20 and so are not visible. The full costs and government support for furlough income and business rates are detailed in a separate section.

Operating profit before adjusting items	£m	Operating profit before adjusting items	£m
2019/20	236.7	2019/20	236.7
Gross profit	(60.7)	Lost gross profit from hospitality/franchise	(154.0)
Store staffing	30.8	Gross profit growth from core categories	93.3
Other store costs	56.3	Direct Covid costs	(69.0)
Distribution and warehousing	(46.8)	Government support	101.0
Central costs	(2.7)	Other cost savings	5.6
2020/21	213.6	2020/21	213.6

- Gross profit decreased £60.7m or c.84bps primarily as a result of hospitality closures and lower convenience sales, partly offset by strong growth in core categories and cost saving programmes, including initial synergies of £21.4m from Ocado supply.
- Store staffing costs declined £30.8m, primarily driven by £45.5m of efficiencies enabled by technology improvements in store. We incurred Direct Covid costs within store staffing relating to incentives for retail colleagues of £20.8m and door host costs of £33.7m. Store staffing costs include government furlough support of £28.8m.
- The movement in other store costs largely relates to government business rates relief of £70.8m, partly offset by additional Covid-related cleaning and hygiene costs.
- Distribution and warehousing reflects the increased costs as a result of online orders, as well as Brexit-related costs of £9.0m and Covid-related hygiene and social distancing measures. The Food business incurred total costs relating to Brexit of £9.9m in the year; a detailed breakdown is given in the Brexit section below.

FINANCIAL REVIEW CONTINUED

OCADO RETAIL LIMITED

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 31 May 2020, 30 August 2020, 29 November 2020 and 28 February 2021.

Group share of consolidated results of Ocado Retail Ltd

£m	52 weeks ended 28 Feb 2021
Revenue	2,353.2
EBITDA before exceptional items	189.9
Exceptional items	50.5
Operating profit	204.2
Profit after tax	156.8
M&S 50% share of profit after tax	78.4

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. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2020. A prior year comparative is not provided here as the investment in Ocado Retail Ltd was made part-way through 2019/20.

Revenue grew 43.7% on an annual basis due to strong demand for online grocery, higher than normal basket size and a smoothed trading profile across the week. Following switchover on 1 September, M&S products have accounted for over 25% of the average Ocado basket.

Ocado Retail EBITDA before exceptional items was £189.9m, driven by the strong revenue growth and cost performance reflecting a period of sustained high demand. Units per hour throughput increased in customer fulfilment centres, with operational improvements across the network. Trunking and delivery costs reduced as a percentage of sales due to fewer deliveries per van, as a result of a higher number of items per basket.

In addition, Ocado Retail has recognised £50.5m of exceptional income before tax, largely related to insurance receipts for business interruption for the period up to 28 February 2021 arising from the Andover fire in 2019.

As a result of strong EBITDA growth and insurance receipts, Group share of Ocado Retail profit after tax was £78.4m. After a charge of £14.2m in adjusting items relating to the amortisation of the intangible asset created by the investment, Ocado Retail contributed £64.2m to Group profit after tax.

UK: CLOTHING & HOME

Clothing & Home revenue decreased 31.5% as a result of the impact on store sales of lockdowns and restrictions throughout the year. Performance improved following store reopening in quarter two and either side of the national lockdown in quarter three, and the online business built momentum through the year.

% change	Q1	Q2	Q3	Q4	FY
Clothing & Home	-61.5	-21.3	-25.1	-18.7	-31.5
Clothing & Home stores	-83.8	-39.5	-46.5	-60.6	-56.2
Clothing & Home online	21.5	46.4	47.5	105.8	53.9
Clothing & Home LFL	-59.3	-21.2	-24.1	-15.5	-29.8

To enable greater insight into these movements, we are providing further detail on the performance of each channel.

Online

52 weeks ended	27 Mar 21	28 Mar 20	% change
Traffic (m)	417.5	308.8	35.2
Active customers (m)	9.0	5.9	52.5
Conversion (%)	7.2	6.3	0.9 pts
Average order value (£)	49.7	51.5	-3.5
Returns rate (%)	18.8	28.0	-9.2 pts
Revenue £m	1,109.7	721.3	53.9

UK Clothing & Home online revenue increased 53.9%. Following initial disruption in April, online sales remained strong and built momentum, with quarter four revenue up 105.8%. Online customer traffic increased 35.2% driven by both direct and paid search helping to drive 52.5% growth in active customers to 9.0m. Growth was led by mobile, with over 3.5m downloads of the M&S app driven by the relaunch of Sparks. This led to increased app usage, with 2.3m monthly active users (2019/20: 1.2m), which also helped to drive better conversion. In addition, there was a benefit from a c.0.9 percentage point reduction in returns rates compared with last year due to changes in customer behaviour and product mix during lockdown. This offset headwinds from lower in-store orders, which are attributed to the online channel, as well as a small decline in average order value as customers' purchases focused on core product.

Stores

52 weeks ended	27 Mar 21	28 Mar 20	% change
Footfall, m (average/week)	1.9	5.9	-67.8
Transactions, m (average/week)	1.0	2.1	-52.4
Basket value (£)	30.6	32.3	-5.3
Revenue £m	1,088.9m	2,487.8m	-56.2

UK Clothing & Home store revenue decreased 56.2%: the impact of national lockdowns, local restrictions and the shape of the store estate adversely impacted the business with footfall down 67.8% and overall transactions down 52.4%. Basket value fell 5.3% in stores in line with online as customers' purchases focused on core product.

Total Clothing & Home

The Clothing & Home business in total generated an underlying operating loss before adjusting items for the year of £129.4m compared with a profit of £223.9m in the prior year. While online growth resulted in a substantial improvement in online operating profit, this was more than offset by the decline in stores, with lower costs insufficient to offset reduced overall sales.

52 weeks ended	27 Mar 21 £m	28 Mar 20 £m	Change %
Revenue	2,198.6	3,209.1	-31.5
Operating (loss)/profit before adjusting items	(129.4)	223.9	-157.8
Operating margin	-5.9%	7.0%	-12.9pts

The table below sets out the drivers of the movement in Clothing & Home operating (loss)/profit before adjusting items. To improve understanding, we provide additional information on Covid-19-related impacts within adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 2019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£129.1m), were also incurred in 2019/20 and so are not visible. The full costs and details of government support for furlough income and business rates are detailed in a separate section.

Operating profit/(loss) before adjusting items	Total C&H £m	Operating profit/(loss) before adjusting items	Total C&H £m
2019/20	223.9	2019/20	223.9
Gross profit	(611.7)	Lost gross profit from stores	(841.2)
Store staffing	147.6	Gross profit growth from online	229.5
Other store costs	109.3	Direct Covid costs	(18.7)
Distribution and warehousing	(43.2)	Government support	196.4
Central costs	44.7	Other cost savings	80.7
2020/21	(129.4)	2020/21	(129.4)

- Gross profit decreased £611.7m or (218)bps. Adverse currency movements and under-recovery of fixed logistics costs within margin impacted by (78)bps. Discounting increased (140)bps driven by an increased mix of clearance sales made at a higher depth of cut than last year.
- Store staffing costs declined £147.6m, mostly as a result of £42.6m of efficiencies enabled by technology improvements in store. Store staffing costs include government furlough support of £88.6m.
- The movement in other store costs largely relates to business rates relief of £101.4m.
- Distribution and warehousing reflects the higher costs to serve online demand, both from the Castle Donington warehouse and shipments from store partially offset by volume savings from reduced deliveries to store. The overall increase in distribution and warehousing costs was offset by delivery income within revenue.
- The decline in central costs was largely driven by lower marketing activity, lower headcount and a reduction in depreciation of technology assets as we move to cloud-based solutions and assets reach the end of their useful lives.

Clothing & Home online generated an operating profit margin of c.14%, with higher volumes leading to increased leverage of the online fixed cost base. Profitability also benefitted from a reduced returns rate, although this was partially offset by the adverse impact of lower in-store orders. Conversely, the operating loss in stores represented a margin on sales of c.(26)%.

INTERNATIONAL

International revenue decreased 17.3% at constant currency ("CC") as stores were adversely impacted by rolling Covid lockdowns and restrictions. Online sales remained strong throughout, particularly in markets in which the Group has a store presence and through partner websites, with sales growth of 114.3% to £165.7m.

	% change to 2019/20	Q1 CC	Q2 CC	Q3 CC	Q4 CC	FYCC	Reported
Total revenue		-40.7	-9.2	-10.4	-10.2	-17.3	-17.5
52 weeks ended							
Revenue		27 Mar 21 £m	28 Mar 20 £m		Change %		Change CC %
Clothing & Home		483.2	620.7		-22.1		-21.6
Food		296.1	323.9		-8.6		-9.4
Total		779.3	944.6		-17.5		-17.3
Memo:							
Online revenue		165.7	77.2		114.6		114.3

FINANCIAL REVIEW CONTINUED

The decline in Clothing & Home sales was driven by lower store sales in the Republic of Ireland and India, and lower franchise shipments, particularly to Asia, partly offset by online growth. Food sales were more resilient, particularly in the Middle East and Asia, as Covid disruption shifted habits to favour eating in. This helped offset the steep decline in travel franchise sales in Europe and Brexit related disruption in quarter four.

Operating profit before adjusting items was down 59.3% driven by the lower Clothing & Home sales and incremental costs relating to Brexit. A detailed breakdown of this is given in the Brexit section below.

Operating profit before adjusting items	£m	Operating profit before adjusting items	£m
2019/20	110.7	2019/20	110.7
Gross profit	(87.9)	Lost gross profit from stores	(131.3)
Store staffing	14.0	Gross profit growth from online	43.4
Other store costs	16.4	Online growth costs	(23.6)
Distribution and warehousing	(11.7)	Government support	13.1
Central costs	3.6	Other cost savings	32.8
2020/21	45.1	2020/21	45.1

Gross profit decreased £87.9m as lower store sales were only partially mitigated by strong online growth. Store staffing and other store costs declined. The costs of £10.8m relating to salary costs of colleagues on furlough were partially offset by government furlough support of £6.3m and reduced overtime hours, while the group benefited from a further £6.8m of government support for rent and rates across owned markets, and £7.1m of rent relief. The increase in distribution costs largely relates to the growth of online sales and costs incurred as a result of Brexit of £6.2m which was only partly offset by lower distribution costs on shipments to stores. Central cost reductions were enabled by the shift to digital events from buying fairs and reduced travel.

M&S BANK & SERVICES

M&S Bank & Services income before adjusting items was down £14.8m to £2.0m. This was the result of a significant decrease in income from credit card and travel money sales. M&S Bank and services income after adjusting items relating to PPI decreased £4.6m to £(0.4)m.

COVID COSTS

In the following table we set out identifiable costs with adjusted profit related to Covid. We incurred a number of direct Covid costs such as door hosts and hygiene of £63.2m, incentives for working through the pandemic for non-furloughed colleagues of £28.5m and there was a slight reduction in colleague holiday hours of £3.9m.

In addition business rates relief of £174.6m partly compensated for the substantial loss of trade from closed space in Clothing & Home and hospitality areas and franchise stores in Food.

Finally, identifiable costs include government grants for furlough income of £131.5m, which were more than offset by the salary costs incurred for furloughed colleagues of £181.8m.

Costs relating to Covid within adjusted loss before tax in 2020/21	Group £m	C&H £m	Food £m	International £m
Operational costs related to Covid	(63.2)	(13.8)	(49.4)	-
Incentive for non-furloughed colleagues	(28.5)	(6.4)	(22.0)	(0.1)
Estimated lower colleague holiday hours	3.9	1.5	2.4	-
Direct Covid costs	(87.8)	(18.7)	(69.0)	(0.1)
Government business rates relief for lost trade	174.6	101.4	70.8	2.4
Government grants – furlough income	131.5	95.0	30.2	6.3
Government support	306.1	196.4	101.0	8.7
Year-on-year Covid impacts within segmental profit bridges	218.3	177.7	32.0	8.6
Salary costs for furloughed colleagues	(181.8)	(129.1)	(41.9)	(10.8)
Total cost impact in adjusted profit	36.5	48.6	(9.9)	(2.2)

BREXIT

The following estimated cost impacts were incurred by the Group in 2020/21 as a result of Brexit.

2020/21	UK Food	International	Total
Administrative operating costs	9.9	4.1	14.0
Tariffs	–	2.1	2.1
Net costs	9.9	6.2	16.1

Administrative costs include additional supply chain costs at the Motherwell and Faversham depots as well as costs of a digital track and trace platform, additional variable cost per tray, veterinary certification costs and the one-off costs of change. Tariffs relate to duty on exports of Clothing & Home and elements of the Food catalogue into the EU.

In addition, the Group saw adverse trade impacts including the restriction of trade on certain products, port delays and increased operational complexity reducing availability.

NET FINANCE COST

	52 weeks ended		
	27 Mar 21 £m	28 Mar 20 £m	Change £m
Interest payable	(89.9)	(80.5)	(9.4)
Interest income	4.7	14.5	(9.8)
Net interest payable	(85.2)	(66.0)	(19.2)
Pension net finance income	47.2	23.6	23.6
Unwind of discount on Scottish Limited Partnership liability	(4.9)	(6.9)	2.0
Unwind of discount on provisions	(2.7)	(4.9)	2.2
Net financial interest	(45.6)	(54.2)	8.6
Net interest payable on lease liabilities	(122.5)	(133.4)	10.9
Net finance costs	(168.1)	(187.6)	19.5

Net finance costs decreased £19.5m to £168.1m. This was primarily due to higher pension income due to the increased IAS19 pension surplus at last year end. In addition, there was a decrease in the interest payable on lease liabilities offset by lower interest received on deposits and higher interest payable on debt due to a credit rating downgrade and the premium paid as part of the buyback of bonds.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group profit before tax and adjusting items was £50.3m on a 53-week basis, down £352.8m on last year. The profit decrease was driven by the decline in Clothing & Home and International operating profits.

GROUP LOSS BEFORE TAX

Group loss before tax was £209.4m on a 53-week basis, down £276.6m on last year. This includes adjusting items of £259.7m on a 53 week basis (last year £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 3 to the financial statements.

	53 weeks ended 27 Mar 21 £m	52 weeks ended 28 Mar 20 £m	Change £m
Strategic programmes – Organisation	(133.7)	(13.8)	(119.9)
Strategic programmes – UK store estate	(95.3)	(29.3)	(66.0)
Strategic programmes – Other	(5.8)	(27.3)	21.5
Directly attributable to Covid	90.8	(163.6)	254.4
Intangible asset impairments	(79.9)	(13.4)	(66.5)
Sparks loyalty programme transition	(16.6)	–	(16.6)
Amortisation and fair value adjustments arising from the investment in Ocado Retail Limited	(14.2)	(16.8)	2.6
Remeasurement of contingent consideration including discount unwind on Ocado Retail investment	(6.8)	(2.9)	(3.9)
Establishing the investment in Ocado Retail Limited	(1.7)	(1.2)	(0.5)
Store impairments and other property charges	6.9	(78.5)	85.4
M&S Bank charges incurred in relation to insurance mis-selling and Covid forward economic guidance provision	(2.4)	(12.6)	10.2
Other	(1.0)	23.5	(24.5)
Adjusting items	(259.7)	(335.9)	76.2

FINANCIAL REVIEW CONTINUED

On a 53-week basis, adjusting items charges were £259.7m, with £16.9m incurred in week 53, largely related to restructuring costs.

A charge of £133.7m has been incurred in relation to organisational change. This included the integration of more flexible management structures into store operations, as well as the streamlining of store and management levels as part of the Never the Same Again programme. This resulted in a reduction of c.8,200 roles across support centres, regional management, and UK stores, with associated redundancy costs of £99.7m. We expect this restructuring to generate annualised cost savings of at least £115m.

A charge of £95.3m has been recognised in relation to store closures identified as part of transformation plans reflecting an updated view of latest closure costs as a result of an increase in the number of stores in the programme. Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated as the programme progresses with total future charges of up to c.£268m estimated over the next 10 years, bringing anticipated total programme costs since 2016 to be up to c.£926m.

A gain of £90.8m has been recognised as being directly attributable to the Covid pandemic relating to the release of a portion of the inventory provision made in the prior year compared to initial estimates offset by further costs relating to cancellations and storage. The sell-through of Clothing & Home stock has been much stronger than anticipated.

A charge of £79.9m has been recognised in relation to impairment of intangible assets, comprising £39.6m for the impairment of Per Una goodwill, and the balance for replaced, retired or decommissioned computer software assets.

Charges of £16.6m have been incurred in relation to the one-off transition costs associated with the closure of the old Sparks loyalty scheme following the launch of the new programme in July 2020.

A charge of £14.2m has been recognised relating to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail.

A gain of £6.9m was recognised relating to the reversal of previously recognised store impairments offset by newly impaired stores. The Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme) for the current view of pressures impacting the retail industry, which is less negative overall than previously projected.

Charges of £2.4m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The Group's share of the total insurance mis-selling and forward economic guidance (FEG) provisions of £338.3m exceeds the total offset against profit share of £225.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

TAXATION

The effective tax rate on profit before adjusting items was 56.5% (50.3% on a 53 week basis; 2019/20: 20.7%). The effective tax rate on statutory loss before tax was a credit of 3.4% (credit of 3.9% on a 53 week basis; 2019/20: charge of 59.3%) due to the Group statutory loss offset by the impact of disallowable adjusting items. Given the lower level of profits, the effect of the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure has increased compared with previous years. Next year, we anticipate an effective tax rate on profit before adjusting items of c.26% partly due to the continuation of the recapture of previous tax relief.

LOSS/EARNINGS PER SHARE

Basic loss per share was 9.8p (last year earnings of 1.3p), due to the decrease in profit year on year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,953.5m (2019/20: 1,894.9m). Basic loss per share on a 53-week basis was 10.1p.

Adjusted basic earnings per share was 1.1p (last year earnings of 16.7p) due to lower adjusted profit year on year. Adjusted basic earnings per share on a 53-week basis was 1.4p.

CAPITAL EXPENDITURE

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change £m
UK store remodelling	27.0	60.3	(33.3)
New UK stores	14.9	33.3	(18.4)
International	6.7	15.7	(9.0)
Supply chain	25.2	39.2	(14.0)
IT & M&S.com	47.6	81.1	(33.5)
Property asset replacement	19.2	102.4	(83.2)
Acquisition of Jaeger brand	6.3	–	6.3
Capital expenditure before property acquisitions and disposals	146.9	332.0	(185.1)
Property acquisitions and disposals	(0.3)	(2.7)	2.4
Capital expenditure	146.6	329.3	(182.7)

Group capital expenditure before disposals decreased £182.7m to £146.6m as a result of careful management of discretionary spending as a result of the pandemic.

UK store remodelling costs related to Food renewal stores and the repurposing of space from Clothing & Home and cafes to Food. Spend on New UK stores related to seven Simply Foods and three full-line store openings in the year.

Supply chain expenditure reflects investment in Food equipment and fleet to support anticipated volume growth, investment in a second Food ambient national distribution centre in Milton Keynes and spend on improvements to Castle Donington capabilities and our Bradford warehouse to support online expansion.

IT & M&S.com spend includes costs related to the licence for the Food ordering and allocation system and investment in digital capability for example, to support integration of more flexible management structures into store operations.

Property asset replacement decreased £83.2m due to the prior year asset replacement programme in stores, although this will normalise towards pre-pandemic levels going forwards.

CASH FLOW

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 restated £m	Change £m
Adjusted operating profit	222.2	590.7	(368.5)
Depreciation and amortisation before adjusting items	603.1	632.5	(29.4)
Cash lease payments	(316.6)	(335.7)	19.1
Working capital	268.1	(67.8)	335.9
Defined benefit scheme pension funding	(37.1)	(37.9)	0.8
Capex and disposals	(203.8)	(325.9)	122.1
Financial interest and taxation	(81.8)	(171.1)	89.3
Investment in associate Ocado Retail Limited	11.2	(577.8)	589.0
Investment in joint venture	(2.5)	(2.5)	–
Employee related share transactions	18.5	9.7	8.8
Proceeds from rights issue net of costs	–	574.4	(574.4)
Share of profit from associate	(78.4)	(2.6)	(75.8)
Cash received from settlement of derivatives	14.0	7.7	6.3
Adjusting items outflow	(120.5)	(88.0)	(32.5)
Free cash flow	296.4	205.7	90.7
Dividends paid	–	(191.1)	191.1
Free cash flow after shareholder returns	296.4	14.6	281.8
Opening net debt excluding lease liabilities	(1,388.6)	(1,404.7)	16.1
Free cash flow after shareholder returns	296.4	14.6	281.8
Exchange and other non-cash movements excluding leases	(17.8)	1.5	(19.3)
Closing net debt excluding lease liabilities	(1,110.0)	(1,388.6)	278.6
Opening net debt	(3,950.6)	(3,981.5)	30.9
Free cash flow after shareholder returns	296.4	14.6	281.8
Decrease in lease obligations	184.3	201.4	(17.1)
New lease commitments and remeasurements	(48.3)	(204.1)	155.8
Exchange and other non-cash movements	2.3	19.0	(16.7)
Closing net debt	(3,515.9)	(3,950.6)	434.7

2019/20 net debt and free cash flow figures have been restated. Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

The business generated free cash flow of £296.4m, largely driven by working capital inflow, reduced capital expenditure and lower tax payments, which more than offset the lower adjusted operating profit.

The working capital inflow since year end 2019/20 was driven by higher payables in Clothing & Home and Food (c.£125m) largely due to the extension of payment terms for C&H suppliers and the timing of payments. Lower stock was a result of strong Easter trading and the higher stock at prior year end resulting from lockdown. Franchise receivables reduced due to travel store closures.

Lower capital expenditure largely reflects the reduction of discretionary spending as a result of the pandemic. Cash capital expenditure includes £17.2m relating to prior year capital accruals.

The decrease in financial interest and tax payments to £81.8m is due to the reduction in UK corporation tax paid reflecting the full year taxable loss position.

Defined benefit scheme pension funding of £37.1m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items cash outflow was £120.5m. This included £92.1m relating to the costs of organisational change, £10.9m in relation to the store closure programme, £6.2m paid for deep storage and fabric during the Covid pandemic, £5.6m in relation to the transition to the new Sparks loyalty programme, £2.4m for M&S Bank, and £1.7m relating to costs associated with the launch of M&S product on the Ocado Retail platform.

FINANCIAL REVIEW CONTINUED

NET DEBT

Net debt excluding lease liabilities decreased £278.6m from the start of the year.

There was a further reduction in the value of discounted lease obligations outstanding. New lease commitments and remeasurements in the period largely relating to 11 properties were £48.3m of which 10 opened in the year. This was more than offset by £184.3m of lease repayments.

The composition of Group net debt is as follows:

	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 restated £m	vs £m
Cash and cash equivalents	674.4	254.2	420.2
Medium Term Notes	(1,682.1)	(1,536.2)	(145.9)
Current financial assets and other	83.2	96.1	(12.9)
Partnership liability	(185.5)	(202.7)	17.2
Net debt excluding lease liabilities	(1,110.0)	(1,388.6)	278.6
Lease liabilities	(2,405.9)	(2,562.0)	156.1
– Full-line stores	(982.6)	(1,054.8)	72.2
– Simply Food stores	(727.0)	(747.7)	20.7
– Offices, warehouses and other	(494.5)	(523.7)	29.2
– International	(201.8)	(235.8)	34.0
Group net debt	(3,515.9)	(3,950.6)	434.7

2019/20 net debt and free cash flow figures have been restated. Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

Of the outstanding discounted lease commitment at period end, approximately 40% related to full-line stores and 30% to Simply Food stores, with 8% relating to International leases and the balance largely relating to warehousing and offices.

LIQUIDITY

At year end, the Group held cash balances of £674.4m (2019/20: £254.2m), with undrawn facilities of £1.1bn expiring April 2023. This strong liquidity position is as a result of free cashflow performance and a £300m bond issuance in November, which was used to partly refinance the bond maturity due in December 2021.

The refinancing of the Group's December 2021 maturity, along with the successful negotiations in March 2021 to extend the relaxation of covenant measures on the revolving credit facility up to and including March 2022 mean that the Group has liquidity headroom of over £1.5bn.

DIVIDEND

We did not pay a final dividend for 2019/20 and the Board has previously announced the decision not to pay a dividend for the 2020/21 financial year.

PENSION

At 3 April 2021, the IAS 19 net retirement benefit surplus was £631.4m (2019/20: £1,902.6m). The surplus at last year end had increased significantly due to unusually high credit spreads as a result of Covid. During the year, credit spreads have reverted to more normalised levels giving rise to the decrease in the surplus.

The Trustee of the UK Defined Benefit Scheme has commenced a triennial actuarial valuation of the Scheme at 31 March 2021 as required by statute. The assumptions to be used are agreed between the Trustee and the Company. The Scheme surplus on a statutory basis was £652m at the last actuarial valuation in 2018.

In September 2020, the Scheme purchased additional pensioner buy-in policies with insurers for approximately £750m. Together with the policies purchased in 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 £2,285.8m at the year end, a decrease of 38% since the start of the year largely due to the decrease in the net retirement benefit surplus and the Group loss for the year.

Eoin Tonge, Chief Financial Officer

RISK MANAGEMENT

The risks and uncertainties that we face as a business continue to evolve. We see risk management as an essential tool to support the successful delivery of our transformation and broader strategic priorities and allow us to respond effectively to the challenges facing our business, the retail sector and the communities we serve.

APPROACH TO RISK MANAGEMENT

Our approach to risk management is 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.

The risk management process mirrors the M&S operating model with each business and functional area being responsible for the ongoing communication and feedback of their existing and emerging risks. This process comprises the identification, assessment and effective mitigation of their risks, as well as continuous monitoring for changes to their risk profiles (see diagram below). This includes:

- Risks consistently **identified, measured and reported** against set criteria which considers both the likelihood of occurrence and potential impact to the Group, with **clear ownership**.
- Each business and functional area maintaining **detailed risk registers**

with mitigation plans which are approved by their respective leadership teams and discussed with appropriate **Executive Committee members**.

- **Direct reporting to the Audit Committee** of risk and mitigating activities by each of our business and functional leadership teams on an annual basis.
- A formal **half-yearly review** of all risk registers by the Group Risk team.
- Forming an overarching summary view of risks, combining both **top-down and bottom-up** perspectives, to provide a **consolidated view** of Group-level risks.
- **Swift and continuous action** to reassess risks across the business in response to significant **changes or events**.
- Proactive consideration of **emerging risks** where the full extent and implications may not be fully understood but need to be monitored nevertheless.

The overall assessment of our principal risks and uncertainties considers the impact of changes in the external environment, our strategy, our transformation programme, core operations and our engagement with external parties.

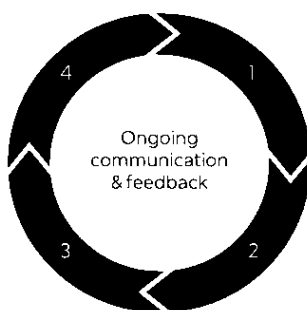
The output from the above process is subject to periodic review and challenge with the executive directors. Subsequently, the principal risks are submitted to the Audit Committee ahead of final review and approval by the Board.

Underpinning this process is the Group Risk Management Policy which continues to be reviewed to ensure that it remains appropriate for our business needs and governance responsibilities. An overview of the key features of the Policy and the principal risks and uncertainties are set out on the following pages.

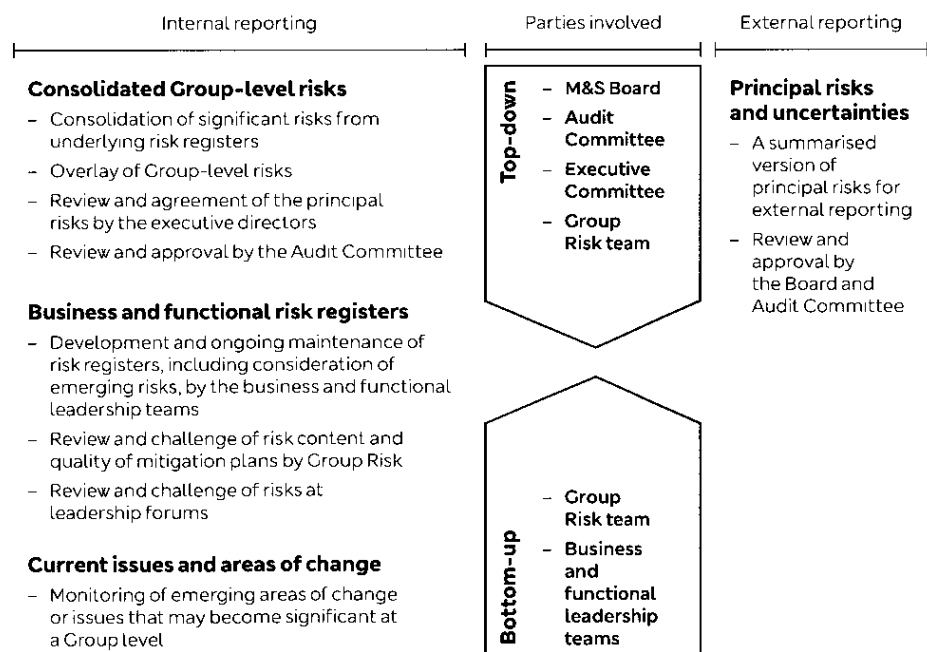
The directors' assessment of the long-term viability of M&S is also reviewed annually, mindful of the principal risks faced. The approach for assessing long-term viability can be found on page 57.

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 Risk identification & ownership**
- 2 Risk assessment**
- 3 Risk response**
- 4 Risk monitoring, reporting & escalation**



PRINCIPAL RISKS AND UNCERTAINTIES

The business has continued to follow our risk management disciplines and managed risks in line with good practice. Our established processes have operated to allow consideration of the principal risks and uncertainties to be undertaken in accordance with the methodology outlined on the previous page, and in line with our annual timetable. The impact of the pandemic during the year triggered the need to consider the specific consequences of the virus on the risks we manage, both at Group and at business and functional level. This activity has continued throughout the year.

Our disclosure therefore provides an overview of the key actions we have implemented and maintained as a result of the pandemic, including those that we will retain as a permanent feature of business activity. The longer-term consequences of the pandemic on our principal risks and the mitigations that feature alongside have been included within the narrative on pages 51 to 56. This should be read in conjunction with the narrative included in the business updates of the strategic report to provide an understanding of the risks and, in some instances, opportunities, facing M&S.

CHANGES TO OUR RISK PROFILE

We have made the following changes to our principal risks to emphasise areas where our focus has changed, and to those where we want to strengthen the articulation of our risks and reflect their connectivity:

We are including **social, ethical and environmental considerations** as a new area of focus. This reflects our awareness of the impact of our own, and associated third-party, activities across these areas of responsibility, and our commitments to act in a manner that meets with the expectations of our stakeholders.

Following the launch of M&S products online, our previously disclosed Food Online risk has changed direction. This has been replaced with a new risk that emphasises our focus on shaping our long-term investment in **Ocado Retail** to drive further synergies and growth, while continuing to maintain our supply obligations.

Our articulation of the following risks have evolved more materially:

- The focus of our **Brexit** risk has shifted from the uncertainty of the event itself, to understanding and responding to the specific unknowns that remain prominent, like the implications at the end of the EU-CB grace period on the flow of product into the UK, and the long-term status of the Northern Ireland Protocol on our operations and performance.

- Our strategic third party relationships play a significant role in supporting a wide range of business activities and risk mitigation, like supporting our source-to-shelf processes, our compliance obligations and in helping maintain key infrastructure. To reflect the extensive role of our third-party relationships, we have disaggregated our previously disclosed **Third Party Management** risk and incorporated key elements into other principal risks.

- Taking a similar approach, our **Brand, loyalty and customer experience** risk has also been fragmented. A key component of this risk was the state of our loyalty programme, which had previously not evolved in line with the market and expectations. Following the successful relaunch of our Sparks programme, this risk element has been removed, but we continue to recognise the strategic importance of our loyalty programme in supporting our trading performance. In addition, delivery of good customer experience underpins a number of our other risks and we believe that all of our risks may have an overarching, adverse impact on our brand and reputation should they materialise.

EMERGING RISKS

As well as understanding the spectrum of risks that we face today, awareness of emerging risks is important in driving effective strategic planning. This allows us to monitor and understand future impacts and build these into our decision-making processes. Key emerging risks that we are monitoring include:

- The impact of climate change on our operations, supply chain, regulatory environment and our ability to continue providing high quality products to our customers. Linked to this, our response to climate change risks arising

from our business operations are explained in our climate-related disclosure on pages 74 to 76.

- The impact of regulatory changes, such as the potential introduction of an attestation over internal controls, similar in nature to the US Sarbanes-Oxley ("SOX") legislation, in the UK and the replacement of the Financial Reporting Council with a new regulatory body, which could impact the strength and oversight received as well as increase the scrutiny on auditing and future reporting requirements.

WHAT WE HAVE LEARNT FROM THE PANDEMIC

The impacts of the Covid-19 pandemic as it evolved over the past year have influenced the profile of our principal risks and directed a stronger control environment, with improved flexibility, that allows key mitigating activities to be adapted in response to such events. We have taken the opportunity to strengthen the overall governance and effectiveness of our organisational activities by re-examining our disciplines and ways of working in key areas as a result of what we have learnt from the pandemic. Many of these activities now form a part of permanent business activity.

What we have done well

The business has demonstrated great resilience and capability in responding to one of the biggest crises experienced. Our ability to determine, plan and execute changes swiftly and effectively with streamlined processes, leaner teams and enhanced technology and digital enablement are some of our key success factors. These also underpin our Never the Same Again programme that has allowed us to bring forward our transformation and emerge as a more responsive, adaptable and faster-moving business. Key achievements include:

Maximising commercial opportunities by:

- Quickly responding to customers wanting greater flexibility, convenience, and safer shopping, by improving our website capabilities, our M&S app, expanding online fulfilment, click & collect and home delivery options. **1 9 10 12**

Refocusing our strategy to:

- Establish our integrated Clothing & Home online and data business division, MS2, to maximise online opportunity. **1**
- Use our stores as fulfilment centres for online orders, enabling better stock rotation and responsiveness to customer demand. **1**

Delivering key transformational projects, and driving other improvements, with more focus and agility through:

- The successful transition of M&S Food online with Ocado Retail. **4**

- The relaunch of Sparks as a Digital First loyalty programme, which continues to see high levels of membership uptake. **1 9**

- Focused effort in Clothing & Home to deliver a faster moving range, supported by shorter supply chain cycles that provide flexibility and speed in adapting to changes in customer demand. **1 2**

- Improved collaboration with our suppliers to reduce and/or postpone Clothing & Home orders, improving our liquidity and stock position. **2 7**

Improving our organisation and Ways of Working by:

- Using technology to enable a permanent shift towards flexible working that continues to allow the business to work remotely (locally and internationally) without the loss of business-critical systems. **9 10**
- Streamlining and strengthening leadership roles. **5**
- Restructuring our stores to focus on front-of-house service, with leaner multi-tasking teams, more flexible working, roll-out of market-leading store technology and an overall reduction in operating costs. **2 7 9**
- Adopting technology to support assurance activities, including third-party audits, and to access live data relating to compliance activities. **11 9 12**
- Collaborating with suppliers to use technology capabilities on product innovation, design and sampling. **9**

Strengthening our governance by:

- Operating a simplified delegation of authority that drives action-orientated decision-making by removing the need for excess hierarchy, which allowed us to execute changes promptly in order to optimise our pandemic response. **1 10**
- Applying a more consistent approach to return on investment and increased focus on overall cash management, including working capital. **2 7**

Leading the pandemic response by:

- Actively influencing government guidance in the retail sector for the safe operating of our stores and warehouses. **1 10 12**

Where we have more to do

While we have successfully navigated our business through the pandemic, we recognise that there are some areas where we need to go further to prioritise parts of our transformation and improve our disciplines, such as to:

- Accelerate our store estate transformation to meet with the needs of a modern trading environment. Executing this remains challenging due to parts of our property portfolio being considerably aged and the historic underspend in this area, which are exacerbated by the influence of the pandemic on the property market.
- Address our historically slow performance to drive improved availability and lower levels of waste, through an optimised supply chain. To address this, the business is focusing on delivering faster moving and innovative ranges at trusted value, which will allow for more efficient cost bases and improved range and volume planning.
- Being better prepared to address a similar crisis situation, like the pandemic, by ensuring that we communicate in an even more timely manner with our stores around centrally agreed response plans and activities to allow colleagues more time to prepare and execute changes effectively. This includes equipping colleagues with the required tools and guidance, as well as consistent messaging from across multiple central teams. In addition to this we need to establish stronger discipline in our stores and warehouses to follow guidance, such as around social distancing, to prevent breakouts and multiple self-isolations.

* Principal risks

- | | | |
|---------------------------------------|---|---|
| 1 Trading performance recovery | 5 Talent, culture and capability | 9 Technology and digital capability |
| 2 Business transformation | 6 Food safety and integrity | 10 Business continuity and resilience |
| 3 Brexit | 7 Liquidity and funding | 11 Information security |
| 4 Ocado Retail | 8 Social, ethical and environmental responsibility | 12 Corporate compliance and responsibility |

HOW OUR ASSURANCE PROCESS HAS EVOLVED AS A RESULT OF THE PANDEMIC

Our Never the Same Again programme has been used to implement learnings from Covid-19 as part of our permanent Ways of Working and to support key risk mitigations.

Throughout the pandemic we have maintained robust controls over our compliance responsibilities, such as for Food Safety, and Fire, Health & Safety (FHS), and recognised the importance of continued visibility of this. Responding to the lockdowns and government guidance on safety has allowed us to demonstrate how we can evolve our assurance activities to maintain adequate visibility of controls without significantly impacting the effectiveness of our control environment.

Associated principal risks

Food safety and integrity **16**
Corporate compliance and responsibility **12**
Technology and digital capabilities **11**

Assurance activities

We have refined some of our assurance programmes to allow for continuous desk-based auditing combined with appropriate in-person validations that replace entirely on-site inspections.

Centralised compliance platform and reporting tool to view FHS data in real time

Colleague in store confirming store opening checks through our app

Where we started	The challenge	Our response	Never the Same Again
<ul style="list-style-type: none"> Primarily site-based audit programmes across UK and international locations, including stores, warehouses and offices, as well as franchise-owned stores and supplier factories. FHS documentation largely stored locally, on paper (risk assessments, evidence of safety checks, etc) Manual submission of incident and accident data, used centrally to create management reporting. 	<ul style="list-style-type: none"> Government guidance and lockdown restrictions in the UK and internationally making travel and access to sites for FHS inspections unfeasible. Resource pressures impacting second line assurance teams as well as the experience in stores A substantial increase in external enforcement activity in the UK and internationally. 	<ul style="list-style-type: none"> We redesigned our processes by setting up remote audits, including live video streaming. Leading the Food industry response by setting up remote supplier factory audits internationally. Use of third-party assurance output to support gaps in visibility of supplier sites during remote audits (e.g. pest control reports) Introduced compliance self-assessments for sites, central storage of risk assessments, enabled live update of accident data and of store opening and closing checks to a central reporting system and an app Actively worked with our UK Primary Authority Partner to strengthen our Covid-19 risk assessments and agree our revised assurance methodology. 	<ul style="list-style-type: none"> Risk-based audit programme with targeted on-site inspections supported by remote assessments using real-time data and digitally stored FHS information Live data migrated to our Big Data platform and accessible through an app Driving greater accountability at sites for actively reporting and supporting remote audits. <p>Behavioural changes driven by the pandemic will keep safety at the forefront of our minds for many years</p>

PRINCIPAL RISKS AND UNCERTAINTIES

RISK

DESCRIPTION

MITIGATING ACTIVITIES

1



Trading performance recovery

Failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including recovery from the pandemic, would adversely impact customer experience, operational efficiency and business performance.

Context

- M&S competes with a diverse range of retailers in an increasingly challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and a broad range of macroeconomic uncertainties, all of which have been exacerbated by Covid-19.
- Responding with commercial agility as we emerge from the pandemic to deliver the right product ranges and style credentials from source to shelf, with clear pricing architecture and availability, has become more imperative. Our ability to predict and meet changing customer expectations and demand as conditions 'normalise' will impact our success in doing this.
- Underpinning our recovery is our programme of transformational improvements, delays to which could stem our recovery and negatively impact our performance.

Oversight by **Executive Committee**

Link to strategic priorities

1 2 3 5

- Strong senior leadership team capabilities in both Food and Clothing & Home through continued targeted recruitment.
- An established operating model consisting of a family of accountable businesses who share M&S brand values, support functions, technology and customer data.
- Managing Directors for each of these businesses with full accountability for their performance.
- Operating Reviews to enable executive oversight and effective governance of each business.
- Continued delivery and discipline around cost, range, value, prices and availability to broaden customer appeal.
- Expanded initiatives to make products available conveniently to customers through contactless home delivery and Scan & Shop

Key developments

- Our Never the Same Again programme clearly aligned with the strategy and objectives for each area of the business.
- Established an integrated online division, MS2, to turbocharge online growth for Clothing & Home, and introduced new brands.
- Relaunched "Remarksable" in Food to promote trusted value, and established our "Food Innovation Hub"
- Proactive management of excess stock resulting from the lockdowns.
- Expanded our International online business, with launch of new websites providing access to more markets.
- Evolved our Sparks programme to reach 10m users, with access to more customer data linked to driving commercial decisions and personalised relationships

RISK

DESCRIPTION

MITIGATING ACTIVITIES

2



Business transformation

A failure to execute our transformation and cultural change initiatives with pace, consistency and cross-business buy-in will impede our ability to improve operational efficiency, competitiveness, and to restore the business to sustainable profitable growth.

Context

Critical projects underpinning our transformation include:

- Continuing to evaluate our transformation programme in response to longer-term changes in customer behaviour, including those directed by the pandemic and Brexit
- Reshaping, modernising and delivering a UK store estate that is fit for the future, with the right stores in the right spaces, improved integration between online and store experience as well as creating shopping facilities that drive omni-channel growth and meet the expectations of our target customers
- Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs. Supported by investment in legacy systems
- Functionally led transformations relating to people, technology, and digital and data are key to supporting overall business change

Oversight by **Executive Committee, Strategy and Transformation Office**

Link to strategic priorities

1 2 3 4 5

- Continued focus on our Never the Same Again approach to prioritise transformation delivery, balanced with robust cash management disciplines
- Applying programme governance principles for all core projects with clear accountabilities and milestones in place.
- Maintained momentum to deliver supply chain capabilities and efficiencies across the Food and Clothing & Home businesses.

Key developments

- Set up of our Strategy and Transformation Office to drive Group-level focus, consistency and challenge.
- Key online growth initiatives executed and planned through Ocado Retail and MS2.
- Reshaping the store estate strategy to direct accelerated transformation, including prioritised site redevelopments, delivery of more new format stores and planned closures.
- Continued development of the Vangarde Supply Chain Programme in Food, which is delivering improved availability.

Risk movement

- ↔ No change
- ⬆ New risk



- ⬆ Increased net risk exposure
- ⬇ Reduced net risk exposure

Strategic priorities

- 1 A strong Food business positioned for growth
- 2 A successful transition to M&S product on Ocado Retail and growing capacity

- 3 An omni-channel Clothing & Home business driven by a re-shaped product engine
- 4 Accelerated rotation of the Store Estate
- 5 International business focused on major partnerships and online

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION	MITIGATING ACTIVITIES
3 	<p>Brexit</p> <p>Failing to mitigate the continuing costs and friction arising from the complexities surrounding the border and further developments in the Trade and Cooperation Agreement ("TCA") may have a significant and long-term impact on our trading performance.</p> <p>Context</p> <p>As a result of the implications of the UK's exit from the European Union (EU), our EU businesses need to be reconfigured to manage new challenges. In addition, a number of uncertainties still remain following Brexit that are largely outside of our control and require continued monitoring and flexibility in our response. Key implications of these include:</p> <ul style="list-style-type: none"> – Permanent increases in cost base and time relating to the movement of goods across borders and compliance with the TCA (including the evolving requirements of the Northern Ireland Protocol and eventual end of the EU-CB grace period); – Increased complexity and cost in effective markets, particularly the Republic of Ireland, Northern Ireland and France. – Access to and availability of labour for our business and within the supply chain – Costs passed on from our suppliers as they set their post-Brexit policies – Viability of most-impacted suppliers and impact on product availability <p>Oversight by Brexit Steering Committee, the Board</p>	<ul style="list-style-type: none"> – A cross-business working party remains in place to coordinate post-Brexit activity, including scenario planning with financial and operational impact assessments as long-term implications are understood – Risk assessments undertaken by each of our businesses to enable them to plan and execute the operational changes needed to manage Brexit – Regular updates to the Board and Audit Committee outlining risks and actions being undertaken – Continued engagement with key government and industry bodies to represent M&S's views, including the UK Border Development Group, with access to the Department for Environment, Food & Rural Affairs, HM Revenue & Customs and the Food Standards Agency <p>Key developments</p> <ul style="list-style-type: none"> – Worked quickly to expand our understanding of the TCA and address immediate operational issues of product flow to our European markets – Continued to actively work with government and industry bodies to drive a simpler customs and exports process – Investigated tariff mitigation for the re-export of product, including working with HMRC to reduce the burden of tariffs, for example, Returned Goods Relief – Implemented a UK customs warehouse environment. – Improved and automated activities linked to the customs process to reduce administration costs
4 	<p>Ocado Retail</p> <p>A failure to effectively manage the strategic and operational relationship with Ocado Retail would significantly impact the achievement of our multi-channel food strategy and our ability to deliver shareholder value.</p> <p>Context</p> <ul style="list-style-type: none"> – The investment in Ocado Retail is part of our strategy for improving our online reach and capability. Since the launch in September 2020, we have seen growth in the online grocery market with an upward trajectory for the future that offers us the opportunity to strengthen our investment – There are two core aspects of our relationship with Ocado Retail that we are actively focusing on: <ul style="list-style-type: none"> • Developing our working relationship with Ocado Retail and evolving our ways of working to ensure alignment of our strategies in a way that supports innovation and growth • 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. <p>Oversight by Ocado Retail Board</p> <p>Link to strategic priorities 1 2</p>	<p>MITIGATING ACTIVITIES</p> <ul style="list-style-type: none"> – M&S nominated directors are part of the Ocado Retail Board, with collective sign-off of business plans directing the growth of Ocado Retail – Established data and technology interfaces with Ocado Retail. – Continued communication under lockdown with the Board, senior management and among the M&S-Ocado Retail operational teams. – Continued operation of a dedicated M&S Ocado delivery team, supported by senior leadership, to coordinate sourcing, product development, product ranging, customer data and marketing. <p>Key developments</p> <ul style="list-style-type: none"> – Completed transition of M&S products (Food and Clothing & Home) to the Ocado platform. – Invested to expand capacity with the launch of a new customer fulfilment centre in March, and plans for two more this calendar year.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK

DESCRIPTION

MITIGATING ACTIVITIES

5



Talent, culture and capability

Our inability to evolve the culture of our business as well as develop and retain the right talent and capabilities will influence our means to expand the business with agility and appropriate commercial acumen. This will also impede the execution of our transformation programme and impact our broader strategic objectives and performance.

Context

- M&S is fortunate to employ a vast number of talented individuals and it is essential that we have the right processes in place to identify, develop and retain this talent for the future
- Understanding the changing retail landscape is core to the strategic decisions we make on the skills and capabilities needed for our business. From driving a digitally focused mindset to managing change, our strategic choices and investment are focused on the knowledge and skills needed for the future.
- The challenge of effectively managing talent, performance and succession using systems that have become outdated could result in increased resource management and development costs.
- The need to effectively engage, motivate and connect with our colleagues across a multi-generational, diverse workforce is key to delivering productivity and supporting the transformation of our business while driving customer loyalty through a differentiated service proposition
- The broader implications of Brexit on the availability of labour and key skills continue to be monitored.

Oversight by **Executive Committee**

- Continued investment in external hires to strengthen capability, improve quality and diversity of talent at all levels.
- Investment in internal talent to strengthen the leadership pipeline and develop our future leaders.
- Embedded quality new starter experience across all areas to allow effective onboarding, engagement and retention.
- Continued the project to update our HR systems.
- Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including Board meetings.
- Capitalising on the popularity of our M&S Alumni to engage, energise and re-attract great talent.

Key developments

- Direct Executive Committee member ownership of HR matters.
- Progressed our plans for enhancing skills and capabilities through targeted talent, recruitment and development programmes.
- Launch of an updated performance management process
- Total reward review completed with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age. Commenced implementing initiatives that reflect colleague expectations
- Launch of a digital-specific apprenticeship programme driving digital literacy and capability building.

RISK

DESCRIPTION

MITIGATING ACTIVITIES

6



Food safety and integrity

Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.

Context

- Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers. This includes considering how external pressures on the food industry and wider economic and environmental changes could impact the availability and integrity of our food, the ability to operate all routine controls, our reputation and shareholder value
- Many of these external pressures, including inflationary costs, labour quality and availability, increased regulatory scrutiny and animal disease are heightened to a degree by the pandemic and our exit from the European Union. These are also largely outside our control but are nevertheless monitored and mitigated where possible.

Oversight by **Consumer Brand Protection Committee**

- Food Safety Policy and Standards, with clear accountability set at all levels.
- Defined Terms of Trade, manufacturing standards, specifications for "from farm to fork" and operating procedures
- Risk-based store, supplier and warehouse audit programmes by an independent third party, including franchise operations.
- Qualified Food Technology team, with continuing professional development.
- Risk assessment process in place for new food initiatives.
- Quarterly internal review of our control framework.
- Established processes for the development and legal sign-off for product packaging.
- Food Industry Intelligence Network membership at Board and Executive Committee level.
- Live and tested crisis management plan for food incidents.

Key developments

- Updated operating procedures in response to lockdown restrictions and for the new initiatives launched, e.g. home delivery channels in the UK and internationally.
- Remote audit and assurance programme launched for new and existing suppliers.
- Covid-19 tests for technologists to enable urgent site visits
- Enhanced monitoring of quality and customer complaints.
- Additional reporting to the leadership team of Covid-19 implications on our supplier assurance programme.

Risk movement

- No change
 Increased net risk exposure
 New risk
 Reduced net risk exposure

Strategic priorities

- A strong Food business positioned for growth
 A successful transition to M&S product on Ocado Retail and growing capacity

- An omni-channel Clothing & Home business driven by a re-shaped product engine
 Accelerated rotation of the Store Estate
 International business focused on major partnerships and online

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION	MITIGATING ACTIVITIES
7 	Liquidity and funding <p>An inability to maintain short- and long-term funding to meet business needs or to effectively manage associated risks may influence our ability to transform at pace, as well as have an adverse impact on business viability.</p> <p>Context</p> <ul style="list-style-type: none"> While we have continued to actively manage our cash, liquidity and debt position during the pandemic, resulting in a more positive out-turn than anticipated, our focus on this remains strong. Availability of, and access to, appropriate sources and levels of funding is important for the continued operation of business activity, as well as successful and timely delivery 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. Recoverability of our trading performance will influence our cash position as we emerge more fully from the pandemic. We also have pension fund commitments that require active management and monitoring. <p>Oversight by Executive Committee, the Board</p>	<ul style="list-style-type: none"> A £1.1bn undrawn, revolving credit facility in place until April 2023 and £674.4m of cash and cash equivalents. Measures implemented to manage cash and liquidity at the start of the pandemic continue to be maintained, including: <ul style="list-style-type: none"> Increased scrutiny and challenge over expenditure such as discretionary and capital spend Dividend deferral Use of government support measures like the temporary furlough of colleagues, business rates holiday and deferral of tax payments. Agreement to relax/waive covenant conditions for our revolving credit facility. Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics. Maintained counterparty credit risk and limits in line with our risk appetite and treasury policy Continued dialogue with the market and rating agencies. Pension fund assets fully offset pension scheme liabilities. <p>Key developments</p> <ul style="list-style-type: none"> Implemented a robust three-year plan underpinned by financial processes linked to strategic priorities Active debt management with the issue of a £300m bond and partial tender of the December 2021 bond maturity Focus on working capital management to continue to improve cash flow and reduce reliance on bank facilities Agreement received from the syndicate of lending banks to extend the relaxation of covenant measures on the revolving credit facility up to March 2022
8 	Social, ethical and environmental responsibility <p>Increasingly our customers, colleagues and investors demand reassurance that we are managing ethical and environmental issues across our business, including supply chains. Our inability to uphold adequate oversight of, and respond to, our responsibility commitments may result in failing to meet their expectations.</p> <p>Context</p> <ul style="list-style-type: none"> We continue to operate increasingly complex supply chains where changes in the external environment and challenging economic conditions, including the impact of Covid-19 across the globe, make ethical and social issues open to mismanagement and exploitation. We recognise that these could occur anywhere in our supply chain networks as well as our own operations. Setting and adhering to appropriate environmental, human rights, animal welfare and ethical standards and commitments is important in maintaining our reputation as a responsible company. <p>Oversight by Executive Committee, ESG Committee</p>	<ul style="list-style-type: none"> Established ethical audit programme, aligned with Sedex, including annual factory audits for manufacturers globally Risk-based ethical assessment programme in Food across all suppliers maintained. Code of Conduct and Global Sourcing Principals in place, shared with third parties and included in legal agreements. Product and raw material standards outlining environmental considerations, such as deforestation Clothing Quality Charter and Environmental and Chemical Policy in place for all suppliers. Modern slavery training rolled out across relevant teams. Human Rights & Modern Slavery Policy shared with International owned-business and franchise teams Mandated use of the Sustainable Apparel Coalition's Higg Facility Environmental Module, that measures social and environmental impacts of factories Live and tested capabilities and protocols to respond immediately to an incident <p>Key developments</p> <ul style="list-style-type: none"> Group Plan A programme reset with clear accountabilities set for each area in our family of businesses to address environmental and ethical standards in products, packaging, greenhouse gas emissions and waste ESG Committee established Continued strengthening of our due diligence approaches with the roll out of a Worker Voice programme in the Food business and piloting of transparency initiatives within Clothing and Home Modern Slavery Intelligence Network launched to alert M&S to issues in the Food supply chain Minimum standards for responsibility set for Clothing and Home third-party brands

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK

DESCRIPTION

MITIGATING ACTIVITIES

9

Technology and digital capability



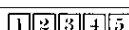
A failure to simplify and improve our core technology, enhance our digital capabilities and reduce our dependency on legacy systems could limit our ability to keep pace with market competition and customer expectations, preventing successful transformation.

Context

- The digital world continues to evolve at an unrelenting pace, influencing consumer expectations and behaviours, as well as placing increasing demands on our technology and ways of working.
- Data underpins everything we do and we remain focused on equipping colleagues with the right tools and capabilities to drive effective decision-making
- A simplified operating model, applications and architecture will support us in continuing to deliver capability, flexibility and cost-efficiency improvements.
- Increasing the use of tools such as AI and machine learning is fundamental to providing insights and a differentiated service to our customers.

Oversight by **Executive Committee**

Link to strategic priorities



- An omni-channel technology strategy, supported by prioritised investment and aligned with Group and individual business strategies.
- Quarterly benefits tracking of key programmes in line with spend targets and value outcomes
- Further investment in technology and digital innovation and capabilities to enhance both customer and colleague experience in store, like supporting the '10x' store plan.
- Improved IT infrastructure, including increased bandwidth.
- Continued the shift to cloud-based technology.
- Ongoing collaboration with our technology partners to drive our Digital First ambition, e.g. TCS and Microsoft.
- Ongoing focus on technology risk, assurance maturity and roll-out of a structured IT control methodology

Key developments

- New technology strategy and three-year investment plan that is aligned with business strategies and objectives.
- Increased adoption of our mobile app by existing and new customers providing access to valuable data.
- Successful launch of our BEAM Data Academy with digital learning programmes for all colleagues
- Increased personalisation of our end-to-end digital customer experiences using in-house capability
- Transforming our M&S Bank product and service offerings to create a digitally enabled shopping and payment experience for customers.

RISK

DESCRIPTION

MITIGATING ACTIVITIES

10

Business continuity and resilience



Failures or resilience issues at key business locations, such as at Castle Donington, our primary online Clothing & Home distribution centre, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the pandemic or a supply chain disruption, would also significantly impact business performance.

Context

- As our online business grows, the scale of risk to our sales and growth ambitions increases from a sustained period offline and an inability to fulfil online orders due to a major incident at our Castle Donington fulfilment centre.
- The loss of other locations, such as the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK, or support facilities (like for IT), could also impact us.
- Our dependency on major suppliers, service providers and business partners means that significant incidents, long-term resilience issues and recoverability for these third parties would impact our own business
- The risk stemming from the complexity and fragility of global supply chains continues to be emphasised by the pandemic – notably, the initial impact from China and in turn from key sourcing locations like Bangladesh and India where we have a high supply dependency.

Oversight by **Executive Committee, Crisis Management Team**

- A dedicated and experienced Business Continuity (BC) team with an established Group Crisis Management process that continued to operate throughout the pandemic.
- Maintained updated BC plans for key activities across our operations, including offices, warehouses and IT sites in response to changing government guidance.
- Group Incident Management procedures in place, including for critical third parties.
- Risk-based BC assessments for stores, sourcing offices and warehouses and validation of key supplier arrangements.
- Insurance to cover remediation and business interruption
- Enhanced capabilities at Castle Donington to manage technology failure.
- Active engagement with the Retail BC Association and government-led forums
- National Counter Terrorism Information exchange member.

Key developments

- Expanded fulfilment capabilities through "buy online ship from store" (BOSS) and the use of other warehouses in our network to meet online growth.
- Continued supporting suppliers through disruptions caused by the pandemic and Brexit.
- Colleagues globally continued to work from home without the loss of any business-critical systems.
- BC dashboard launched to shift our governance programme to a live digital platform.

Risk movement

- No change
 Increased net risk exposure
 New risk
 Reduced net risk exposure

Strategic priorities

- A strong Food business positioned for growth**
A successful transition to M&S product on Ocado Retail and growing capacity

- An omni-channel Clothing & Home business driven by a re-shaped product engine**
Accelerated rotation of the Store Estate
International business focused on major partnerships and online

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK DESCRIPTION

11 Information security



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

Context

- The increasing sophistication and frequency of cyber-attacks in the retail industry and within supply chains highlight an escalating information security threat
- Our reliance on several third parties hosting critical services and holding M&S and customer data also means weaknesses in their cyber and data controls may impact us, and requires continued assessment and oversight.
- The profile of information technology will change as we develop our data and digital capabilities, expand online services, adopt cloud more widely, deliver 'intelligent' stores, and increase our reliance on insightful data
- Longer-term changes stemming from the pandemic such as the increase in customers using e-commerce, the growing number of digital and mobile shopping channels and changes in the pattern of office/home working, all impact the overall risk

Oversight by **Executive Committee**

MITIGATING ACTIVITIES

- Dedicated Information Security function, with multi-disciplinary specialists, supported by a 24-hour Security Operation Centre and mature Incident Management.
- Information Security Improvement programme delivery, aligned with our digital and data protection strategy
- Information security obligations included in appropriate third party contracts and a risk-based assurance programme to monitor our exposure
- Information security and data protection policies in place, with a mandatory training programme for colleagues.
- Active detection of our threat environment, with continued improvement in controls, policies and procedures
- Embedded security throughout digital product lifecycle and operations model
- Focused security assurance, security architecture and security hygiene around significant change activities
- Network of Data Protection and Security Compliance Managers in priority business areas

Key developments

- Prioritised investment to improve our ability to detect and respond to the increase in breaches during the pandemic
- Completion of two independent cyber security reviews
- Formal review of security controls in international offices
- Targeted information security and Cyber Resilience review of key suppliers

RISK DESCRIPTION

12 Corporate compliance and responsibility



Failure to deliver against our legal and regulatory obligations, as well as 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.

Context

- The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on business performance and market sentiment requiring continual improvements in how we operate to maintain compliance.
- New and evolving regulatory requirements needing focus and appropriate capabilities to comply with including mandatory Task Force on Climate-related Financial Disclosures ("TCFD") recommendations, plastics recycling targets, new restrictions on the promotion of foods high in fat, sugar and salt and the proposed EU Directive on Corporate Due Diligence and Accountability that envisages mandating due diligence of key issues within end-to-end business supply chains
- 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.

Oversight by **Executive Committee, Fire, Health & Safety Committee, Consumer Brand Protection Committee, Bank and Services Compliance Monitoring Committee**

MITIGATING ACTIVITIES

- Code of Conduct in place and underpinned by policies and procedures in core areas of regulation and responsibility, including human rights, modern slavery, anti-bribery and corruption, health and safety, food safety, national minimum wage, equal pay, cyber, data security and privacy, and financial services and consumer credit regulations
- Business-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, which conducts horizon scanning on key regulatory and legislative changes
- Issue leaders embedded in the business to drive compliance in key risk areas, e.g. GSCOP (Groceries Supply Code of Practice) and ethical sourcing.
- Continued proactive engagement with regulators, legislators, trade bodies and policy makers
- Maintained monitoring and regulatory reporting commitments on environmental and social issues
- Continued operating auditing and monitoring systems.
- Customer feedback and public sentiment on regulatory compliance is monitored, including social media trends.

Key developments

- First cycle of reporting Code of Conduct compliance to the Audit Committee
- Continued to manage compliance with evolving government guidelines in relation to Covid-19
- Established remote audit programmes for owned and third-party operations during the lockdowns globally

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 7), approach to risk management (see page 47) and our principal risks and uncertainties (see pages 48 to 56).

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. Our assessment of viability therefore continues to align with this three-year outlook.

The Group continues to have to evolve, particularly as there remains significant political and economic uncertainty resulting from the Covid-19 pandemic, and customer behaviours are changing, especially in retail. In the immediate short term, we have taken, and will continue to take, measures to protect the health and safety of our customers and our colleagues. Coupled with this, there has also been disruption to supply chains caused by the pandemic and Brexit, but the Group has worked with suppliers to ensure an effective response and to minimise the impact.

The refinancing of the Group's December 2021 maturity, along with the successful negotiations in March 2021 to extend the relaxation of covenant measures on the revolving credit facility up to and including March 2022 mean that the Group has liquidity headroom of over £1.5bn.

In assessing viability, the Board considered the position presented in the Budget and Three-Year Plan, recently approved by the Board. 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. This scenario was based on the potential financial impact from business disruption as a consequence of one, or more, of the Group's principal risks and uncertainties materialising and both the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment.

This downside scenario assumes that:

- the Covid-19 pandemic worsens over the Winter months and the Government mandates four months of lockdown restrictions between December 2021 and March 2022, resulting in store closures and a 3% decline in Food sales. Over this period, a range of 10% – 20% decline in Clothing & Home sales has been modelled, as well as a 10% decline in International sales. These declines have been set with reference to the 2020/21 results; and,
- following the cessation of the Coronavirus Job Retention Scheme in the UK, there will be a period of economic recession in the UK from October 2021 that continues on into 2022/23 and 2023/24, resulting in a decline in sales of between 1% – 5% per annum, continuing for three years, across both sides of the business.

Other scenarios linked to key principal risks (such as a failure to execute our business transformation, a failure to prevent a food safety incident, and the failure to prevent a data breach or cyber-attack) were also considered. However, the estimated financial impact of these risks cumulatively was comparable to the downside scenario outlined above. Moreover, the likelihood of all these risks occurring concurrently would be so remote as to be considered a "black swan" event. As a result, separate, further detailed modelling was not performed.

The impact of the 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 the

downside scenario materialising, mitigating actions would be available, including, but not limited to, a reduction in labour, marketing, 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 severe but plausible downside scenario, the Group would continue to have sufficient liquidity 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, which represents a significant decline in sales compared with the downside scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be extremely remote. Whilst 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 risks, the Board has a reasonable expectation that the Group has 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 has a reasonable expectation that the Group will remain commercially viable over the three-year period of assessment. The Viability Statement can be found on page 81.

The Strategic Report, including pages 1 to 57, was approved by a duly authorised Committee of the Board of Directors on 25 May 2021, and signed on its behalf by



Steve Rowe, Chief Executive

25 May 2021

CHAIRMAN'S GOVERNANCE OVERVIEW

“

The Board's primary objective has been to navigate the business through this time of uncertainty.”

Archie Norman, Chairman

As I've already noted in my Chairman's letter on pages 2 to 3, the events of this past year have left a profound mark on the business – changing how our customers choose to shop and the way that we operate as a result, and having an impact on our ongoing strategic priorities.

The Board's primary objective has been to navigate the business through this time of uncertainty, ensuring that we emerge in a strong position, having continued to drive forward with our strategy despite the persistent difficulties. It has been essential for us to be highly engaged, flexible with our time to support and challenge senior leadership, and committed to securing the financial stability underpinning our recovery and accelerated transformation into 2021 and beyond. We, of course, continue to fulfil our other core duties to oversee M&S's culture, governance, financial controls, risk and change management.

The Governance section that follows is by intention concise, in keeping with our approach in previous years. Further detail on the Board, its Committees and our governance framework are available at marksandspencer.com/thecompany.

CONDENSED GOVERNANCE

We noted last year the significance of the scale and pace with which the Board had coordinated the Company's response to the Covid-19 pandemic (detailed on pages 50 to 53 of our 2020 Annual Report). That pace and agility has continued through this year, with the Board joining weekly calls right up until March 2021, to collaborate with, support and guide senior management.

Elsewhere in the business, operating processes and management forums have been consolidated, and the number of opportunities for discussion have been increased, to allow for proactive engagement between the Board and its Committees, the Executive Committee and senior management. Ultimately, this is improving our responsiveness and streamlining our decision-making processes.

An outline of our governance framework and how these bodies interacted during the year can be found on page 60. The reports of the Audit, Nomination and Remuneration Committees for 2020/21 are available on pages 77 to 83, 71 to 72, and 84 to 105 respectively.

A BALANCED BOARD

We saw substantial change during the year on our Board and executive team. Two new non-executives, Sapna Sood and Tamara Ingram, joined us last June, as did our new Chief Financial Officer, Eoin Tonge. Alison Brittain and Katie Bickerstaffe stepped down from the Board at the 2020 AGM last July, with Katie having joined our Executive Committee as Chief Strategy and Transformation Director. Richard Price also joined the executive team in July 2020 as Clothing & Home Managing Director.

In February 2021, Evelyn Bourke joined our Board as a non-executive director, while Pip McCrostie retired from the Board in March. She left us with our very heartfelt thanks for her candour, insight and committed contribution to the Company. We were saddened to hear that she passed away after leaving the Board, and we offer our condolences to her family.

More recently, we have welcomed Fiona Dawson as a non-executive director to the Board, and look forward to working with her in the years ahead.

With these considerable changes, and noting that his tenure is approaching nine years, we are pleased that Andy Halford will be staying with us for an additional year. Having reviewed and established that Andy remains independent, the Nomination Committee agrees that his role as Senior Independent Director is an important constant while new Board members settle into their roles.

Full details of these Board and executive changes, and our talent and succession processes, can be found in the Nomination Committee Report. Board and Executive Committee biographies and our assessment of the balance of skills and experience on these bodies can be found on pages 62 to 65.

Last year's digital AGM

Last year's AGM was the Board's most engaging and constructive yet because we were able to reach shareholders directly in their homes.

Change has not been limited to the Board and senior leadership this year though. The refreshed Executive Committee has prioritised a review of talent, development and succession throughout the business, supported by the Nomination and Remuneration Committees, and more detail can be read in the respective Committee reports.

Since the financial year end, the Executive Committee has also realigned itself and its member responsibilities. As announced on 18 May 2021, Katie Bickerstaffe and Stuart Machin have become Joint Chief Operating Officers, adding additional oversight and impetus to our core businesses, while Eoin Tonge is now responsible for strategy and transformation planning as part of his CFO remit. The overall composition and duties of the Committee remain unchanged.

BOARD ACTIVITIES AND CONSIDERATION OF STAKEHOLDERS

The Board's focus during the year has been to accelerate the Company's pursuance of its strategic priorities, while managing the ongoing uncertainties associated with Covid-19 and Brexit. In our weekly calls, we have heard updates on operating challenges and advised on proposed measures to address them urgently. In our formal monthly meetings, we have been presented with "strategic deep dives" by all areas of the business, which we have then considered, debated and challenged. All while being mindful of the impact of any decisions made on the business' various stakeholders and on its long-term, sustainable success, in line with Section 172(1) of the Companies Act 2006 ("s.172(1)").

Our colleagues in particular were significantly impacted by our decisions this year. We placed thousands of colleagues on furlough, rewarding those continuing to work in stores with a 15% uplift in pay and those in our support centres with an equity grant of 5% of salary for the first lockdown period. There were, of course, unfortunate job losses as a result of our organisational restructure, but these were necessary to right-size the business for a post-Covid world.

An overview of the range of matters that the Board discussed and debated at its meetings during the year can be found on pages 66 to 67, with examples of the Board's key decisions and s.172(1) considerations on pages 68 to 69.

The Company's s.172(1) statement is available on pages 34 to 36.

CREATION OF AN ESG COMMITTEE

In the latter part of the year, the Board and Executive Committee's attention was drawn to the refresh of our Plan A sustainability programme. In part prompted by the events of the last year, we have agreed that it is imperative to ensure that Plan A is once again central to our customer story, so that we can continue to help our colleagues, customers and communities lead happier, healthier and more fulfilling lives.

The Board's Environmental, Social & Governance ("ESG") Sub-Committee was established to assist the Board in providing focus and oversight of the Plan A programme, both in its reinvigoration and its ongoing effectiveness. The report of the ESG Committee for 2020/21 is available on pages 73 to 76.

DIVIDEND

Whilst a difficult decision, we continue to agree, in line with our approach last year, that non-payment of a dividend is appropriate for the 2020/21 financial year. This continues to be one of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for our recovery beyond the pandemic.

DIGITAL AGM

We know our Annual General Meeting ("AGM") provides investors with a valuable opportunity to communicate with us. In recognition of this, and building on the unprecedented success of last year's meeting, we will be conducting this year's AGM digitally once again. In addition to being able to vote and submit questions electronically in advance, all shareholders will be able to join the meeting online to hear from Steve and me, ask questions and vote on our resolutions.

This year, we'll be joined by Kamal Ahmed who will be acting as your shareholder advocate, sharing your views and questioning me and the Board on your behalf. If you would like us to hear from you directly, you also have the option of submitting a video question to be played to the Board for response during the meeting. I look forward to hearing from you all then.

Information on how to participate electronically, both in advance and on the day, can be found on pages 207 to 209.

Archie Norman, Chairman

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2018 (the "Code") which is available to view on the Financial Reporting Council's website is the standard against which we measured ourselves in 2020/21.

The Board confirms that we complied with all of the provisions set out in the Code for the period under review. Details on how we have applied the principles set out in the Code and how governance operates at M&S have been summarised throughout the Directors' Report. Our full Corporate Governance Statement outlining our compliance is available on marksandspencer.com/thecompany.

LEADERSHIP AND OVERSIGHT

During 2020/21 and dealing with the evolution of the Covid-19 pandemic, our governance framework was significantly compressed to increase our responsiveness to the changing situation and streamline our decision-making process.

With an increase in the frequency of Board meetings and a rationalisation of the number of operating meetings and management processes, the Board and its Committees, the Executive Committee and senior management were able to collaborate proactively, consider issues and respond in the face of unprecedented uncertainty.

● BOARD COMMITTEES

The Board is supported by its sub-committees in discharging its duties. Following each Committee meeting the Chairs of the Committees provide an update on their activities at the next Board meeting.

Audit Committee + see p77-83

Responsible for monitoring the integrity of the financial statements, reviewing the Group's framework of internal controls and maintaining the auditor relationship.

Remuneration Committee + see p84-105

Responsible for remuneration policy, performance-linked pay schemes and share-based incentive plans.

Nomination Committee + see p71-72

Responsible for reviewing Board composition and diversity, proposing new Board appointments and monitoring the Board's succession needs

ESG Committee + see p73-76

Responsible for ensuring the Company's ESG strategy remains fit for purpose and that plans are in place and reported on

Disclosure Committee

Responsible for determining the disclosure treatment of material information and identifying inside information for the purpose of maintaining the Company's project (insider) lists.

As with the Board and ExCo, the Board's sub-committees have adapted to the business' need for more responsive decision-making, often meeting or reviewing proposals outside of its usual meeting cycles.

● BOARD

The Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing its conduct and affairs, and for promoting the success of the Company for the benefit of its members and stakeholders. It discharges some of its responsibilities directly and others through its sub-committees. Terms of Reference for the Board and its sub-committees are available in our Governance Framework, published on marksandspencer.com/the-company

Execution of the strategy and day-to-day management of the Company's business is delegated to the ExCo, and subsequently to senior leadership forums where relevant, with the Board retaining responsibility for overseeing, guiding and holding management to account

In addition to its monthly scheduled meetings, this year the Board met and heard from the ExCo and senior management on a regular basis – sometimes weekly – over the phone or by video call for faster, more efficient decision-making and reactivity. With the UK government's roadmap out of lockdown under way and progressing well, the Board held its last weekly board call on 25 March 2021.

● EXECUTIVE COMMITTEE

The Executive Committee ("ExCo") is the leadership team responsible for executing strategy, by managing, monitoring and providing executive input to support the Company's strategic and operational decisions, ensuring strong executive alignment on business priorities and actions, including business case investments. *The ExCo's authority is conferred on it by the Group Delegation of Authority, as approved by the Board.*

Consisting of the CEO, CFO, Chief Operating Officers, and the Managing Directors of each business unit, the ExCo reviews strategic opportunities and initiatives from the five key businesses and Group centralised functions, ensuring that these align with the overarching strategy as mandated by the Board. In addition, and in support of the Board's purpose, values and culture setting, the ExCo is responsible for all colleague matters, including the structure and operation of the HR function throughout the business, the development and monitoring of culture and values, and reviewing talent and leadership development and succession plans below ExCo level. Post year-end, the division of responsibilities within the ExCo changed, as announced on 18 May 2021. However, the overall composition and duties of the Committee remain unchanged.

Having been established as part of our Never the Same Again programme, drawing on learnings from the Covid-19 crisis and capitalising on the opportunities, the ExCo (formerly the Operating Committee) has remained in constant contact, meeting as and when required to respond quickly to the changing situation. Initially on a weekly basis, as the crisis has transitioned to being the new normal and with the business set up to succeed with new operating procedures, this has moved to monthly meetings



● SENIOR LEADERSHIP FORUMS

Underlying this more agile governance feedback loop between the Board, its sub-committees and the ExCo, there are forums comprising senior management that support each of these governing bodies. This year, as part of the Never the Same Again programme and introduction of the ExCo, the previous 'Boards' for each of the business units have been removed in favour of more focused 'Operating Review' meetings with streamlined memberships. Their main remit is for management of key trading and operational matters, with decision-making delegated to them by the Group Delegation of Authority and underpinned by business unit Delegations of Authority

Additional forums have been established and disbanded throughout the year as part of our more responsive governance framework, with the intention of supporting specific projects, business needs, or strategic priorities, and meeting as and when required. Examples include

Property Committee

For reviewing and approving property investments

Digital Board

For driving the Company's Digital First agenda across the Group.

Brand Forum

For reviewing use of the M&S brand, as well as considering use of third-party brands.

Crisis Management Team

For determining and directing actions required in response to crises. This team was especially prominent during the first Covid-19 lockdown, which we explored on pages 50 to 53 of our 2020 Annual Report. The team has since been demobilised until another crisis requires it to reconvene.

People Forum

For driving the People and Culture agenda across the Group

Compliance Monitoring Committee

Newly established to support the Audit Committee's oversight of credit broking activities within the Group, as regulated by the Financial Conduct Authority

BOARD COMPOSITION AND MEETING ATTENDANCE

BOARD MEETING ATTENDANCE AND DIRECTOR RESPONSIBILITIES IN 2020/21

During the year, the Board held 11 scheduled meetings and an additional 12 Board calls in response to the Covid-19 pandemic, for which individual attendance is set out below. Additional unscheduled meetings were held as

and when required, typically on a weekly basis throughout the year.

Sufficient time is provided, periodically, for the Chairman to meet privately with the Senior Independent Director ("SID") and the

non-executive directors to discuss any matters arising.

➤ For information on what the Board did during the year, see p66-69.

	Attended		Max possible		Independent	Responsibility in 2020/21	Linked to remuneration
	Scheduled	Additional	Scheduled	Additional			
CHAIRMAN							
Archie Norman*	11	12	11	12		Board governance and performance, shareholder engagement.	
* Considered independent on appointment							
EXECUTIVE DIRECTORS							
Chief Executive	11	12	11	12		Strategy and Group performance.	✓
Steve Rowe							
Chief Financial Officer	9	2	9	2		Group financial performance, investor relations and risk management	✓
Eoin Tonge (appointed 8 June 2020)							
NON-EXECUTIVE DIRECTORS						Role at Board meetings	
Full Year						Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board.	
Andrew Fisher	11	12	11	12	✓	As Board Committee members, directors also review the integrity of the Company's financial information, consider ESG issues, recommend appropriate succession plans, monitor Board diversity and set the directors' remuneration	
Andy Halford	11	12	11	12	✓		
Justin King	11	12	11	12	✓		
Retired in 2020/21							
Katie Bickerstaffe	3	9*	3	10	✓		
Alison Brittain	3	10	3	10	✓		
Pip McCrostie	11	12	11	12	✓		
Appointed in 2020/21							
Sapna Sood	9	6	9	6	✓		
Tamara Ingram	9	6	9	6	✓		
Evelyn Bourke	2	–	2	–	✓		
* Unable to attend one meeting due to other business commitments.							
STANDING ATTENDEES						Responsibility	
Nick Folland – General Counsel and Company Secretary	11	12	11	12		Advising the Board on all legal and corporate governance issues, including sustainability and Plan A	
David Surdeau – Interim Chief Finance Officer*	3	10	3	10		Led the Finance function and attended Board meetings in line with the responsibilities of the Interim CFO	
* Resigned June 2020							
ATTENDED BY INVITATION						Role at Board meetings	
Sacha Berendji	9					The ExCo comprises the Company's senior leadership team below Board level and is tasked with running the day-to-day operations of the business and facilitating delivery of the strategy as approved by the Board. Members of the ExCo attend Board meetings by invitation to present and discuss matters of strategic importance.	
Katie Bickerstaffe*	6						
Paul Friston	4						
Stuart Machin	8					Direct Reports to ExCo members also attend Board meetings by invitation as and when input is required on their specific areas of expertise	
Richard Price	6						

* Became Chief Strategy and Transformation Director (post year-end, Chief Operating Officer), and stepped down from the Board in July 2020.

Note: The tables above provide details of scheduled meetings held in the 2020/21 financial year and additional Board calls in response to the Covid-19 pandemic

Monitoring non-executive director independence

The Board reviews the independence of its non-executive directors as part of its annual Board Effectiveness Review. The non-executive directors also meet annually, led by the SID, to conduct the Chairman's appraisal. The results of the meeting are then fed back to the Chairman by the SID.

The Chairman was considered to be independent on appointment and is committed to ensuring that the Board comprises a majority of independent

non-executive directors who objectively challenge management, balanced against the need to ensure continuity on the Board.

The Company maintains clear records of the terms of service of the Chairman and non-executive directors to ensure that they continue to meet the requirements of the UK Corporate Governance Code. Neither the Chairman nor any of the non-executive directors have exceeded the maximum nine-year recommended term of service set out in the Code,

with our longest-serving non-executive director, Andy Halford, having served on the Board since January 2013.

As such, the Board considers that all of its non-executive directors continue to demonstrate independence.

➤ For information on the skills and experience of each director, see p62-p64. For more information on director tenure see p72.

GOVERNANCE

OUR BOARD

Archie Norman 
Chairman

Appointed: September 2017

Career and external appointments: Archie is an experienced Chairman and former Chief Executive having led major transformation programmes at ITV, Lazard, Asda, Energis and Hobbycraft. He was previously Deputy Chairman of Coles Limited, and was the Lead Director at the Department for Business, Energy & Industrial Strategy from 2016 to 2020. Archie is also the Chairman of Signal AI and Non-Executive Vice Chairman of Global Counsel.

Steve Rowe
Chief Executive

Appointed: April 2016

Career and external appointments: Steve joined M&S in 1989 and worked in senior roles across all areas of the business prior to his appointment as CEO, including Director of Home, Director of Retail, Director of Retail and E-commerce, Executive Director, Food, and Executive Director, General Merchandise. Steve is Chair of the Business in the Community ('BITC') Place Leadership Team. In addition, he sits on the Board of the Consumer Goods Forum, which brings together leaders from global retailers and manufacturers.

Eoin Tonge
Chief Financial Officer

Appointed: June 2020

Career and external appointments: Eoin joined the business from Greencore, where he had been CFO since 2016. At Greencore, he oversaw the divestment of their US operations, strengthening the company's balance sheet, returning capital to shareholders and simplifying the business. Prior to that he was MD of Greencore's Grocery business and also worked in a variety of roles across strategy, finance, treasury and capital markets at Greencore and previously Goldman Sachs.

Andy Halford 
Senior Independent
Non-Executive Director


Appointed: January 2013

Career and external appointments: Andy's strong finance background and broad knowledge of the UK and international consumer market was gained from CFO positions held in global listed companies. He is Chief Financial Officer of Standard Chartered, which he joined after 15 years at Vodafone, nine of which were spent as Chief Financial Officer.

Andrew Fisher OBE 
Independent
Non-Executive Director


Appointed: December 2015

Career and external appointments: Andrew was instrumental in establishing mobile lifestyle app Shazam, where he was Executive Chairman until October 2018, as a leading mobile consumer brand. Andrew brings over 20 years' experience leading and growing numerous technology-focused enterprises, and is currently Chair of Rightmove PLC.

Justin King CBE 
Independent
Non-Executive Director

Appointed: January 2019

Career and external appointments: Justin was Vice Chairman of Terra Firma until May 2021, acting as adviser to the General Partner. Between 2004 and 2014, he was the CEO of Sainsbury's, leading the business through a major transformation. He has also previously held senior positions at M&S as Head of Food, as well as Asda, Häagen-Dazs, PepsiCo and Mars.

Sapna Sood 
Independent
Non-Executive Director

Appointed: June 2020

Career and external appointments: Sapna was, until recently, a senior executive at Compass Group, as the Group Director for International Clients and Market Development business. She has in-depth knowledge of running complex supply chains, including in food and clothing, as well as experience of leading large transformation programmes. She has held leading operational roles in the building materials and industrial gas sectors in Europe and Asia Pacific, latterly as CEO and President of LafargeHolcim in the Philippines. Sapna was also a non-executive director at Kering from 2016 to 2020.

Tamara Ingram OBE 
Independent
Non-Executive Director

Appointed: June 2020

Career and external appointments: Tamara has a longstanding leadership career in advertising, marketing and digital communications, having held leadership roles at WPP since 2002. Prior to this, she worked at Saatchi & Saatchi where she held the roles of CEO and Chair. Tamara has led renowned marketing campaigns for household brands around the world and delivered cultural and business transformation at pace within her own businesses as well as on behalf of clients. She is a non-executive director of Marsh McLennan and Intertek Group, and a Trustee of Save the Children.

➤ Full biographical details of each director are available on marksandspencer.com/thecompany.

➤ A breakdown of the Board's key skills and experience can be found on p64-65.

➤ Please see p60-61 for more detail on the Board and Committee governance structure, and meeting attendance.

Committees key

- (A) Audit (N) Nomination (C) Committee Chair
(E) ESG (R) Remuneration (X) Executive

Role status

- Newly appointed
□ Outgoing

Evelyn Bourke

(A) (N)

Independent
Non-Executive Director
(newly appointed)

Appointed: February 2021

Career and external

appointments: Evelyn retired from her role as CEO of Bupa Group in December 2020 where she led transformative change during her nearly five-year tenure. She also has extensive experience in financial services, risk and capital management and mergers and acquisitions, having spent three and a half years as Bupa's CFO and in leadership roles at Standard Life, Friends Provident and the Bank of Ireland, where she is currently a non-executive director. Evelyn is also a non-executive director of Admiral PLC and will join AJ Bell PLC on 1 July 2021.

Fiona Dawson CBE

(N)

Independent
Non-Executive Director
(newly appointed)

Appointed: May 2021

Career and external

appointments: Fiona is part of the Mars, Inc. Leadership Team, where she rose from the Graduate Trainee scheme to one of the top roles in the company. Her leadership roles have included President of Global Retail and Mars Chocolate UK and European Marketing Vice President. Fiona also has a strong track record in sustainability, health and wellbeing, particularly women's entrepreneurship and human rights. She was recently awarded a CBE for services to women and the economy.

Pip McCrostie

(A) (N)

Independent Non-Executive
Director (outgoing)

Appointed: July 2018
Retired: March 2021

Career and external

appointments: Pip was a member of Ernst and Young's Global Executive Board from 2008 until her retirement in 2016. At EY she gained extensive financial experience and led and transformed the Global Corporate Finance business. She was founder and co-founder respectively of the Global Transaction Tax Network and UK Transaction Tax Group and a non-executive director of Inmarsat from 2016 to 2019. Pip retired from the Board in March 2021 with our heartfelt thanks. We were saddened to hear that she passed away after leaving the Board, and we offer our condolences to her family.

Nick Folland

General Counsel and
Company Secretary

Appointed: February 2019

Career and external

appointments: Nick has extensive legal and governance experience, having been General Counsel and Company Secretary in FTSE 100 businesses since 2001. More recently, he has held positions as Chief Executive of the Crown Prosecution Service and Chief External Affairs Officer and Chief of Staff to the CEO of the Co-op.

OUR EXECUTIVE COMMITTEE

The **Executive Committee** leads the operational and day-to-day management of the Group in line with the strategy set by the Board. The Committee reflects the Company's businesses model, comprising the managing director of each business unit along with the joint COOs, the CEO and CFO.

Katie Bickerstaffe

Chief Operating Officer

Career summary: Katie joined as Chief Strategy and Transformation Director on 27 April 2020, having previously spent two years on the M&S Board as a non-executive director. Katie is currently a non-executive director of Barratt Developments PLC and the England and Wales Cricket Board. She has also been Chief Executive, UK and Ireland of Dixons Carphone plc, with extensive experience of retail and operations and leading consumer-focused businesses. On 18 May 2021, Katie became joint Chief Operating Officer.

Stuart Machin

Chief Operating Officer

Career summary: Stuart joined M&S as Managing Director of Food on 30 April 2018 with nearly 30 years' experience in the food, fashion and home retail sector. Along with Steve Rowe and Eoin Tonge, Stuart is also a Director of Ocado Retail Ltd. Stuart has held senior operational and commercial roles in UK retailers Sainsbury's, Tesco and ASDA and more recently spent 10 years in Australia working in Wesfarmers as COO and CEO of Coles and Target respectively. On 18 May 2021, Stuart became joint Chief Operating Officer.

Richard Price

Clothing & Home
Managing Director

Career summary: Richard joined M&S on 7 July 2020 as Clothing & Home Managing Director. Prior to this, Richard spent three years as Managing Director of BHS before becoming CEO of F&F Clothing at Tesco in 2015. From 2005 to 2012, Richard was Head of Merchandise and Menswear Trading Director at M&S. Earlier in his career he spent 15 years at Next in a range of merchandising roles. Richard's career demonstrates his proven track record of delivering growth through stylish, great value product.

Paul Friston

International Director

Career summary: Paul began his M&S career on the Finance graduate programme in 1996 and qualified as a management accountant in 2000. He held a variety of roles during his time at M&S, including Interim CFO and Executive Assistant to former CEO, Marc Bolland. Paul was appointed to his current position in May 2016 and became Chair of the M&S Inclusion Group in April 2018.

Sacha Berendji

Group Property,
Store Development
and IT Director

Career summary: Sacha joined M&S in 1994 through the graduate programme. He undertook various appointments, including General Manager of Marble Arch Store, Regional Manager for London, Head of Property Planning & Store Development, Executive Assistant to the Chief Executive, and Director of Merchandising. Sacha took up his position as Retail, Operations and Property Director in November 2012, before moving to his current position in May 2021.

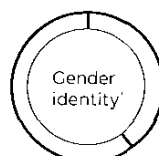
GOVERNANCE

BALANCED LEADERSHIP

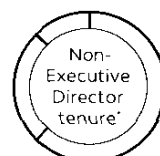
BOARD

Improving trend line

Events in the last year have refocused public consciousness on diversity, and M&S has been no exception. In line with the acceleration of the transformation and our Board diversity policy (the "Policy"), we have taken further steps to deliver our ongoing diversity ambitions. There have been a number of changes to our Board during the year and up to the publication of this report, including the appointment of four non-executive directors. In addition to the diverse wealth of skills and experience they bring, our newest Board members contribute to the improving trend line in gender and ethnic diversity, which are two key objectives of the Policy.



● Female (40%)
● Male (60%)



● 0-2 years (62.5%)
● 3-5 years (25%)
● 6-8 years (12.5%)



● Female (80%)
● Male (20%)

* As at 25 May 2021

Strategic alignment: Never the Same Again

The refreshed Board skills and experience matrix demonstrates three key points and beliefs. Firstly, our Never the Same Again priorities have been a critical consideration in the composition of the Board and its Committees, making our leadership more equipped than ever before to drive our strategy. Secondly, the matrix highlights key development areas for consideration in our continued succession planning, such as

sustainability and technology. Thirdly, and crucially, M&S strongly believes that improving gender and ethnic diversity in our leadership is not only the right thing to do, but is invaluable to the success of our business. The correlation between improving diversity and the simultaneous improvements in strategically considered competencies attests to the benefits of our Policy.

Skills and experience

	Retail and consumer	Food and beverage	Supply chains	Marketing and media	Technology and digital	Transformation and strategy	Finance	Risk management	Property and real estate	Organisational design and corporate culture	Sustainability	Corporate transactions, legal and regulatory
Archie Norman	●	●		●		●	●		●	●		●
Andrew Fisher	●			●	●	●	●		●			
Andy Halford	●						●	●		●		
Tamara Ingram	●			●	●	●					●	
Justin King	●	●	●			●						
Sapna Sood	●		●			●				●	●	
Steve Rowe	●	●	●		●	●		●	●	●	●	●
Eoin Tonge		●	●			●	●	●		●	●	●
Evelyn Bourke						○	○	○		○	○	○
Fiona Dawson	○	○	○	○						○	○	○
Pip McCrostie							○	○		○		○
Nick Folland	●					●		●		●	●	●

○ Newly appointed ○ Outgoing ● General Counsel & Company Secretary

Never the Same Again priorities:

- 1 Faster Food growth with Ocado Retail
- 2 Capture value in Food supply chain
- 3 Simplify range and value in C&H
- 4 Turbocharge growth at M&S.com
- 5 Store estate for the new world



BOARD CONTINUED

Targets met, ambition to surpass

Last year, we met the target set out in the Hampton-Alexander Review, ensuring at least 33% of Board members identified as female. This year, new appointments focused on this area and remained compliant throughout, surpassing the target towards the end of the year. We also voiced our ambition last year, in line with the Parker Review, to appoint at least one Board member from an ethnic minority background by 2021,



which we were proud to achieve with the appointment of Sapna Sood in June 2020. In addition, the independence and tenure of our directors strikes a considered balance, ensuring stability while meeting the guidance set out in the Code. However, meeting these external targets is a milestone and not an end destination, and we remain mindful and committed to driving progress

Hampton-Alexander Review

Target 
M&S 



Target 33% female Board

Parker Review

Target 
M&S 

Target, One Board member from an ethnic minority background by 2021

UK Corporate Governance Code 2018

Target 
M&S 

Target Non-executive director tenure not exceeding nine years

EXECUTIVE COMMITTEE

Wider leadership

While formal targets have focused on the Board, our ambition to strengthen diversity extends throughout senior leadership. We recognise that there is significant work to do in this area, and believe that the talent pipeline and succession planning are key. For that reason, we have highlighted the gender balance of direct reports to the Executive Committee, for which more information can be found on page 27.



● Female (14%)
● Male (86%)



● Female (44%)
● Male (56%)

* As at 25 May 2021. Please see p27 and p62-63 for more detail.

Skills and experience

	Retail and consumer	Food and beverage	Supply chains	Marketing and media	Technology and digital	Transformation and strategy	Finance	Risk management	Property and real estate	Organisational design and corporate culture	Sustainability	Corporate transactions, legal and regulatory
Steve Rowe	●	●	●		●	●		●	●	●	●	●
Eoin Tonge		●	●			●	●	●	●	●	●	●
Katie Bickerstaffe	●	●		●	●	●			●	●	●	
Paul Friston	●		●			●	●		●			
Sacha Berendji	●		●		●	●	●	●	●	●		
Stuart Machin	●	●	●	●	●	●			●	●	●	
Richard Price	●		●	●		●				●		

OUR COMMITMENT

Our objective of driving the benefits of a diverse board, senior management team and wider workforce is underpinned by the Policy, which can be viewed on our corporate website at marksandspencer.com/thecompany.

In addition to the above mentioned commitments to promote gender diversity, ethnic diversity and succession planning, the Policy covers other inclusion initiatives taking place within the Company which are sponsored and endorsed by the Board. During the year, these have included:

- Employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBTQ+), and disabilities and health conditions.
- Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards through developing our junior leaders.
- The Marks & Start programme, which continues to support young people, the homeless, lone parents and those with disabilities in finding work at M&S.
- Continued active involvement in key campaigns including LGBTQ+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World International Day of Disability, raising awareness and our profile as an inclusive place to work.
- Launched mandatory Inclusion and Diversity training on our Learning Hub and updated our line manager guide for gender identity to make sure it follows the latest terminology.
- Added our first LGBTQ+ charity partnership to Sparks for our customers and colleagues to support AKT, a charity supporting LGBTQ+ young people aged 16-25 in the UK who are facing or experiencing homelessness or living in a hostile environment.

BOARD ACTIVITIES

WHAT WAS ON THE BOARD'S AGENDA IN 2020/21?

Board meetings are an important mechanism by which the directors discharge their duties, including under Section 172(1) of the Companies Act 2006.

➤ For more information, see p34-36 for our Section 172(1) statement and p68-69 for decision case studies unpacking the Board's Section 172(1) considerations.

Board meetings are also an important platform for the Board to debate robustly and challenge management on elements of the Company's performance, specific projects or areas of strategic significance.

Meeting agendas, agreed in advance by the Chairman, CEO and Company Secretary, combine a balance of regular standing items, such as reports on current trading and financial performance, with one or two detailed "deep dives". These pages give an overview of the main topics on the Board's agenda throughout the year.

Key to stakeholder groups:



Shareholders



Colleagues



Suppliers



Customers



Communities



Partners

Key to the Never the Same Again priorities:

1

Faster Food growth with Ocado retail

2

Capture value in Food supply chain

3

Simplify range and value in C&H

4

Turbocharge growth at M&S.com

5

Store estate for the new world

STRATEGY *Never the Same Again* AND TRANSFORMATION

Updates on the progress of the transformation programme were provided at each meeting, supplemented by deep dives presented by the relevant business areas. These updates enabled the Board to monitor and drive the transformation programme forwards, while also providing guidance and challenge where needed. At the start of the year our transformation programme was already under way with improvements in all core areas

of the business. Covid-19 and Brexit, two major uncertainties, brought new challenges but added further pace and acceleration to our transformation. In response, we created our five priorities under the Never the Same Again ("NTSA") programme, as announced at our half-year results. All of the Board's strategic discussions have been principally focused on the NTSA priorities, while being contextualised and shaped by these two major

uncertainties. To drive change and navigate these additional uncertainties, the Board has continued to hold unscheduled calls as required, often on a weekly basis, supplementary to scheduled meetings during 2020/21.

➤ Read more about the Board's condensed governance cadence on p60.

➤ For more information on our strategic priorities, see p7.

COVID-19 ●●●●●●

The Board has continued to reflect on, and direct the Company's response to, the ongoing impacts on the business resulting from the Covid-19 pandemic. In each of its strategic discussions, it has considered how best to manage the uncertainties associated with Covid-19 (and therefore this has not been repeated in the Strategic Deep Dives section below). Most notably, the Board has discussed during the year the importance of improving and accelerating the shift to online in the C&H business, especially during various lockdowns in the UK and internationally when non-essential retail has been closed; the urgency in future-proofing the UK store estate, increasing our Food presence in popular retail parks and out of town locations for more spacious and convenient "weekly shops", and, ensuring the success of the Ocado partnership amid increasing online demand. **1 2 3 4 5**

BREXIT ●●●●●●

As with Covid-19, Brexit preparedness and its potential impact has been continually discussed across all strategic areas. The negotiations with the EU were monitored closely, but the Board and management's focus has remained resolutely committed to mitigating the impact and ensuring that the businesses remained focused on providing the best possible service to customers. The Board has considered in detail throughout the year the potential financial impact on profits of the various scenarios of leaving the EU with or without a trade agreement; post-deal, the need to reshape our supply chain and overcome the logistical difficulties of sending product from the UK, specifically to the island of Ireland; and finally, coming to terms with the new operating model for the International business, due to the increase in tariffs and administrative burden Brexit caused. **1 2 3 4 5**

STRATEGIC DEEP DIVES

At each meeting, the Board discussed strategically significant matters in greater depth to evaluate progress, provide insight and, where necessary, test, challenge and decide on appropriate action. These included:

Clothing & Home ●●●●●●

- Discussed the C&H proposition, brand framework and supply chain, monitoring and challenging against agreed transformation milestones
- Debated investment and development in areas such as product and design to drive the C&H strategy, with particular regard to sustainable change and future-proofing. **1 4 5**

Third-party brands ●●●●●●

- Guided and supported management to develop the approach to third-party brands and debated the criteria brands would need to meet in order to be considered for investment, highlighting the importance of the customer lens and Plan A alignment.

- Considered the merits of acquisition, collaboration, consignment and wholesale models. **1 4 5**

Food ●●●●●●

- Discussed changing customer behaviour and our responses to it, covering product range and packaging, store layout, and plans for the hospitality business
- Monitored activities relating to the modernisation of the end-to-end supply chain including the roll-out of Vanguard. Discussing the need for continuous improvement throughout the network and the partnership model for the Food business. **1 2 5**

Ocado ●●●●●●

- Challenged and supported management's operational and marketing plans for the September 2020 launch and subsequently evaluated the success of the transition
- Discussed Ocado's trading performance and plans to develop the joint venture relationship with an absolute focus on the customer and driving growth. **1 2 5**

STRATEGIC DEEP DIVES CONTINUED

Bank & Services ●●●●

- Provided feedback on the updated commercial framework and strategy for M&S Services and discussed how this would support driving the Group's strategic priorities, including customer proposition, plans for growth and partner relationships. **1 5**

Property ●●●●●●

- Reviewed plans and received updates on cost-saving initiatives, leases and rent arrangements. Offering guidance on negotiations with landlords and challenging management to bring difficult questions for the Board's consideration
- Took an active role in shaping the Company's response on business rates and the store closure and renewal programmes. **2**

Digital & Data ●●●●●

- Endorsed the MS2 concept to develop digital talent in C&H, providing insight and guidance on the critical success factors, and encouraging the ExCo to proactively oversee the process.
- Monitored transformation progress on M&S.com customer experience, personalisation and growth, and on plans to integrate digital capabilities and new technology in stores. **2 1 5**

Sustainability and Plan A ●●●●●●●●

- Debated a new approach to Plan A and agreed to modernise the framework of principles, closely aligning this with the Company's strategy and stakeholder priorities, and embedded more strongly into the M&S brand. The ESG Committee was formed to support this, acknowledging growing stakeholder interest in the topic. **1 2 3 4 5**

Sparks ●●●●

- Evaluated the success of the Sparks relaunch and discussed ambitions to integrate Sparks more deeply throughout the business, driving further growth through the loyalty offer
- Discussed the merits of various Sparks initiatives aimed at improving the customer offer and loyalty, through non-financial rewards including Sparks Live and Supersize Sparks. **1 5**

International ●●●●●●●●

- Against a backdrop of uncertainties across owned and franchise markets, reviewed progress in the International transformation programme
- Focused management on understanding the urgency of growing online, culminating in the online launch in 46 new countries, increasing agility in the supply chain, and modernising the store portfolio. **2 3 4 5**

ORGANISATION CULTURE AND BUSINESS INVOLVEMENT GROUP ('BIG')

- Focused on trading and operating safely, as well as rewarding colleagues continuing to work during the first lockdown, with store colleagues given a one-off 15% pay increase for the period and support centre colleagues given a one-off share award amounting to 5% of salary for the period
- The Board felt strongly that colleagues placed on furlough should not experience a decline between their ordinary pay and the government grant, and therefore agreed to fund the difference to ensure that colleagues received 100% of pay. This informed later Remuneration Committee discussions and approval for paying the national living wage to all colleagues, effective from June 2021
- Debated organisational restructuring in Retail & Property and C&H, considering the terms and impact on the business over the long term and the impact on and views of stakeholders, chiefly colleague views. A voluntary redundancy programme was regretfully agreed upon. A consultation was communicated and managed via BIG that culminated in 7,000 voluntary redundancies
- In addition to the annual standing invite to three Board meetings and one Remuneration Committee meeting, the Chair of National BIG was invited to make use of attending in full and seeing all papers in order to provide colleague insight and sentiment in focused BIG deep dives, and to input on agenda items throughout Board meetings.
- The Board gave thanks to the outgoing BIG Chair, and welcomed the newly elected Chair to its meeting in December 2020
- Discussed talent and performance reviews taking place across the business. Non-executive directors offered insights to management from their external experience on successful methods for driving a high-performance culture and an engaged and motivated workforce
- Encouraged development and improved communication of M&S's culture and character as an employer, to attract the flexible and entrepreneurial talent required to execute the digital agenda
- Discussed inclusion and diversity initiatives taking place throughout the year, such as National Inclusion Week activity, new support and e-learning for line managers on inclusion, and the launch of the Culture & Heritage network.

CHIEF EXECUTIVE OFFICER UPDATE

The CEO's monthly presentation to the Board focuses on operational activities of strategic significance across the business. In addition to deep-dive items, transformation updates and People matters covered elsewhere, the Board discussed trading in each business unit, including sales trends, supply base performance, regional activity and performance against competitors. Insight was also provided on events throughout the year such as brand launches, seasonal trading at Christmas and Easter, and Black History Month.

CHIEF FINANCIAL OFFICER UPDATE

Financial updates, provided by the CFO, are considered by the Board at every meeting and cover monthly sales performance, profit, cash flow, cost base, capital expenditure, and outlook for the year. The CFO updates during the year also included discussion on 'key event' items, such as budget setting, dividend decisions, share price movements, measures to secure liquidity, feedback from investors and changes in the finance leadership team.

GOVERNANCE

PRINCIPAL COMMITTEES

The Board and Committee calendar is arranged by the General Counsel & Company Secretary in conjunction with the Chairman to ensure the agility of information flow and decision-making. The principal Committees usually meet within the week before the Board to provide the latest updates and recommendations for approval at each Board meeting, with the following discussed by the Board in respect of the principal Committees:

Audit Committee

- Agreed the proposed Group-level principal risks and the appropriate treatment and mitigating activities
- Discussed, agreed and made plans to communicate and disclose the Group's risk appetite and tolerance, and evaluated the risk profile at regular intervals against this.
- Reviewed half year, Q3 and full year results, including exceptional items and the audit timetable and plans of the external auditor
- Evaluated Internal Audit activity, and approved plans to appropriately reflect Covid-19 impacts

Remuneration Committee

- Reviewed updates on senior leadership objectives, targets and remuneration, including how these would be communicated to key stakeholders.
- Discussed remuneration activities relating to Covid-19, including furlough, store colleague pay uplift and the 5% share award

Nomination Committee

- Approved recommendations to appoint four new non-executive directors and reviewed updates on inductions

ESG Committee

- Discussed the need for, and approval of, the formation of the ESG Committee, announced in December 2020.
- Considered the development of the Plan A programme refresh
- Received updates on the ESG communications framework and approved recommendations for ESG-related disclosures within the annual report, including preparations for adopting the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations

- Invited the Board to attend external speaker sessions to develop insights on ESG issues.

OTHER GOVERNANCE

The General Counsel & Company Secretary provides a legal and governance update at every Board meeting, covering ongoing litigation, confidential project status updates and closed periods, share register analysis, shareholder insight and priorities, delegation of authority updates, and updates to related parties and potential conflicts of interest.

Building on the success of hybrid meetings in previous years, the Board took the decision against the Covid-19 backdrop to run an ostensibly digital Annual General Meeting ('AGM') in 2020, seeing participation treble and all resolutions passed, with votes ranging from 90.89% to 99.97% in favour.

Board impact

- Discussed insights and development plans from the external evaluator, including one-to-one mentor pairing between non-executive directors and ExCo members

KEY BOARD DECISIONS & S172(1) CONSIDERATIONS

In addition to the considerations, debates and decisions outlined already, the Board made some crucial decisions during the year, promoting our purpose, strategy and long-term sustainability. All Board decisions, whether iterative and complex, or immediate and straightforward, are made having considered the matters set out in Section 172(1) of the Companies Act 2006, and here we analyse some of these decisions and considerations in detail.

Covid-19 working & colleague redundancies

There has not been a stakeholder who has been unaffected by this global pandemic, both directly and indirectly. We detailed the Company's initial response to the crisis in last year's report (pages 50 to 53 of the 2019/20 Annual Report), and the Board continued to make decisions throughout this year to ensure that the business not only dealt with a prolonged pandemic but also prepared itself to emerge into a changed world in a very different, Never the Same Again, shape.

Stakeholder considerations

Despite customs embargoes or changes in our buying volumes, our **suppliers** have responded dynamically and robustly to support the pivot into categories and products that our customers have required over the past 12 months. The Board has therefore striven to support suppliers, and balance their often conflicting interests. When the Clothing & Home ("C&H") business anticipated being severely constrained during lockdown, the Board needed to act to secure the Company's liquidity for the likely duration of the crisis, and its options to do so included amending our supplier payment terms. In considering the impact that this would have on them, the Board resolved to ask our larger suppliers to accept less favourable payment terms, to help offset the cost of providing improved financial terms to our smaller suppliers who rely on prompt payment to remain economically viable. In exchange, the Board committed to standing by our larger, long-term suppliers, pledging that no fabric would go to waste and all orders placed before halting production would be paid for on normal terms.

Our category mix has had to adapt to customer demands during Covid-19, pivoting away from formalwear and schoolwear towards loungewear and home accessories. This trend has been compounded by the evolution of how customers shop, and the growth in online sales has stretched the capacity of our suppliers and distribution network. The Board considered

this impact at length when contemplating the appetite for, and ways in which to maximise the online opportunity, which it had already agreed would be in the best interests of **customers** (to keep pace with their demands) and **shareholders** (to ensure the sustainability of the C&H business). When it was ultimately agreed to introduce third-party brands to the M&S online offer, the Board had contemplated both the need to substantially increase our online capacity to avoid unnecessary strain on warehouse **colleagues** (leading directly to the Board's later decision to build a new automated online warehouse within the Bradford distribution centre, creating 300 new jobs), and the need to nurture productive and effective relationships with third-party **brand partners**. These arrangements were then individually tailored to reflect the level of M&S involvement and support that the brand would require (either through new concession or wholesale arrangements, or in the case of Jaeger, an acquisition).

By being both a C&H and Food retailer, with C&H deemed non-essential retail for a significant part of the various lockdowns, continuing to trade Food from stores also selling C&H was a complex and constantly evolving issue. Maintaining close working relationships with **local authorities** has been a constant consideration of the Board as a result. Only by considering and consulting with the UK and international governments,

the devolved UK administrations, and local authorities, was the Board able to navigate the variety of trading rules, ensure our **colleagues** and **customers** feel safe in our stores, and continue to trade the business as much as possible in the UK and internationally.

Our **colleagues** have been remarkable throughout the Covid-19 crisis, demonstrating time and again what a hugely important part they play in maintaining the M&S brand. When the Board has discussed measures to preserve liquidity and ensure that the business is right-sized for the future, it has done so with the need to support and protect colleague interests as a constant consideration:

- Given that a sizeable portion of our C&H store estate was not trading during the various lockdowns, the Board took the decision at the start of the pandemic to place 27,000 **colleagues** on furlough, agreeing that all furloughed colleagues should receive their full pay. Colleagues needing to shield for medical reasons were prioritised for furlough if they were unable to work from home, while additional training and digital tools were rolled out for colleagues to be able to work flexibly across different areas of the business, bringing the number of furloughed colleagues down to less than 1,000 at the time of writing this report.
- The Board were keen to ensure that **colleagues** working throughout the first UK

national lockdown were rewarded for their dedication and loyalty, store colleagues were awarded a temporary 15% uplift in pay, while support centre colleagues received a share award equivalent to 5% of their salary over the same period.

- As part of the more digital and flexible approach to working, and the need to ensure that the business is fit for purpose to operate in a more digitally enabled world, the Board considered options for streamlining the business and reducing costs, which included the possibility of colleague redundancies. Noting that this was the only viable option for right-sizing the business for the future and therefore in the best interests of **shareholders**, the Board was nonetheless mindful of the potential impact on **colleagues** and **communities**. As such, the Board agreed that colleague choice should be a factor as far as possible and that the Business Involvement Group ("BIG") should play a pivotal role in communicating with and supporting colleagues through any job losses. When the Board decided to make 7,000 roles redundant, they stipulated that these were to be made first by a voluntary redundancy programme ahead of any compulsory redundancies. All 7,000 redundancies were made voluntarily by colleagues as a result.

Creation of MS2

Over the past three years, the Group has made significant investment in its online capabilities, supported by expansion of capacity and improvements to operations at the Castle Donington distribution centre. However, M&S.com had previously been structured as the online channel of a bricks and mortar retailer, resulting in operations run in tandem with physical store-based trading rather than competing head-to-head with pure play competitors. Launching a new division within the C&H business to maximise online growth, MS2, builds on investments made in recent years and ways of working adopted during lockdown, evolving from a number of decisions the Board made in consideration of its stakeholders.

Stakeholder considerations

It was clear from the start of lockdown that the impact of the Covid-19 pandemic would leave the C&H business forever changed. To ensure the business' ongoing viability for **shareholders**, the Board considered the importance of continuing to trade online and meeting **customer** expectations, despite C&H store closures as a result of being classified as non-essential retail. To assist with clearing store stock and to keep pace with the growth in online orders, the Board approved plans for the "buy online, ship from store" ("BOSS") system of delivery to be rolled out across C&H stores,

allowing for online orders to be picked from store stock

While the initial results of the BOSS roll-out achieved the aim of clearing surplus stock in stores, the Board and management received feedback from **colleagues** that store operations were being impacted. In considering this feedback, the Board approved plans to move BOSS order picking outside store opening hours and introduce night shifts for colleagues. Further feedback relayed to management and the Board from **customers** outlined issues with delays and

multiple deliveries arising from a single order. On consideration of this, and of the increasing distribution costs and environmental impacts of running the BOSS system more widely, the Board ultimately agreed that a complete solution to rapid fulfilment needed to be developed, deciding to increase capacity at Castle Donington in the first instance

Alongside the rapid growth of online and fulfilment, the Board considered **customer** demands and the corresponding pressure on our **suppliers** to meet changing

customer trends in product mix. It therefore turned to the question of whether to meet these demands by introducing other brands into the product mix. Having seen unprecedented demand for the Nobody's Child collaboration, and considering the short-term **shareholder** and **customer** benefits of being able to quickly diversify into new product areas at considerable scale, the Board decided to introduce third-party brands to the online C&H offer.

Establishing an ESG Committee

The Board agreed that the ESG Committee should be created, effective from 16 December 2020, to assist with the refresh of the Plan A sustainability programme in the first instance, before monitoring its ongoing execution and wider ESG initiatives and compliance with regulations.

Stakeholder considerations

In deciding to reinvigorate Plan A and establish the ESG Committee for oversight, the Board considered.

- The growing contingent of our **investors** expecting to see environmental, social and governance matters embedded within our overarching strategy.
- Our **customers**, who are becoming increasingly concerned with ESG issues, including climate change, sustainable sourcing and ethical trading, to the point where we risk losing their loyalty if we cannot demonstrate that we are addressing these concerns

- The mounting pressure from our wider **community** including current and prospective **colleagues**, voiced through the media, to "do more" and be a better corporate citizen.
- The need to minimise our impact on the **environment** and ensure that we do not contribute any further to the climate crisis.

Our most sustainable denim yet

BOARD REVIEW

The 2021 external Board Effectiveness and Developmental Review was conducted according to the principles of the UK Corporate Governance Code 2018 (the "Code") and the supporting Guidance on Board Effectiveness, and was facilitated by Gurnek Bains of Global Future Partners ("GFP"). Gurnek Bains, and GFP, has no other connection with the Company, other than the work that he is doing to support the development of the Executive Committee ("ExCo") members as part of their individual and collective development plans.

The Company's last externally facilitated Board Review occurred in the previous year and was detailed in the prior year's annual report on page 56.

One of the outcomes of last year's Board effectiveness review was to retain GFP for this year, in part to review progress against the previous year's findings.

THE PROCESS

As with the previous year, in making its assessment of the Board and principal Committees' effectiveness, GFP observed proceedings of at least two Board meetings. GFP was also given access to a full year's worth of Board and Committee papers via a secure portal, to assist them in assessing the quality of the information that had been provided to the Board and Committees during the year.

However, the key change from the prior year was the number of one-on-one sessions that Board members and key Board contributors had with GFP. Due to the travel restrictions imposed by the Covid-19 pandemic, a host of these interviews were conducted electronically, and the one-on-one style worked for the Board members and contributors, who commented that they found the format relaxed yet focused.

"The Board had maintained its existing strengths while making excellent progress on developing the ExCo and ensuring that, collectively, there was effective oversight of key strategic themes."

Gurnek Bains, Global Future Partners

These interviews were conducted with Board members and the General Counsel & Company Secretary, and feedback was provided on GFP's observations of the Board and its Committees and the papers. For the first time, and as a direct result of one of the findings of the previous year's Board Effectiveness Review, interviews were also held with the ExCo members to gain insight into their performance, and their relationships with the Board. GFP provided observations and recommendations on how these relationships could be developed to become more effective. These meetings also provided Board members with the opportunity to discuss further themes that had emerged from the Board action plan from last year, as well as addressing topics that emerged from sessions held this year.

OUTCOMES

The Chairman received feedback from all Board members on his performance, as well as on the effectiveness of the General Counsel & Company Secretary, with a particular focus on the onboarding of new directors, and the Board involvement programme. The Chairman was also provided with feedback on the performance and effectiveness of each Board member, with particular attention being paid to Committee Chairs and the Senior Independent Director. These assessments focused on the role, skills and contributions made by individual members and the Boardroom dynamics at play.

The final GFP report was shared and discussed with Board members separately, in advance of the Board meeting held on 24 May 2021. At that meeting, the conclusions and insights gained were formally agreed and an action plan for the year ahead was developed and approved.

BOARD REVIEW INSIGHTS

This review established that the Board had maintained its existing strengths while making excellent progress on developing the ExCo and ensuring that, collectively, there was effective oversight of key strategic themes, the transformation programme and the cultural and people agenda.

There was recognition of the effectiveness of the increased involvement of the Board during the pandemic, and acknowledgement of the meaningful contribution made through the Covid-19 crisis. New Board members have been successfully integrated and describe a "best in class" induction process. Board members also expressed continuing confidence in the operation of the Board Committees and welcomed the creation of the ESG Committee.

Committees

Board Committees were also reviewed and, overall, were considered to function well in terms of their effectiveness, decision-making and the rigorous manner in which they addressed any issues brought to their attention.

Chairman

It was noted that the Chairman had driven the transformation at pace, and had strengthened the link between the Board and senior leadership during the course of the year, by encouraging the mentorship of senior management by non-executive directors. His leadership of, and recruitment onto, the Board was classed as purposeful.

Senior Independent Director

Due to the significant change over recent years at Board level, the role played by Andy Halford has been noted as having an important stabilising effect on the Board while new Board members settle into their roles.

BOARD ACTION PLAN

The Board action plan for 2021/22 includes:

- Working closely with the senior executive team on reporting into the Board and monitoring of the transformation programme.
- Continuing to increase the level of engagement between the Board and senior executives and making progress with the ExCo mentoring programme.
- Ensuring that the culture and people agenda are at the heart of the Company's transformation.
- Monitoring and building on the work done following the creation of the ESG Committee.

NOMINATION COMMITTEE REPORT

COMMITTEE ROLE AND MEMBERSHIP

The Committee reviews the leadership and succession needs of the organisation and ensures that appropriate procedures are in place for nominating, inducting and evaluating directors. In addition, the Committee ensures that the Group's governance facilitates the appointment and development of effective management that can deliver shareholder value over the longer term. The full Terms of Reference for the Committee can be found at marksandspencer.com/thecompany.

The Committee comprises the non-executive directors and is chaired by Archie Norman. Individual meeting attendance and changes to membership are displayed in the adjacent table. More information on the skills and experience of all Committee members can be found on pages 62 to 64.

“The Committee's activities had particular focus on aligning our leadership team's skills with the post-Covid strategy.”

Archie Norman,
Chair of the Nomination Committee

MEETINGS HELD IN 2020/21

	Member since	Number of meetings attended	Maximum possible meetings
Archie Norman	1 Sept 2017	5	5
Andy Halford	1 Jan 2013	5	5
Andrew Fisher	1 Dec 2015	5	5
Justin King ¹	1 Jan 2019	4	5
Sapna Sood	1 Jun 2020	4	4
Tamara Ingram	1 Jun 2020	4	4
Evelyn Bourke	1 Feb 2021	1	1
Former non-executive directors who served on the Committee for part of 2020/21			
Pip McCrostie ²	10 Jul 2018	4	5
Alison Brittain	1 Jan 2014	1	1
Katie Bickerstaffe	10 Jul 2018	1	1

1. Justin King was unable to attend the meeting on 12 April 2020 for personal reasons.
2. Pip McCrostie was unable to attend the meeting on 25 June 2020 for medical reasons.

More information on the Nomination Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

REVIEW OF THE YEAR

2020/21 was a busy year for the Committee, which oversaw the induction of a new Chief Financial Officer and the appointment of four non-executive directors. This was in addition to the Committee's usual talent and succession activities which, as covered on pages 64 and 65, had particular focus on strengthening diversity and aligning our leadership team's skills with the post-Covid strategy. The Committee's performance was reviewed as part of the 2020/21 externally facilitated Board Evaluation, which is covered on page 70.

The review established that the Committee functions well in terms of planning succession to Board roles and other senior positions. For directors and senior leaders, developmental feedback and support has also been provided as part of the evaluation process.

BOARD UPDATES

Towards the end of last year, the Committee discussed and guided the creation of the role of Chief Strategy and Transformation Director, which Katie Bickerstaffe took up in April 2020. As announced on 18 May 2021, Katie's role has now evolved into joint Chief Operating Officer, along with Stuart Machin.

Also towards the end of last year, the Committee was embarking on the detailed process to appoint and induct a

new Chief Financial Officer, culminating in the arrival of Eoin Tonge in June 2020.

Shortly after, the Committee identified Sapna Sood and Tamara Ingram as valuable additions to the Board and ensured both non-executive directors undertook comprehensive induction processes on their joining the business in June 2020, despite Covid-19 restrictions. Their value was quickly demonstrated, and the two became the first members of the newly formed ESG Committee.

At the 2020 AGM, the Board gave thanks to Alison Brittain, who stepped down after six years of service as a non-executive director.

More recently, the Committee recommended to the Board the appointment of Evelyn Bourke, who formally joined the business in February 2021. As well as joining the Nomination Committee, Evelyn is the newest member to join the Audit Committee and brings extensive financial and risk-related experience, the value of which has already been felt throughout the year-end process.

At the very end of the financial year, Pip McCrostie retired from the Board with our heartfelt thanks for her active and committed contribution to the Company.

The Committee was keen to maintain the balance of diversity and skills at Board level, and quickly commenced the process

NOMINATION COMMITTEE REPORT CONTINUED

to identify our newest Board colleague. In April 2021, the Committee was pleased to recommend the appointment of Fiona Dawson, who joins as a non-executive director on 25 May 2021. Fiona joins from Mars, Inc. with a wealth of global marketing and sales experience and a skillset which aligns with our accelerated transformation strategy. Fiona's appointment ensures that the Company maintains a 40% female Board, exceeding both internal and external targets.

DIRECTOR TENURE

As at the publication of this report, all directors have a tenure not exceeding nine years. During the year, the Committee considered the tenure of Andy Halford, who will have served for nine years in January 2022. On review, it was established that Andy remains independent, and provides a key point of stability during a period of significant change. It was further agreed that Andy's skills and experience remain relevant, and his capabilities as Chair of the Audit Committee are greatly valued by the Company.

EXECUTIVE COMMITTEE AND TALENT MANAGEMENT

One of the key leadership changes supported by the Committee has been the transition of the Operating Committee into the Executive Committee ("ExCo"), which is covered in more detail on page 60.

The Committee agrees with management that the composition of the ExCo improves the efficiency and effectiveness of decision-making, mirroring the Board's approach to a more condensed set of governance arrangements.

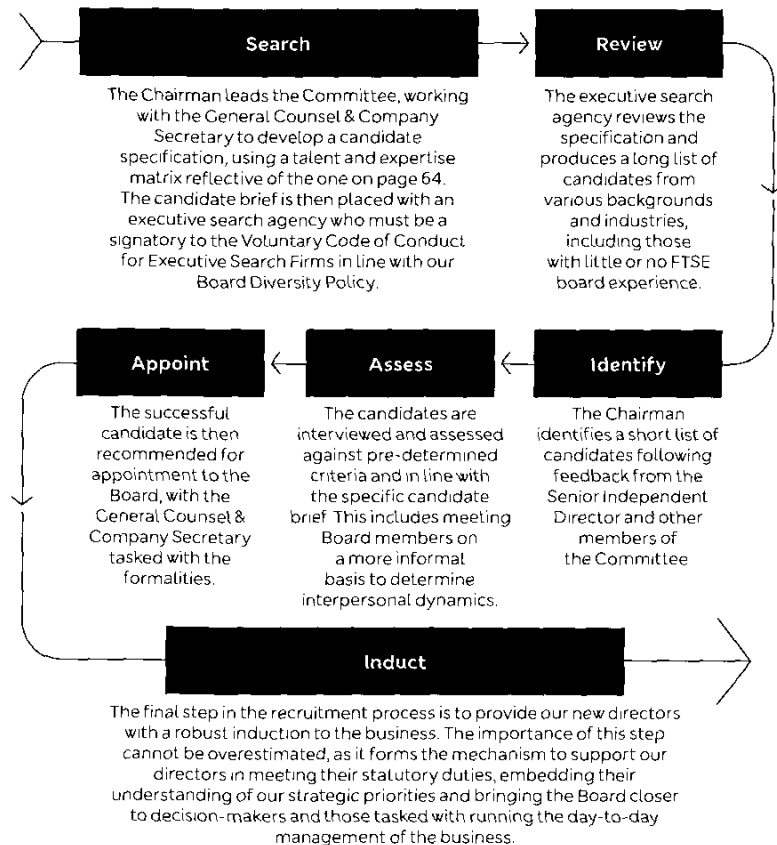
The establishment of the ExCo included the assignment of a Nomination Committee mentor to each ExCo member. In addition, the Committee supported the CEO in his appointment of three new members to his senior team, with Richard Price joining Eoin and Katie on the ExCo in July 2020 as Clothing & Home Managing Director.

As part of a wider programme to assess talent and succession in the business, the Committee members have been available to advise the ExCo in its review of all senior leaders.

The focus on talent assessment and development has extended throughout the organisation and has culminated in a different-shaped business with improved controls around talent management. While discussions have principally taken place at the Board, ExCo and Remuneration Committee, the Committee believes that this reflects the vital alignment between performance and reward.

DIRECTOR SUCCESSION AND INDUCTION PROCESS

In light of the Committee's active year, we have taken the opportunity to outline our approach to recruiting and inducting non-executive directors. The process is designed to ensure the search for and appointment of our directors is thorough and inclusive, and that their inductions provide an effective introduction to the M&S boardroom and, more crucially, facilitate a comprehensive understanding of the business.



Some activities included in this year's inductions have been

Before arrival:	Within the first month:	Within the first three months:	Within the first year:
<ul style="list-style-type: none"> Board procedures and PLC/Listed Company duties. Comprehensive pre-read of Board and relevant Committee papers from the previous 12 months. 	<ul style="list-style-type: none"> Business unit leadership team introductions. Stakeholder priorities analysis and overview, including introductions to Investor Relations, Corporate Communications and Plan A 	<ul style="list-style-type: none"> Store visits, including visits to renewal stores and a morning spent working in store. Logistics depot visit, Castle Donington distribution centre visit and website demonstration Partner introductions and visit to Ocado's offices. Customer services visit and customer data insight overview Meeting the external auditors and board development adviser. 	<ul style="list-style-type: none"> Attend National BIC meeting and colleague services overview Introduction to our heritage and visit to the M&S Company Archive. Attendance at management meetings and product previews.

ESG COMMITTEE REPORT

“

Sustainability is about securing the long-term future of a business and protecting the resources we all depend on.”

Tamara Ingram,
Chair of the Environmental,
Social & Governance Committee

ESTABLISHMENT

I was delighted to be asked to set up the new Board Sub-Committee (the “Committee”) on Environmental, Social & Governance (“ESG”) matters. M&S is a very special business – with loyal customers, passionate committed colleagues and a wonderful legacy of caring service, environmental leadership and deep-rooted community values. As Chair of the Committee, I’m pleased to present our report for the year covering activities from our establishment in December 2020. These have been focused on reviewing our activity and ensuring our strategy continues to lead the way and communicates the M&S point of difference.

PLAN A

The importance of Plan A to the M&S brand and culture cannot be overstated. The programme, appropriately named Plan A “because there is no Plan B”, was a ground-breaking venture in 2007, creating a fully integrated sustainability plan reflective of the M&S values of helping our colleagues, customers and communities lead happier, healthier and more fulfilling lives. It is through Plan A – our multi-year sustainability action plan – that we address the risks and opportunities that environmental and societal issues present to us as a business. It drives us to make better choices to ensure that M&S, and the

precious resources and planet we rely on, are in better shape for the future.

How a business approaches social and environmental challenges is of increasing importance to all stakeholder groups. In recognition of this, the Committee has met on a monthly basis in its first six months, with an update to the Board after each meeting. The Committee has been frequently attended by members of the Executive Committee (“ExCo”) and senior management. As a Committee, our role is to provide the additional rigour, support and challenge for the business as we reinvigorate our Plan A programme to uphold its leadership and keep it at the very heart of M&S’ customer proposition. As part of that role, we’ve looked at industry benchmarking, consumer insights and future trends, discussed marketing and communications frameworks, ways to embed Plan A more deeply within the business, as well as the framework against which progress will be measured.

ESG-RELATED RISKS AND RESPONSE

In addition to overseeing the governance underlying the various projects for Plan A’s reinvigoration, the Committee has supported the Audit Committee in its review of new and existing risks relating to ESG topics.

COMMITTEE ROLE AND MEMBERSHIP

The Committee is responsible for ensuring that the Company has an ESG Strategy (“Plan A”) that is both inspiring and differentiates M&S from its competitors, while also remaining fit for purpose. The Committee will also review the effectiveness of Plan A, including the governance arrangements for ensuring the successful delivery of the strategy and monitoring its overall performance. The full Terms of

Specifically, the Committee reviewed a new “social, ethical and environmental responsibility” risk, confirming its appropriateness to the Audit Committee as a distinct risk from the “corporate compliance & responsibility” risk that previously covered a range of ethical considerations. This new risk includes a broad spectrum of issues; environmental, human rights, animal welfare and ethical standards and commitments. In identifying these issues, we acknowledge the trust that customers place in the M&S brand to source sustainably and ethically, and their ongoing concern around issues like deforestation and animal welfare. We also recognise the increased focus from regulators and investors on these issues, particularly following ongoing interest in human rights abuses in supply chains in the UK and abroad.

As well as overseeing related risks, the Committee has recognised that these changes in the external environment are current and require responsive action now, and has advised management accordingly. This wider support for management has covered advising the business ahead of signing the ‘Exit the Uyghur Region’ Call to Action to address human rights abuses. The Committee has also critically reviewed, and subsequently monitored progress with actions raised by, the business’ co-authored Oxfam report.

Reference for the Committee can be found at marksandspencer.com/thecompany

The Committee comprises Tamara Ingram as Chair and Sapna Sood, with Archie Norman, Eoin Tonge and Nick Folland standing attendees at Committee meetings. Steve Rowe will also be a standing attendee for 2021/22. Individual meeting attendance is displayed in the table below. More information on the skills and experience of Committee members can be found on pages 62 to 64.

MEETINGS HELD IN 2020/21

	Member since	Number of meetings attended	Maximum possible meetings
Tamara Ingram	16 Dec 2020	3*	4
Sapna Sood	16 Dec 2020	4	4
By standing invite			
Archie Norman	N/A	4	4
Eoin Tonge	N/A	4	4
Nick Folland	N/A	4	4

* Tamara Ingram was not present at the meeting on 18 January due to last-minute rescheduling and time zone differences, but provided input in advance of the meeting and debriefed with members and attendees immediately following the meeting

ESG COMMITTEE REPORT CONTINUED

PREPARING TO ADOPT TCFD

Alongside the coordination of the Plan A refresh, the Committee has been briefed on the Listing Rule, which the Group is required to adopt from FY 2021/22, for UK premium listed companies to include a statement in their annual financial report setting out whether their climate-related

financial disclosures are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). While the Listing Rule will not be applied by the Group until FY 2021/22, the Committee has recommended that the Group provides disclosure on its

progress towards adoption of the TCFD recommendations, to demonstrate to our investors and wider stakeholders that the Company takes its disclosure obligations and climate change seriously. Accordingly, our progress on future TCFD reporting is set out below.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

INTRODUCTION

This report sets out our climate-related financial disclosures, which have been drafted to demonstrate our progress towards alignment with TCFD from FY2021/22. We have done this to demonstrate, both internally and externally, the importance of climate-related issues within our broader sustainability programme, and also to generate the internal momentum to ensure that we are in a position to produce high-quality disclosures in future years

We recognise that this is a complex issue and the TCFD recommendations are stretching. For the business to report more accurately, it needs to build a compliance framework that provides the Board and the ESG Committee with the assurance that disclosures are robust. This is complicated by the fact that the majority of the commitments involve medium- to long-term forward-looking

statements and, therefore, tracking progress against future targets will be vital

As a result, in this first TCFD report, we have attempted to explain our current position, state our expectations for the future and, importantly, identify where additional work is required for us to disclose fully against all TCFD recommendations next year.

STRATEGY

The Board has considered climate change as an emerging risk for a number of years. However, it has previously concluded that it should not be a standalone principal risk as the impacts, and therefore mitigations, are better served by incorporating climate change into other existing principal risks. This year, the Board, with input from the Executive Committee ("ExCo"), ESG and Audit Committees, has concluded that, while this overall approach remains correct, the Company should be more overt in positioning climate change risk separately. This is due to the urgency of the climate crisis, the increasing demands from stakeholders, and the forthcoming introduction of new regulatory obligations and reporting requirements

The ESG Committee reviewed a new "social, ethical and environmental responsibility" principal risk and recommended that it should be called out as a new and distinct risk from the "corporate compliance & responsibility" risk.

During the development and research phase for the refresh of Plan A, our stakeholders, particularly customers, highlighted the concerns they expect M&S to be addressing, with a broad spectrum of issues including climate change and the environment at the forefront of their expectations of M&S.

Furthermore, we have identified the need to better understand transition risks as a consequence of increasing regulation and changing societal expectations. This will be the focus of our scenario analysis work in 2021/22, which will be carried out to update our understanding and quantify the impacts of climate-related transition risks, as well as physical risks and market opportunities in line with the TCFD recommendations. The results of this assessment will be reported in next year's Annual Report.

M&S is already taking action to address the long-term implications of climate change on our corporate reputation, regulatory environment, physical assets, supply chain continuity and impacts for products and services. Our early targets to address climate change mean that M&S already has emission reduction plans in place for our own operations (scope 1 and 2) which have been established for over 14 years. This focus on reducing energy consumption and increasing the use of renewable energy has influenced key investment decisions such as the creation of our automated Clothing & Home warehouse at Castle Donington with a roof-mounted solar array. The business is committed to ensuring that its stores, offices and distribution centres are constructed and operated in a way that considers economic, comfort, environmental and energy whole-life impacts. Part of this commitment and resulting approach means we are ISO50001 'Energy Management Systems' certified

ENGAGING SUPPLIERS IN CLIMATE-RELATED RISKS AND OPPORTUNITIES

An important part of our strategy on climate change issues is to engage suppliers and build greater awareness, action and resilience to changes in climate across the food and clothing industry. In the **food supply chain**, we have worked in partnership with tea, coffee and produce suppliers to ensure that they are building capacity in their producer and grower networks on climate change resilience. This has included projects focused on improving water management for coffee growers in Peru and increasing resilience of British growers through our Farming with Nature programme, with an emphasis on enhancing biodiversity and pollinator protection programmes. To meet changing customer demands for more vegan offerings due to climate considerations, M&S also launched a significant category of vegan food in 2019 (Plant Kitchen). Furthermore in 2020, a new Food Innovation Hub was established to spearhead sustainability solutions, including soya-alternative proteins

for plant-based foods and the latest in material science to reduce plastic packaging. The Hub enables us to track emerging trends and insights, and respond to our customers' needs in the future

In the **textile industry**, M&S is taking part in a range of collaborative supply chain programmes focused on reducing greenhouse gas emissions, including WRAP's Textiles 2030 and the Sustainable Apparel Coalition ("SAC"). As a signatory to Textiles

2030, we are committed to reducing the aggregate greenhouse gas footprint of new products by 50% by 2030. The SAC has collaborated with industry partners to develop and define a robust methodology to measure the climate impacts of the apparel industry annually using the Higg Index. We have asked our top clothing suppliers to adopt this index to provide us with data visibility on environmental KPIs, including greenhouse gas emissions. Our Clothing & Home business also increased its vegan footwear ranges in 2019.

Plant Kitchen

Food Innovation Hub partnerships will help M&S Food build on its market share of plant protein ranges

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT CONTINUED

POSITION AND AMBITION

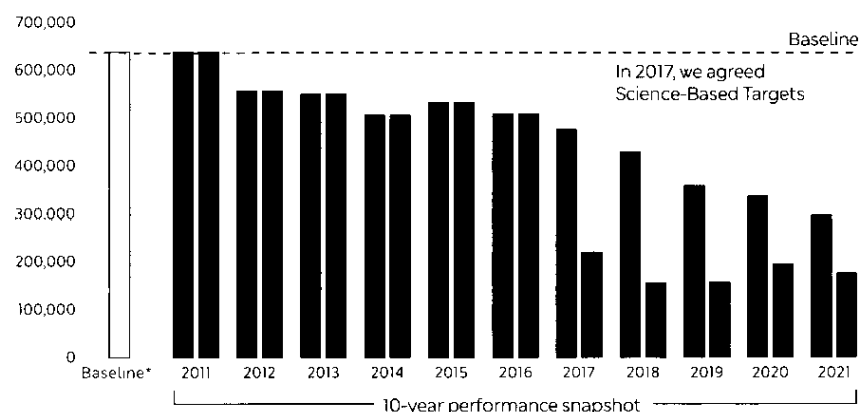
M&S has a strategic ambition to enhance our climate change commitments from carbon neutral operations today to net zero emissions by 2035. We are currently developing our targets and delivery roadmap. This work will be completed in FY2021/22 and will update our position on the use of renewable energy and the role of carbon removals (offsets). This strategic ambition builds on earlier actions taken on climate change as part of Plan A and on the existing approved science-based targets to reduce greenhouse gas emissions; 80% reduction by 2030, 90% reduction by 2035, and a cumulative project L-based target for our wider value-chain of 13.3 million tonnes CO₂e by 2030.

The adjacent chart demonstrates that this has been an issue we have taken seriously, and we have already made demonstrable progress on reducing our operational emissions (scope 1 and 2) against the baseline of 2006/2007. Our scope 3 baseline will be set against our 2016 position, in line with our science-based target. Modelling indicates that our total value-chain greenhouse gas emissions at that time were c.6.4 million tonnes.

We intend to track our progress against scope 1 and scope 2 emissions in future years using the adjacent chart, and will incorporate and track progress against scope 3 emissions in the coming years, building on our science-based target in this area.

In addition to this, we will undertake scenario analyses during 2021/22 to update our understanding of climate-related risks, including transition risks and opportunities arising from the transition to a low-carbon economy in line with the Paris Agreement.

M&S Operational emissions (Scope 1 and 2)**



● Location-Based ● Market-Based

* Baseline year is 2006/07. This has been used consistently as our baseline year in annual Plan A performance reports and our submissions to the Carbon Disclosure Project (CDP).

** In accordance with GHG protocol guidelines, and in absence of appropriate renewable sourcing in our 2015-16 reporting year and prior, our location-based emissions were equal to market-based emissions. Significant reductions in market-based performance in 2017 is primarily due to the procurement of renewable electricity. All figures represent scope 1 and 2 data only so as to present a fair and like-for-like trend for comparison.

“M&S is already taking action to address the implications of climate change, having had emission reduction plans in place for our own operations for over 14 years.”

Steve Rowe, Chief Executive

WHAT HAVE WE ALREADY DONE

Over a decade ago, M&S recognised climate change as a shared and potentially existential environmental threat, and one that could pose a challenge to our global business operations and supply chain. In addition to our clear corporate responsibility for cutting emissions to avoid the worst consequences of climate change, we recognised that our energy costs could increase over time and we could be required by law to cut emissions. We also acknowledged that a changing climate could make some raw materials scarce and more expensive. It was our view that, by responding effectively, we would build greater business resilience and be better placed to benefit from shifting market demands for lower emission products and services.

That is why, in 2007, we committed to making our UK and Republic of Ireland operations (stores, offices, warehouses, business travel and logistics) carbon neutral by 2012. M&S has been a leader on climate change transparency, being one of the early companies to make a full submission to the Carbon Disclosure Project and to publish GHG emissions, assured by a third party under their proprietary methodology, in 2008. Since then, we have transparently reported on the progress we have been making on reducing our greenhouse gas emissions in our annual Plan A reports and through the Carbon Disclosure

Project. Greenhouse gas emissions data for M&S operations (scope 1 and 2) in 2020/21 can be found within the streamlined energy and carbon reporting section on page 32 and in our Plan A Report on pages 30-32, available on our corporate website at marksandspencer.com/plana.

We also took early action to understand the physical risks associated with climate change, commissioning specialist consultancies to carry out reviews on our food and clothing supply chain in 2012 and our property estate in 2015. We knew we would have to revisit our plans periodically to ensure they are keeping pace with the need for decisive action on the climate emergency.

Since then, much has changed. The increased focus and awareness on climate change in the investor community is noticeably different from 2007. While this is our first year on the journey to aligning our climate related disclosures to the TCFD framework, these disclosures will evolve to become even more comprehensive as the Company implements the actions outlined on page 76 during 2021/22. We believe we have made good progress towards TCFD recommendations this year and plan on delivering a fully compliant disclosure for FY2021/22.

KEY MILESTONES IN OUR CLIMATE CHANGE JOURNEY

- 2002** Full submission to Carbon Disclosure Project
- 2006** Established our global greenhouse gas emissions reporting boundary
- 2007** Launched Plan A, our sustainability programme. Set an ambition to be carbon neutral in operations by 2012
- 2012** Achieved carbon neutrality in UK and ROI operations and reduced emissions by 22%
- 2014** Achieved carbon neutrality in International operations
- 2017** New targets approved by the Science Based Targets Initiative. Signed up as a supporter to TCFD
- 2020** Reduced emissions by 70% against our 2006/7 baseline. Signed up to British Retail Consortium's Climate Action roadmap
- 2021** Began preparations for the future adoption of TCFD reporting

ESG COMMITTEE REPORT CONTINUED

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT CONTINUED

PREPARING FOR TCFD – IMPROVING GOVERNANCE

Governance

At the end of 2020, in response to increasing stakeholder interest and pressures relating to environmental, sustainability and governance matters, we announced the creation of a new Board Sub-Committee on ESG. While the creation of this new Committee provides enhanced visibility at the top of the organisation, it is only part of the wider governance arrangements in place to support the Committee, and ultimately the Board, in leading the Company's response to these issues and discharging our responsibilities, particularly in this area of increasing focus and regulation.

As with all matters delegated by the Board, the CEO is ultimately tasked with the delivery of the Company's ESG programme. To effectively discharge these duties, his executive leadership team, the ExCo, have collective responsibility for the delivery of the ESG targets, as approved by the ESG Committee on behalf of the Board. The Managing Director of each of the five accountable businesses (Food, Clothing & Home, International, Retail & Property and Bank & Services) has responsibility for the creation and delivery of targets in their business, in addition to the collective responsibility they have as members of the ExCo.

During the course of the year, the Board, ESG Committee and ExCo have made good progress on revitalising Plan A, which includes a strategic ambition to be a net zero business. In addition to this, the ESG Committee recommended that the Group provides disclosure on its progress towards adoption of the TCFD recommendations, ahead of the new Listing Rule coming into effect from our next year end. While the detailed delivery plan and means of measurement underpinning this net zero ambition and future TCFD statements will be developed in 2021/22, work is already under way to develop and agree short- and medium-term targets for each of the businesses, as well as the structure to aggregate them at Group level. Performance against these targets will be tracked by our Transformation Project Office team, with quarterly reports being provided to both the ExCo and ESG Committee, as well as at least annually to the Board.

Risk Management

M&S has established a risk management framework that allows consistent adherence to, and application of, risk management principles across the Group, with each business and function accountable for identifying its specific risks. Climate change is considered within two principal risks in the Group risk assessment; "social, ethical and environmental responsibility" has been identified as a new principal risk in our 2020/21 Annual Report, and we have also specified future compliance with mandatory TCFD reporting in our existing "corporate compliance and responsibility" risk. At a business/functional level, climate change considerations also form a part of the Plan A risks that are being managed by our International and Property businesses within their risk registers.

The structure of the Group's overall risk management framework, including climate-related risks, is the responsibility of the CFO, supported by the Group Risk team. The Managing Directors of the five accountable businesses are responsible for their business' risk register, and for managing and resourcing mitigating activities. The ExCo members are individually responsible for reviewing and confirming risks in their own areas, with the Executive Directors reviewing the entirety of the principal risks, providing the Audit Committee with confidence that significant risks are appropriately monitored and managed.

As required by the UK Corporate Governance Code, the Audit Committee is tasked with ensuring the effectiveness of the risk management process, as well as confirming that the principal risks and uncertainties of the business are appropriately disclosed externally. However, from this year and as part of our governance and non-financial control arrangements, the ESG Committee has also supported this process by reviewing and providing the Audit Committee with recommendations on all ESG-related risks, including climate change. Further details on the Group's overall risk management process are available on page 47.

METRICS AND TARGETS – WHAT ARE WE COMMITTING TO?

When we launched Plan A in 2007, we made the commitment to have carbon neutral operations by 2012. In 2012, we achieved our original climate-related goal for our own operations, reducing emissions by 22%, sourcing renewable electricity and investing in offsets to compensate for remaining emissions. Since 2012, we have continued to refine our targets and deliver further emissions reductions. In 2017, we confirmed our science-based targets. The first was a commitment to reduce operational emissions (scope 1 and 2) by 80% by 2030 (compared with 2007 levels). In 2020/21, our market-method emissions were 177,000 tonnes CO₂e, down by 72% on 2006/7 (640,000 tonnes CO₂e), putting us in a good position to achieve our first operational emissions science-based

target of 80% by 2030. Greenhouse gas emissions data for M&S operations (scope 1 and 2) in 2020/21 can be found within the streamlined energy and carbon reporting section on page 32 and in our Plan A report on pages 30-32 (available on our corporate website). As detailed in the chart on page 75, these measurements are set against our original baseline year of 2006/7.

The second science-based target, over the same time period, committed to cut emissions in our supply chain (scope 3) by a cumulative 13.3 million tonnes (classified as being "well under 2°C" by the Science Based Targets Initiative). This was set against a baseline of modelled emissions totalling c.6.4 million tonnes annually.

Our strategic ambition is to enhance our climate change commitments from carbon neutral operations today to net zero emissions by 2035. Over the course of the next 12 months, we will set out what we mean by that and the role that reductions, renewable energy and removals (offsets) play in meeting the overall ambition. Detailed work will be conducted in 2021/22 to determine the delivery roadmap to achieve this ambition in the short, medium and long term, including the contributions required from each of the accountable businesses and our supply chains. The results from our scenario analyses will also inform our proposed metrics and actions to be taken on climate-related risks and opportunities.

CONCLUSION

Playing our part in the retail sector

In September 2020, as part of supporting the low carbon transition, we signed up as supporters to the British Retail Consortium's Climate Action Roadmap. M&S is committed to working with other retailers, our suppliers, the government and other stakeholders, and to support customers collectively to deliver the retail industry's net zero ambition.

ACTION WE WILL TAKE IN 2021/22

- Publish the delivery roadmap to underpin our new net zero ambition with clear targets across each of the three scopes.
- Continue to track our performance against the baseline.
- Conduct scenario analysis.
- Publish the climate-related risks and opportunities over the short, medium and long term.

AUDIT COMMITTEE REPORT

“

Committee members have guided management on the controls required to navigate Covid-19 challenges and re-position the business for the digital era.”

Andy Halford,
Chair of
the Audit
Committee

However, the new environment in which the business now operates has also presented opportunities to drive the scale and pace of change. Committee members have offered guidance and advice to management on the risks involved and controls required in successfully delivering activities in this new digital and data space covering the creation of MS2, the introduction of third-party brands online and the relaunch of Sparks.

The Committee continued its work to strengthen non-financial controls and governance arrangements including: introduction of the Code of Conduct compliance framework; deepening the understanding of responsibilities and accountabilities within the Ocado Retail joint venture; creation of the Compliance Monitoring Committee to support management in discharging their duties

relating to M&S Bank; and, ongoing work to improve business unit level risk reporting and monitoring.

The Committee fulfils a vital role in the Company's governance framework, providing valuable independent challenge and oversight across the Company's financial reporting and internal control procedures. Ultimately, it ensures that shareholder interests are protected, the Company's accelerated transformation is supported and long-term value is created. The Committee's newest member, Evelyn Bourke, brings significant financial and risk experience to drive the continued improvements provided by the Committee. Our thanks go to Pip McCrostie for her valuable contributions over the last three years, having retired from the Board and the Committee in March 2021.

INTRODUCTION

As Chair of the Audit Committee (the "Committee"), I am pleased to present the Committee's report for the year ended 3 April 2021. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, and the key topics it considered in doing so.

While the Committee's core duties were unchanged, there was particular focus on improving internal controls and accountabilities to support agile decision-making in a year of unprecedented uncertainty and accelerated business transformation. This included helping the business navigate the risks and uncertainties arising from Covid-19 and Brexit. For understandable reasons, the Committee has been focused on balance sheet strengthening activity and business continuity plans. Additionally, oversight was provided to ensure comprehensive measures were in place to safeguard the health of our colleagues and customers, prevent disruption in the supply chain, and provide sufficient liquidity to continue trading. These mitigating activities are covered in more detail in the Principal Risks and Uncertainties section on pages 48 to 56.

COMMITTEE MEMBERSHIP

The Committee solely comprises independent non-executive directors. At the 2020 AGM, Alison Brittain stepped down from the Board and the Committee. Pip McCrostie also retired at the end of March, following the final Committee meeting of the year, and the Committee welcomed Evelyn Bourke as its newest member in February 2021. Detailed information on the experience, qualifications and skillsets of all Committee members can be found on pages 62 to 64.

INDEPENDENCE AND EXPERIENCE

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and relevant financial and commercial experience across various industries, including the retail sector.

The Board has also confirmed that it is satisfied that Andy Halford and Evelyn Bourke possess recent and relevant financial experience, as did Pip McCrostie who was a member of the Committee for the duration of the year.

MEETINGS HELD IN 2020/21

The Committee held six meetings during the year, with members of senior management invited to attend and to present as and when specialist technical knowledge was required.

The Committee met without management present before each full meeting. It also met privately with the lead audit partners, and separately with the Head of Internal Audit & Risk, after each meeting.

It is important for the Committee Chair to fully understand any topics of particular concern to facilitate meaningful dialogue during Committee meetings. To support him in fulfilling this role during the year, Andy Halford met regularly, on a one-to-one basis, with the Chief Financial Officer,¹ the Director of Group Finance, the Head of Internal Audit & Risk, members of senior management and the lead audit partner from Deloitte.

More information about the Audit Committee is available in our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

	Member since	Number of meetings attended	Maximum possible meetings
Andy Halford	1 Jan 2013	6	6
Justin King	4 Nov 2019	6	6
Pip McCrostie	10 Jul 2018	6	6
Alison Brittain ²	11 Mar 2014	2	2
Evelyn Bourke	1 Feb 2021	1	1

1. Meetings were held with the Interim Chief Financial Officer as required prior to Eoin Tonge joining the business.
2. Alison Brittain stepped down from the Committee on 3 July 2020.

AUDIT COMMITTEE REPORT CONTINUED

WHAT WAS ON THE COMMITTEE'S AGENDA IN 2020/21

CORE DUTIES

The Committee undertook the following core activities during the year:

- Monitored the integrity of the annual and interim financial statements and any formal announcements relating to the Company's financial performance, with a focus on reviewing the significant financial reporting policies and judgements within them.
- Reviewed internal controls and risk management processes particularly in the context of challenges posed by Covid-19 and Brexit.
- Assessed and determined the treatment for Covid-19 impacts on the balance sheet, covering accounting treatment and government support, specifically furlough and business rates relief.
- Reviewed the Board's approach to assessing the Company's long-term viability.
- Debated and agreed changes to the principal risks.
- Maintained the relationship with the external auditor, including monitoring their independence and effectiveness.
- Reviewed the effectiveness of the Company's whistleblowing, fraud, gifts and hospitality procedures.
- Reviewed and approved the Company's statement of compliance with the Groceries Supply Code of Practice.
- Assessed whether the Annual Report, taken as a whole, was fair, balanced and understandable.
- Reviewed and approved the Company's Euro Medium Term Note ("EMTN") programme, including buyback of previously listed medium-term notes, as well as supporting and approving the decision to apply for the government's Covid Corporate Financing Facility ("CCFF") programme, which was successfully obtained but remains undrawn.
- Reviewed the effectiveness and independence of the Internal Audit & Risk function.
- Reviewed for the second year the appropriateness of segmental reporting units and assumptions underlying the cost allocations.

INTERNAL CONTROLS FRAMEWORK

The Committee received updates on internal control matters from the Internal Audit team at each meeting, as part of its key duty to review the Company's internal control processes. This regular monitoring of the internal control framework ensured timely identification of issues and formal tracking of remediation plans.

Instances where the effectiveness of internal controls were deemed to be insufficient were discussed during the year, either by the Audit Committee or the full Board, and the resulting improvement plans were monitored by the Committee.

Risk and control updates

In line with the Group Risk Policy, our accountable businesses and key functions remain accountable for managing and reporting their risks, as well as maintaining their internal control environment. The output of these activities are reviewed by the Audit Committee through annual updates provided directly by management. A summary of each core management update is provided below.

External audit

The Committee also noted the internal control findings highlighted in the external auditor's report and confirmed that it is satisfied that there is no material misstatement and that relevant actions are being taken to resolve the control matters raised.

The FRC's Audit Quality Review ("AQR") team's review of last year's audit resulted in an overall rating of limited improvements required with no key findings arising. Only one area of testing (inventory) was identified as requiring limited improvements. The audit of our going concern basis of accounting was highlighted by the FRC as an area of good practice.

Non-financial controls

Finally, the Committee reviewed improvements to the Group's overarching governance and internal control framework. As reported last year, the Company launched a new Code of Conduct setting a floor of commitments and responsibilities for business conduct based on the Group's principal risks and regulatory requirements. During the course of the year, the Committee has monitored compliance with the Code on a bi-annual basis via metrics measuring adherence to key policy areas. The Committee believes that this change and the supporting architecture of the compliance metrics has provided sufficient visibility to monitor and assess risk and produced an overall improvement in the Company's non-financial controls.

MANAGEMENT UPDATES

The Committee received detailed updates from one or more business area at each of its meetings; an overview of each update is summarised below. Each update includes a review of the risk register, including progress made to implement key mitigating actions, emerging risks being monitored and outstanding actions from Internal Audit reviews completed. Management has also confirmed how it continues to maintain key control and assurance activities. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise.

Retail, Property & Business Continuity

- Evaluated results and agreed actions from business continuity exercises, tests and assurance reviews which had taken place globally. Assessment areas included Covid-19 outbreaks, terrorist threats, disruption caused by Brexit, supplier resilience, cyber-attacks and fire damage.
- Assessed updates on asset management, covering strategic programmes in relation to the UK store estate, lease management and payment systems.

Clothing & Home

- Reviewed risks arising from rapid growth in online sales and plans to mitigate them, including warehouse capacity and logistics, supply chain preparedness and talent capability.
- Considered and monitored the risk appetite for the third-party brands strategy.
- Discussed changing customer behaviour, the uncertainty within the C&H market arising from the pandemic, and reviewed and monitored product design, stock management plans and related activities.

Food

- Reviewed and assessed the changing nature of risks relating to the Ocado Retail joint venture, from the successful launch of M&S product on the platform through to increasing demand for online groceries and the subsequent strategic impacts.
- Challenged management on GSCOP issues and encouraged proactive engagement with the new Grocery Code Adjudicator.
- Monitored customer health as an emerging risk and the acceleration of our health and nutrition strategy as a mitigating initiative.

International

- Evaluated the mitigating actions presented by management against various Brexit scenarios and differing responses to Covid-19 in local jurisdictions.
- Reviewed and debated the developing maturity of financial controls in each market, including planned enhancements such as sourcing optimisation and SAP implementation.

Digital & Data and Sparks

- Assessed and debated the increasing possibility of hacking and data breaches, specifically the mitigations in place to protect sensitive customer data.
- Discussed data use and ethics, encouraging management to codify internal practices.

Bank & Services

- Considered the regulatory responsibilities and risks associated with having commercial partners operating under the M&S brand.
- Enhanced oversight and assurance of FCA-regulated activities through the creation of the Compliance Monitoring Committee.

Technology transformation

- Reviewed new controls for prohibiting unauthorised technology use, protecting information security and managing critical technology suppliers.

HR

- Challenged the merit of devolving HR responsibilities into each business unit, recommending that the Board review this in detail.
- Scrutinised the methodology and calculation for recording furlough income.

AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed as part of the 2020/21 externally facilitated Board Evaluation, which is covered on page 70.

The review found that the Committee functions effectively and that issues are dealt with in a thoughtful, clear and rigorous manner.

Feedback on the level of challenge and quality of updates provided by the Committee to the Board was positive.

The Committee was considered to be operating well in terms of meeting structure and the levels of engagement provided by its members, with demands on members' time viewed as extensive but not problematic. The range of assurance provided to the Board by the Committee was deemed appropriate. However, improvements could be made in respect of the pace with which the business actioned certain matters following discussions with the Committee.

The Committee made good progress on the 2020/21 action plan, particularly in relation to increasing the focus on risk reporting, compliance monitoring and emphasising accountability for risk at business unit level.

2021/22 ACTION PLAN

- Review the effectiveness of the Internal Audit function and its activities.
- Continue to increase focus on risk reporting and accountability for risk at business unit level.
- Increase focus on financial and non-financial controls, including monitoring effectiveness of the Code of Conduct, CSCOP compliance, the Financial Controls Framework and master data reviews.
- Review the implications of the BEIS white paper on restoring trust in audit and corporate governance.
- Monitor the progress of improvements to the Company's information security, including the progress of work taking place to migrate to cloud-based systems.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2021 Annual Report & Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the Annual Report focuses strongly on the key strategic messages in the Strategic Report. It was therefore important for the Committee to ensure that this emphasis did not dominate the overall transparency of the disclosures made throughout the report, which it knows stakeholders find useful, and that the messages presented by the business are both clear and reflective of the Company as a whole.

The Committee received a full draft of the report and provided feedback on it, highlighting the areas that would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final approval.

The Committee was provided with a list of the key messages included in the Annual Report, highlighting those that were positive and those that were reflective of the challenges from the year. A supporting document was also provided, specifically addressing the following listed points, highlighting where these could be evidenced within the report.

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. In particular, the Committee considered:

IS THE REPORT FAIR?

- Is the whole story presented and has any sensitive material been omitted that should have been included?
- Is the narrative in the reporting on the business performance in the front of the report consistent with that used for the financial reporting in the financial statements?
- Are the key messages in the narrative reflected in the financial reporting?
- Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report; and does the messaging presented within each part remain consistent when one is read independently of the other?
- Is the Annual Report properly considered a document for shareholders?
- Are the statutory and adjusted measures explained clearly with appropriate prominence?

- Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?
- How do the significant issues identified compare with the risks that Deloitte plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

- Is there a clear and understandable framework to the report?
- Are the important messages highlighted appropriately throughout the document?
- Is the layout clear with good linkage throughout in a manner that reflects the whole story?

CONCLUSION

Following its review, the Committee was of the opinion that the 2021 Annual Report & Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES

The Audit Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates.

Throughout the year, the Finance team has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

This section outlines the main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied. All accounting policies can be found in note 1 to the financial statements. Where further information is provided in the notes to the financial statements, we have included the note reference.

Each of the areas of judgement has been identified as an area of focus and therefore the Committee has also received detailed reporting on these matters from Deloitte.

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and, in particular, the use of alternative performance measures and the presentation of adjusting items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusting items. In the current year, management has included in this category: impairments of intangible assets; the implementation and execution of strategic programmes; directly attributable (gains)/ expenses resulting from the Covid-19 pandemic; impairments, impairment reversals and write-offs of the carrying value of stores and other property charges; Ocado Retail Limited related charges; the Sparks loyalty programme transition; the reduction in M&S Bank charges incurred in relation to the insurance mis-selling provision, and charges relating to GMP other pension equalisation.

➤ See note 5 on p141

PROPERTY MATTERS (INCLUDING ASSET WRITE-OFFS, ONEROUS LEASE CHARGES AND USEFUL ECONOMIC LIVES)

The Committee has considered the assessments made in relation to the accounting associated with the Group's UK store estate strategy. The Committee received detailed reports from management outlining the accounting treatment of the relevant charges, including impairment, accelerated depreciation, dilapidations, redundancy and onerous lease costs (including void periods). The Committee has reviewed the basis for the key assumptions used in the estimation of charges (most notably in relation to the costs associated with property exit/sub-let costs, the sale proceeds expected to be recovered on exit, where relevant, and the cash flows to be generated by each cash-generating unit in the period to closure). The Committee has challenged management and is satisfied that the assumptions made are appropriate. The Committee is also satisfied that appropriate costs and associated provisions have been recognised in the current financial year.

➤ See notes 1, 5, 15 and 22 on p129, p141, p158 and p175

IMPAIRMENT OF GOODWILL, BRANDS, TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands, tangible and intangible fixed assets, including land and buildings, store assets and software assets. The Committee received detailed reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (e.g. discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate.

The Committee has also understood the sensitivity analysis used by management in its review of impairments, including consideration of the specific sensitivity disclosures in the relevant notes. In addition, the business plans detailing management's expectations of future performance of the business are Board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

➤ See notes 1, 5, 14 and 15 on p129, p141 and p156-160

INVENTORY VALUATION AND PROVISIONING

As a direct result of the restrictions on non-essential retail imposed in response to the Covid-19 pandemic, the Group's ability to sell through existing Clothing & Home stock was deemed to be significantly impacted, and additional Clothing & Home inventory provisioning was required at the end of last year. However, stronger trading particularly in online, albeit at lower margins, has allowed the Group to continue to sell much higher volumes of stock than assumed versus the Covid-19 scenario. As a result, and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net credit has been recorded. This represents a significant release to the Covid-related inventory provisions recorded in the 2019/20 financial statements, to align with our latest estimates based on current sales performance, offset by charges in the period relating to reassessment of storage and fabric cancellation provisions.

Incremental provisions remain in place where risk remains and include a provision against excess slow-moving personal protective equipment, committed to during the peak of the first Covid-19 lockdown and incurred directly in response to the Covid-19 pandemic.

The Committee considered the Group's current provisioning policy, the impact of expected future expectations of sell-through impacting the recoverability of the cost of inventories held at the balance sheet date and the nature and condition of current inventory. When calculating inventory provisions, the Group has considered the nature and condition of inventory, as well as applying assumptions around the easing of Covid-19 restrictions. The Committee has concluded that such are appropriate. The assumptions have been disclosed in the financial statements

➤ See notes 1 and 5 on p129 and p141

SIGNIFICANT ISSUES CONTINUED

GOING CONCERN AND VIABILITY STATEMENT

The Committee has reviewed the Group's assessment of viability over a period greater than 12 months. In assessing viability, the Committee has considered the Group's position presented in the budget and three-year plan recently approved by the Board. In the context of the current challenging environment as a result of Covid-19, a downside scenario was applied to the plan. This was based on the potential financial impact from business disruption as a consequence of one, or more, of the Group's principal risks and uncertainties materialising and both the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment. The Committee has concluded that these assumptions are appropriate.

The Committee has also reviewed the Group's reverse stress test that was applied to the model. The Committee has reviewed this with management and is satisfied that this is appropriate in supporting the Group as a Going Concern.

In addition, the Committee received regular updates on the steps taken by management regarding liquidity, including the extension of the relaxation of covenant tests with the Group's lending syndicate of banks providing the £1.1bn revolving credit facility, now up to and including the period to March 2022.

The Committee is satisfied that these measures have reduced liquidity risk.

➤ See note 1 on p129

RETIREMENT BENEFITS

Following the significant reduction in the pension surplus during the year, the Committee has reviewed the actuarial assumptions, such as discount rate, inflation rate, expected return of scheme assets and mortality, which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements.

➤ See note 11 on p149

REVENUE RECOGNITION IN RELATION TO REFUNDS, GIFT CARDS AND LOYALTY SCHEMES

Revenue accruals for sales returns and deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated based on historical returns and redemptions. The Committee has considered the basis of these accruals, along with the analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

➤ See note 19 on p162

SUPPLIER INCOME

The Committee is satisfied that this continues to be monitored closely by management and controls are in place to ensure appropriate recognition in the correct period. Further control improvements are planned in the coming year. The financial statements include specific disclosures in relation to the accounting policy and of the effect of supplier income on certain balance sheet accounts.

➤ See note 1 on p129

VALUATION OF MARKS AND SPENCER GROUP PLC COMPANY ONLY INVESTMENT

Marks and Spencer Group plc holds investments in Group companies which are reviewed annually for impairment. Management has prepared an impairment review based on estimated value in use of the Group. A partial impairment reversal of the prior year impairment charge has been recorded (see note C6 Investments on page 185). The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR

TENURE

Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Richard Muschamp, has been in post since the start of the 2019/20 audit. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2024.

The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2021/22 financial year. It believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Corporate Governance Code. There are no contractual obligations that restrict the Committee's choice of external auditor.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves the Committee's own views, as well as providing opportunity to comment, via completion of a questionnaire, from a targeted group that have regular interactions with the external auditor. The targeted group include: the Chief Financial Officer, Director of Group Finance, the four Finance Directors for Clothing & Home, Food, International and Retail & Property, the Head of Investor Relations, Head of Finance Group Reporting and Head of Finance Business Services.

The Committee was provided with a summary of the responses received from management to assist with its own considerations.

Feedback from the target groups was overall positive. It was agreed that the audit team had continued to be responsive and cooperative and had again demonstrated flexibility and adaptability in working with management day-to-day to overcome the challenges faced both throughout the year and during the year end as a result of the pandemic and continued remote working. Early engagement throughout the year again on a number of key issues had been appreciated and had allowed a number of items to be addressed in advance of the year end.

The audit partners continue to have a good understanding of our business. A common theme reflected a desire for more engagement outside of the peak year end period

NON-AUDIT FEES

To safeguard the independence and objectivity of the external auditor, the Committee has put in place a robust auditor engagement policy which it reviews annually. The policy is disclosed on marksandspencer.com/thecompany.

The Committee is satisfied that the Company was compliant during the year with both the UK Corporate Governance Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure adherence to robust processes to prevent the objectivity and independence of the auditor from being compromised.

All non-audit work performed by Deloitte, with fees in excess of £50,000, was put to the Audit Committee for prior consideration and approval. For non-audit work where fees were below £50,000, approval was obtained by the Chief Finance Officer and the Audit Committee notified of all work falling within this threshold. Further details on non-audit services provided by Deloitte can be found in Note 4 to the financial statements.

The non-audit fees to audit fees ratio for the financial year ended 3 April 2021 was 0.09:1, compared with the previous year's ratio of 0.33:1. The majority of the £0.2m in non-audit fees paid in total to Deloitte during 2020/21 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, turnover certificates and, the annual Euro Medium Term Note (EMTN) programme renewal. It is normal practice for such assurance services to be provided by the Company's statutory auditor.

No additional recurring or one-off non-audit services were provided during the year.

In addition, the Committee reviewed and approved the audit fee for the year, making sure any fee increase was understood and reasonable

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

The Board assumes ultimate responsibility for the effective management of risk across the Group, determining its risk appetite and ensuring that each business area implements appropriate internal controls. The Group's risk management systems are designed to support the business in actively managing risk, based on our awareness of risk factors, rather than to simply avoid risks, in order to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. These systems are also designed to be sufficiently agile to respond to changes in circumstances, such as the recent impact of Covid-19.

➤ See p48–56 of the Strategic Report for more information on our principal risks and uncertainties.

The key features of the Group's internal control and risk management systems that underpin the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparing consolidated accounts, capital expenditure, project governance and information security, and the Group's Code of Conduct.

SOURCES OF ASSURANCE

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Audit Committee, which includes financial, operational and compliance controls and risk management systems. The Committee is supported by a number of sources of internal assurance from within the Group to complete these reviews:

1. Internal Audit

The Group's primary source of internal assurance is delivery of the Internal Audit Plan, which is structured to align with the Group's strategic priorities and key risks and is developed by Internal Audit with input from management. The plan has been reviewed periodically throughout the year to confirm it remains relevant for new and emerging circumstances, particularly changes during the pandemic which impacted business priorities, our risk profile and assurance activities. For example, multiple lockdowns across all UK and international locations impacted how food safety audits were conducted at our own sites and those managed and operated by suppliers and franchise partners. The findings and actions from Internal Audit reviews are agreed with the relevant business area, communicated to the Audit Committee and tracked through to completion.

The work completed by Internal Audit during the year focused on key risks including information security,

preparations for the Ocado launch, financial controls and new business activity like external brands, as well as areas driven by Covid-19, such as furlough, supplier payments, elements of stock management and food safety assurance activities during the pandemic.

2. Management updates and risk deep dives

As part of the Committee's annual calendar, it receives updates on risk management, maturity of control and assurance activities from individual business areas and functions. These updates are complemented by Internal Audit's independent audits performed within these areas.

3. Functional assurance

A broad range of assurance activity has been designed and deployed across the business to target key risk areas, such as ethical assurance, food safety, fire, health and safety, and business continuity. While reporting lines for these activities are directly to business areas, the processes and controls of these functions are periodically tested by Internal Audit.

4. Operational oversight

Senior management forums and committees provide oversight and challenge on key risk areas within individual business areas, cross-business programmes

and activities, such as business continuity, fire, health and safety, transformation projects, and Brexit. The output from these discussions forms part of the cyclical updates provided to the Audit Committee.

GOVERNANCE

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Committee has considered the controls findings raised in the independent auditor's report on pages 111 to 122. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 3 April 2021 and up to the date of this Annual Report.

Where the Committee has identified areas requiring improvement, processes are in place to ensure that the necessary action is taken and that progress is monitored.

Further details of these processes can be found within our full disclosure of compliance with the UK Corporate Governance Code at marksandspencer.com/thecompany.

INTERNAL ASSURANCE FRAMEWORK

Source of information	Frequency/nature of reporting	Audit Committee
Internal Audit <ul style="list-style-type: none"> Internal Audit Plan Regular reports against Plan Follow-up of remediation Updates on fraud, whistleblowing and other irregularity Ad hoc engagement with the business in response to new/emerging risks or major incidents – for example, Covid-19 	Formal updates presented to the Committee at each meeting Updates to the Audit Committee Chair as required	
Management updates and risk deep dives <ul style="list-style-type: none"> Papers submitted on a range of issues including: <ul style="list-style-type: none"> Information security Bribery Code of Conduct CSCOP Financial control Risk deep dives from individual business areas and functions 	Formal updates presented to the Committee annually and as needed	
Functional assurance <ul style="list-style-type: none"> Functional audit activities undertaken, including: <ul style="list-style-type: none"> Food safety and integrity Ethical audits Trading safely and legally 	Updates provided to the Committee as part of annual business updates where appropriate and as requested	
Operational oversight <ul style="list-style-type: none"> For example: <ul style="list-style-type: none"> Compliance Monitoring Committee Fire, Health & Safety Committees Customer & Brand Protection Committee Business Continuity Committee Business Unit Operating Reviews 	Updates presented to the Committee annually, and as needed	

REMUNERATION OVERVIEW

“

Retail at its heart is a people business. The Committee takes a keen interest in all colleague pay arrangements to ensure fairness and appropriateness of pay principles across the business.”

Andrew Fisher,
Chair of the
Remuneration
Committee

IN THIS SECTION

REMUNERATION

Remuneration overview p84-87
Remuneration in context p88-89
Summary Remuneration Policy p90-93

ANNUAL REPORT ON REMUNERATION

Remuneration structure p94
Total single figure remuneration p94
Salary and benefits p95
Annual Bonus Scheme p96-97
Performance Share Plan p97-98
Directors' share interests p99-100
Changes to Board membership p102
Non-executive directors' remuneration p102
Remuneration Committee remit p104

INTRODUCTION

On behalf of the Board, I am pleased to present our 2020/21 Remuneration Report.

The Remuneration Report provides a comprehensive picture of the structure and scale of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the decisions made by the Committee as a result of business performance for this year and the intended arrangements for 2021/22.

IMPACT OF COVID-19 ON REMUNERATION ARRANGEMENTS

As highlighted in last year's report, the Committee applied robust and proactive discretion to the 2020/21 application of the Remuneration Policy. This took the form of cancelling the bonus scheme for the year and mitigating against the risk of windfall gains in Performance Share Plan (PSP) outcomes by significantly reducing the grant level for the year. In addition, and with shareholders' support, target setting for the PSP award was delayed until December 2020 to ensure, as best as possible, that specific metrics were challenging but achievable following the significant impact of the pandemic.

The Committee remains focused on ensuring flexibility in pay structures allowing for appropriate reward and recognition of executives, balanced against shareholder interests and uncertain external influences. As detailed earlier in this Annual Report, the events of the past year have had a marked impact on customer behaviours, M&S's trading results and the delivery of the transformation. The transformation plan has been turbocharged and a reshaped business has been forged from the pandemic. As such, the Committee reflected on the appropriateness of the executive pay framework. It concluded that there remains sufficient flexibility in the current structures and metrics and alignment with the business plans to motivate and reward strong performance at both the Group and individual level.

Following continued dialogue and engagement with shareholders, the Committee has agreed to reinstate in full the incentive arrangement policies previously approved by shareholders. For 2021/22, executive directors will, subject to the satisfaction of challenging performance conditions, be eligible to receive a bonus payment of up to 200% of salary (split equally between cash and deferred shares) and a PSP award of the typical level, 250% of salary. The Committee believes that this approach is appropriate when retention and motivation of the senior leadership team remains critical. In approving this decision, the Committee carefully considered how to appropriately reward executives where a successful Covid-19 recovery performance would be in the best interests of shareholders and 70,000 M&S colleagues. Further details of the specifics of these incentives are detailed on pages 96 to 98 of this report.

SHAREHOLDER ENGAGEMENT AND FEEDBACK

As referenced earlier, the setting of performance targets for the 2020 PSP award was delayed to allow the business time to assess the initial impact of Covid-19 on the business and to review the proposed strategic measures in light of the business's response to the post-pandemic trading environment. Ahead of confirmation, the Committee consulted with our major shareholders (representing almost 50% of total shares in issue) and shareholder representative bodies to discuss the proposed strategic measures and targets.

This dialogue followed engagement at the end of the last financial year confirming the proposed approach to delaying the targets and the weightings of performance measures. As a result of this ongoing process of consultation and adjustments made to the proposed measures and weightings disclosed in last year's report, no further adjustments to the proposed targets and strategic measures were made. Shareholders were positive in their feedback and we thank them for their continued support.

The Committee, represented by the Chair, confirmed that targets set will support the business over the remaining performance period and are aligned with investor expectations. The measures and targets for the 2020 PSP awards are detailed on page 97 of this report.

In addition, to explicitly support key areas of transformation delivery, the Committee with the support of its shareholders, introduced a basket of strategic measures comprising 20% of the total award. Metrics in this basket include digital growth and food sales targets aligned with financial plans and the provision of a better customer experience in stores as a result of the delivery of the strategic measures. There will be no associated payment for threshold performance levels. The Committee is clear that the delivery of these measures is vital to M&S's future success; reward for partial achievement is

not considered appropriate. While shareholders acknowledged that a cliff-edge vesting for measures is unusual, they recognised the clear message being sent by the Committee and welcomed the simplicity of these key targets. Balanced against the remaining 80% of the performance targets being measured on a sliding scale, no significant issues were raised during consultation.

STRATEGIC ALIGNMENT OF PAY

The Covid-19 pandemic has increased focus at M&S on transformation, with a view to never being the same again. The measures and targets used in M&S's incentive schemes, namely those of the Performance Share Plan and Annual Bonus Scheme, were reviewed again during the year to ensure alignment with the key performance indicators (KPIs) and strategic

priorities being used across the business. The illustration below demonstrates this strong linkage between the KPIs and strategic priorities with executive remuneration at M&S. This strength of alignment will enable the Committee to ensure pay arrangements help to deliver transformation and fulfil M&S's potential for long-term sustainable growth.

The Committee will continue to thoroughly review the pay structures and incentive arrangements for the senior leadership team to ensure strong alignment between the delivery of business performance and the associated remuneration arrangements, as the business continues along this accelerated transformation journey to emerge stronger and more competitive.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIS

KPI/Strategic priority	As measured by	Performance Share Plan (PSP)	Annual Bonus Scheme (ABS)
KPI	Adjusted earnings per share (EPS)	●	
✓ See KPIs on p37	Return on capital employed (ROCE)	●	
	Group PBT before adjusting items (PBT)		●
Strategic priority	Food with Ocado re-positioned for growth	●	●
✓ See Strategic priorities on p7	Delivering a reshaped and increasingly omni-channel Clothing & Home business	●	●
	Accelerating the rotation of the Store Estate		●
	An international business focused on major partnerships and online growth	●	●

2020/21 PERFORMANCE

ADJUSTED EARNINGS PER SHARE

1.1p

Adjusted EPS in 2020/21 was 1.1p. This was below the 26.9p threshold required for any vesting under this element of the 2018 PSP award.

RETURN ON CAPITAL EMPLOYED

9.3%

Average three-year ROCE performance was 9.3%. This was below the required 11.1% threshold for any vesting under this element of the 2018 PSP award.

GROUP PBT BEFORE ADJUSTING ITEMS

£41.6m

As reported in the 2019/20 Directors' Remuneration Report, as a result of performance in the prior year and the unprecedented impact of the Covid-19 pandemic, the Committee decided that for 2020/21 only, there would be no bonus scheme in operation for the executive directors.

USE OF DISCRETION

To ensure that pay outcomes appropriately reflect individual and business performance, together with the wider economic and societal climate, the Committee has overriding discretions on directors' pay in addition to the ability to apply malus, clawback and responsible application of discretion to override formulaic outcomes of the incentive schemes.

During the year, the Committee did not apply any discretion to the variable pay outcomes of the bonus and PSP. The Committee agreed that the final vesting of the 2018 PSP was reflective of the last three years of M&S's performance and that the Policy operated as intended.

As was disclosed in last year's report, the Committee applied its discretion to cancel the operation of the 2020/21 directors' bonus scheme. The quantum of PSP grants were also significantly reduced, reflecting the Committee's pro-active decision to mitigate against future windfall profits on vesting in view of the impact of Covid-19 on the share price at the time of grant.

REMUNERATION OVERVIEW CONTINUED

WIDER WORKFORCE PAY ARRANGEMENTS

The Committee received regular and varied updates during the year relating to M&S pay arrangements. In addition to those already outlined in the Committee's remit, detailed discussions ranged from hourly pay for store colleagues, the review of the pay and benefits package which was undertaken during the year, to approving an increase in the Save As You Earn share scheme savings limit based on colleague participation levels in prior years.

The Committee welcomes the collaboration with the Business Involvement Group (BIG) in receiving direct feedback on colleagues' views in formal meetings. This dialogue ensures a close link between the pay philosophies at

the most senior levels with those for the broader population and understanding at a colleague level any pay concerns and questions raised.

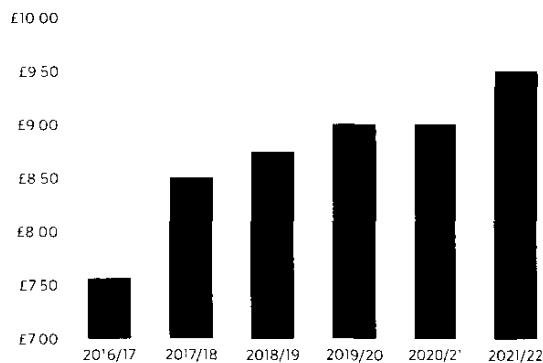
To demonstrate the Committee's keen interest in wider workforce pay arrangements within M&S, we have this year expanded disclosure on these specific areas; see pages 88 and 89.

As referenced earlier in this Annual Report, the business has taken great care to support all colleagues during the Covid-19 pandemic, which the Committee and the Board were supportive of. From a pay perspective, these have included supporting every colleague either to self-isolate or shield themselves to do so

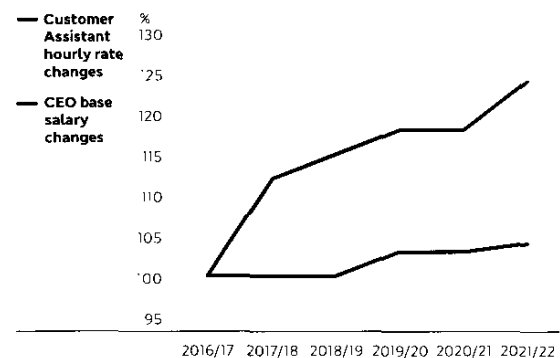
on full pay; paying full pay for those lower-paid colleagues placed on furlough, and rewarding hardworking front-line store and e-commerce distribution colleagues with an additional short-term 15% supplementary payment.

For the financial year 2021/22 the hourly rate for customer assistants increased by 5.6% to £9.50 an hour, compared with a 1% increase for the CEO. Between 2016 and 2021 the hourly rate paid to customer assistants has increased by 24% and over the same period the increase in base salary for the CEO has totalled 4%, as illustrated in the charts below.

Customer assistant hourly rate progression



Percentage change in pay for customer assistants and the CEO



SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

As is shown in the table on page 94, the total pay for the CEO was c.11% lower this year, reflecting the lapse in full of the 2018 PSP award. Payments made to the CFO reflect the annual contractual remuneration payments since his employment on 8 June together with the specific arrangements made to facilitate his recruitment. Further details are provided on page 94.

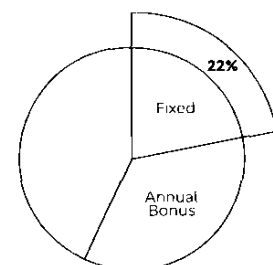
None of the 2018 PSP will vest in respect of the three-year performance period up to 3 April 2021. Page 98 of this report provides further detail on the specifics of the targets set and the respective achievement under each measure. The remit of the Committee is to ensure that targets set are stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. Vesting under the PSP remains low when reviewed in the context of the wider market. However, the Committee is satisfied that this level of vesting is reflective of the challenging business

environment. Steve Rowe and Archie Norman have both highlighted earlier in this Annual Report.

As previously disclosed, the 2020/21 Annual Bonus Scheme was not operated for executive directors. To ensure continued strong governance and transparent reporting to shareholders, and in line with the normal Committee processes, executive directors continued to be measured against a scorecard of individual objectives aligned with the strategic priorities set out earlier in this report. No financial payment will be made in respect of their achievements. The Committee discussed each director's achievement against the relevant individual performance targets and final achievement against these individual objectives and this is detailed on page 96 of this report. In particular, the Committee noted the strong and responsible action taken by Eoin Tonge to strengthen liquidity and preserve cashflow during the pandemic.

Under Steve Rowe's leadership, M&S successfully harnessed the impact of Covid-19, ensuring the turbo charging of the transformation while supporting colleagues through this difficult period.

CEO single figure as a percentage of maximum opportunity



PAY ARRANGEMENTS FOR 2021/22

When reviewing salary levels, the Committee considers a number of internal and external factors, primarily the salary review principles applied to the rest of the organisation, but also Company performance during the year and external market data. As a result of performance in the year and the considerable effort and resilience shown by colleagues across the wider organisation, despite the impact of the Covid-19 pandemic, it was decided to implement salary increases in the wider organisation of between 1% and 5.6%. The Committee agreed to award a salary increase of 1% to the executive directors. This increase is aligned to the increase awarded to other management colleagues.

As already referenced, the Annual Bonus Scheme will resume operation for 2021/22 as per the shareholder approved Policy. Performance will once again be measured against corporate financial targets (currently 70%) and individual objectives (30%). The Committee believes it remains appropriate for PBT to continue to represent the largest element of bonus potential as M&S seeks to return to significant levels of profitability. The maximum opportunity will remain at 200% of base salary.

The Committee continues to ensure that the remuneration framework for executives is aligned with shareholder interests. This means fully aligning performance measures used in the incentive schemes with the business strategy and setting targets which are stretching and yet motivating for directors. It is proposed that the 2021 PSP will maintain measures applied to the 2020 PSP awards, being 30% adjusted EPS, 30% ROCE, 20% relative TSR and 20% strategic measures. Given the continuing uncertainty of the impact of the pandemic on macroeconomic factors, the Committee has again delayed the setting of PSP targets. Targets will be disclosed by 31 December 2021 and will be discussed with shareholders prior to confirmation. Any targets proposed will be set with reference to estimated outturn, the business's long-term financial plans, consensus and brokers' forecasts to ensure they are appropriately stretching with maximum payments only possible for significant outperformance of expectations.

Having reduced award levels in 2020 to acknowledge the shareholder experience of Covid-19 and to mitigate against windfall gains, the Committee believes, in light of the return of the share price to pre-pandemic levels, it is appropriate to incentivise executives and ensure that they remain aligned with shareholders' long-term interests. It is therefore intended to grant PSP awards of 250% of salary in June 2021 to executive directors. In determining the size of the 2021 PSP awards, the Committee noted that as a result of the share price recovery over the last 12 months, fewer shares would be awarded than in 2020. Further details are set out on page 98.

SHAREHOLDING AGAINST SHAREHOLDING GUIDELINES

The Committee is aware that an executive's level of shareholding is one of the measures used by investors to determine the alignment of interests between shareholders and directors. While the CEO has not reached the targeted level of shareholding within five years of his appointment to the role, the Committee is satisfied that this does not reflect Steve Rowe's life-long commitment to M&S. Rather, this is a consequence of the challenging targets set by the business in its incentive arrangements. The Committee recognises that the CEO demonstrably continues to make sound decisions in the best interests of M&S shareholders and colleagues, including the voluntary reduction in his contractual pension arrangements that was reported last year. That said, the Committee continues to keep a watching brief on executives' shareholdings against targets to ensure that their attentions are focused on the delivery of a positive shareholder experience. The decisions implemented for 2021/22 incentive arrangements will help to provide an opportunity for an increase in shareholdings, subject to achievement of associated performance targets.

LOOKING AHEAD

Looking to the future, the Committee intends to continue to review M&S's pay policies, ensuring appropriate alignment between executive pay arrangements and the wider workforce with a focus on flexibility of reward and recognition in uncertain times while maintaining fundamental M&S values of fairness and value for money. The Committee will continue to carefully monitor the pay frameworks at the most senior levels and the organisation's incentive arrangements with a focus on M&S being an employer of choice where hard work and financial results are appropriately recognised and rewarded.

As is detailed later in this report on page 104, the Committee intends to also discuss senior succession planning and the link between Plan A and executive reward, ensuring that solid foundations are in place to nurture and develop the leaders of the future, as M&S plans for long-term financial and environmental, social and governance (ESG) success.

On behalf of the Remuneration Committee, I would like to thank our shareholders for their continued support and open dialogue during this challenging year.

Andrew Fisher, Chair of the Remuneration Committee

REMUNERATION IN CONTEXT

COLLEAGUE ENGAGEMENT

– Share ownership across our colleagues:

M&S is a proud advocate of employee share ownership. The Board believes that this supports colleagues to not only share in M&S's success but also to behave as owners of our business, aligned with our shareholders' interests. Across our UK and Irish colleagues, M&S has a significant number of participants in all employee share schemes; colleagues hold over 120m SAYE options in our ShareSave scheme and over 3,000 colleagues hold shares in our Share Incentive Plan ShareBuy. During the year, the Board approved an increase to the monthly savings limit for the 2020 ShareSave scheme, from £250 to £500. Over 67% of colleagues benefiting from the increased limits are our front-line colleagues

– Direct engagement with our colleagues:

Since 2018, the Chair of the National Business Involvement Group (BIG), our colleague representative body, is invited to attend a Remuneration Committee meeting each year to engage and contribute on a range of topics and activities. During the year, representatives from BIG have been engaged on a number of pay-related topics, beyond the executive level, including encouraging colleagues to participate in the review of our pay and benefits package, and providing feedback and support on increasing the monthly savings limit for our ShareSave scheme. The collaborative relationship that we have with BIG strongly reflects our belief in the key role that BIG plays in ensuring that the Committee has greater visibility of the

things that really matter to our colleagues. This also gives the Committee the opportunity to explain and discuss our pay practices and how executive pay aligns with pay across the wider workforce. In addition, the Head of Executive Reward & Pay Governance provides updates to the Committee as appropriate on pay and people-related issues during the year.

- **Pay budgets:** Under the remit of the Remuneration Committee, total budgeted salary expenditure across M&S for salary review is noted, as are bonus and share scheme budgets ensuring principles for reward allocation are aligned across the full workforce, inclusive of senior leaders

CONSIDERATION OF COLLEAGUE PAY

The Committee monitors and reviews the effectiveness of the executive reward policy and its impact and compatibility with remuneration policies in the wider workforce. Throughout the year, the Committee reviews the frameworks and budgets for key components of colleague pay arrangements, together with the broader structure of Group bonus provisions, which ensures appropriate alignment with senior pay arrangements.

The Committee is provided throughout the year with information detailing pay in the wider workforce, which gives additional context for the Committee to make informed decisions. The Head of Executive Reward & Pay Governance advises the Committee of the approach which will be adopted with the forthcoming UK pay review and the Committee then considers the executive directors' pay in line with these arrangements.

In approving the budget for the annual bonus, the Committee reviews all bonus costs for the Company against the operating plan. The Committee also reviews and approves any PSP awards made to executive directors and directors below the Board prior to their grant.

The Committee receives updates on a variety of colleague engagement initiatives. During the year, we moved away from an annual survey to more 'in the moment' direct feedback. The new monthly digital colleague pulse tracks colleague sentiment throughout the year.

This year, a thorough review of M&S's total reward proposition was carried out and all colleagues were asked to give their views on the current reward package and to highlight what really matters to them both now and for the future. Over 14,000 colleagues provided their views. Results were presented to the Remuneration Committee which discussed findings and the proposed policy updates as a result of colleagues' feedback.

Colleagues are encouraged to raise questions at the periodic all-colleague announcements led by the CEO. All questions raised at this time are answered, and comments made during the year through surveys or our network of elected colleague representatives via BIG are considered. The Head of Executive Reward & Pay Governance typically provides an annual update to these colleague representatives with an explanation of the executive directors' pay arrangements during the year, and they are able to ask questions on the arrangements and their fit with the other reward policies at this time.

CONSIDERATION OF STAKEHOLDER VIEWS

The Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration. Where appropriate, the Committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be considered when making any decisions about changes to the directors' Remuneration Policy.

The Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering making any significant changes to the Remuneration Policy; this may be done annually or on an ad hoc basis, dependent upon the issue. This year, the Committee consulted on the proposed strategic measures and targets to be applied to the PSP. The Committee, led by the Chair, annually engages in a process of investor consultation, which is typically in written format, but has included face-to-face meetings, telephone or video calls. The Committee Chair is available to answer questions at the AGM and the answers to specific questions are posted on our website.

As part of our socially responsible reporting strategy, an annual shareholder meeting is normally held and the consideration of views on a variety of topics, including executive pay, is taken into account.

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2020 is 4.1%, compared with a national average of 15.5%. The M&S mean gap for the same period is 12.3%.

During the year, we've made several steps to further promote and enhance inclusion and diversity at M&S, including hiring our first Group Head of Inclusion and Diversity to further drive the agenda throughout the business, via a new strategy aimed at creating an inclusive culture within a diverse environment for our colleagues, customers and communities.

We continue our partnerships with such organisations as Business in the Community, Retail Week's Be Inspired programme (for which a number of our senior leaders serve as Ambassadors) and the 30% Club.

Our dynamic and fast-paced programme of activity is supported by our seven colleague networks, including the Gender Equality Network, all of which hold events, celebrate key events in the inclusion calendar, such as International Women's Day and raise important discussions on gender equality via their online social communities.

We're proud that 73% of our Customer Assistants are women but we need to do more to encourage diversity in senior roles. Inclusion and diversity remains a key priority for us. We will not be letting our focus relent through these challenging times.

4.1%

Gender pay gap (median)

PAY ARRANGEMENTS FOR COLLEAGUES DURING COVID-19

The impact on our business during the year was profound. For extended periods, most if not all of our Clothing & Home store space was closed and our cafes and hospitality services have all been closed. Our franchise business was also severely impacted, particularly in travel hubs. Despite these intense pressures, we have rightly recognised the incredible efforts of our colleagues; around 27,000 colleagues were provided with government support via the Coronavirus Job Retention Scheme (CJRS). This support was welcomed by our colleagues whose roles were significantly impacted by the restricted trading environment. With a large number of our stores closed, a significant number of redundancies have been avoided through the benefit of the CJRS. To financially help colleagues and their families during this difficult period, M&S voluntarily ensured that furloughed front-line colleagues received full pay. A Colleague Support Fund was set up to help colleagues experiencing financial hardship as a result of the pandemic. In addition, vulnerable colleagues needing to self-isolate or shield have done so on full pay. M&S is proud to have been able to support our colleagues in line with the values which underpin the way we do business.

For those front-line colleagues continuing to work, a short-term 15% supplementary payment was made in recognition of their efforts.

CHIEF EXECUTIVE'S PAY RATIO

Year	Methodology	25th percentile ratio	50th percentile ratio	75th percentile ratio
2021	Option A	55:1	50:1	42:1
2020	Option A	64:1	59:1	51:1

As reported last year, the Committee approved the use of Methodology A, as set out in the regulations, as we believe it to be the simplest, most appropriate and robust way to calculate the ratio.

Option A requires the calculation of pay and benefits of all UK colleagues to identify the three colleagues at the 25th, 50th and 75th percentiles as at 3 April 2021. This is calculated on the same basis as the CEO total single figure of remuneration. The only exception being the individual performance element of the Annual Bonus Scheme applicable to the relevant colleagues (when operating) is assumed to be the respective target value, as the actual value is not known at the time of producing the Annual Report. This requires:

- Starting with colleague pay that was calculated based on actual base pay, benefits, bonus and long-term incentives for the 12 monthly payrolls within the full financial year. Earnings for part-time colleagues are annualised on a full-time equivalent basis to allow equal comparisons.
- Adjusting the value of any bonus so that it only reflects the amount earned in respect of the 2020/21 financial year

and does not include the value of any deferred shares.

- Adding in the employer pension contribution from the Your M&S Pension Saving Plan.

Joiners and leavers in the year have been excluded from the calculations. The percentile figures are therefore representative of the whole colleague population but do not include all colleagues as at 3 April 2021.

The table above shows the ratio of CEO pay in 2020/21, using the single total figure remuneration as disclosed in Figure 7 (page 94) to the comparable equivalent total reward of those colleagues whose pay is ranked at the relevant percentiles in our UK workforce. We believe the median pay ratio this year is consistent with pay, reward and progression policies for UK colleagues as it reflects the consistent approach to pay (pay freezes across the whole company) along with M&S's policy to pay for performance. The reduction in the pay ratio this year is predominantly the result of the reduction of the CEO single figure value due to no long-term incentive vesting in 2021 and the decrease in the cost of benefits provided in the year.

Pay data	Salary (£000) 2019/20	Total pay and benefits (£000) 2019/20	Salary (£000) 2020/21	Total pay and benefits (£000) 2020/21
CEO remuneration	828	1,205	834	1,068
UK colleague 25th percentile	18	19	18	20
UK colleague 50th percentile	19	21	20	21
UK colleague 75th percentile	22	24	24	25

PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table below sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in the average non-executive director and our UK-based colleagues' pay. This group has been chosen as the majority of our workforce are based in the UK. Further details of the non-executive director pay changes are shown on page 101.

	% change 2019/20 – 2020/21		
	Base salary/fees	Benefits	Annual bonus
CEO (Steve Rowe)	0%	-36.8%	–
Average non-executive director	0%	0%	N/A
UK colleagues (average per FTE)	0%	0%	–

There were no annual base pay increases awarded to the CEO, non-executive directors or to colleagues in respect of the 2020/21 financial year.

There has been no fundamental change in the CEO benefit offering. During periods of national lock down, Steve Rowe drove himself, rather than make use of the chauffeur service, to ensure the safety of his driver and maintain the required social distancing.

No award under the Annual Bonus Scheme was made to either the CEO or anyone else within the wider workforce in either 2019/20 or 2020/21.

REMUNERATION

SUMMARY REMUNERATION POLICY

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 3 JULY 2020)

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The full Policy was approved by shareholders at the AGM on 3 July 2020 and can be found on our website at marksandspencer.com/the-company. The Policy took effect from this date and is designed to attract, retain and motivate our leaders within a framework designed to promote the long-term success of M&S and aligned with our shareholders' interests.

FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION	OPPORTUNITY
Base salary	Salaries are payable in cash and are reviewed annually by the Committee considering a number of factors, including external market data, historic increases made to the individual and salary review principles applied to the rest of the organisation.	Normally in line with those in the wider workforce, although no maximum is set.
Benefits	In line with our policies, directors are eligible to receive benefits which may include: a car or cash allowance and a driver, life assurance and relocation and tax equalisation allowances in line with our mobility policies. As with all colleagues, directors are also offered other benefits including colleague discount, salary sacrifice schemes and participation in all-employee share schemes	There is no set maximum, however, any provision will be commensurate with local markets and for all-employee share schemes is in line with local statutory limits.
Pension benefits	Directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement), on the same terms as all other colleagues. The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits as a deferred member.	A maximum employer contribution currently of 12% of salary where the employee contributes 6% of salary From 3 July 2020, pension cash supplements were removed for future directors
Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	Directors are eligible to participate in this non-contractual, discretionary scheme. Performance is measured against one-year financial and individual performance targets linked with the delivery of the business plan. At least half of awards are measured against financial measures which typically include Group PBT before adjusting items (PBT). Corporate and individual elements may be earned independently, but no part of the individual objectives may be earned unless a threshold level of PBT has been achieved, after which up to 40% of maximum may be payable for the achievement of individual objectives. Not less than 50% of any bonus earned is paid in shares which are deferred for three years. The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate. Malus provisions apply to the deferred share awards. Cash bonus payments are subject to two-year clawback provisions. Clawback would be triggered in specified events such as, but not limited to, a material misstatement of the Company's audited results, an error in calculation of the award, gross misconduct, or events or behaviour that have a detrimental impact on the reputation of any member of the Group	Total maximum annual potential of up to 200% of salary for each director
Performance Share Plan (PSP)	Directors are eligible to participate in the Performance Share Plan. This is a non-contractual, discretionary plan and is M&S's main long-term incentive scheme. Performance may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures must comprise at least 50% of awards. Malus and clawback provisions apply to these awards. Clawback triggers include but are not limited to, a material misstatement of the Company's audited results, an error in calculation of the award, gross misconduct or events or behaviour that has a detrimental impact on the reputation of any member of the Group. Awards are subject to a further two-year holding period after the vesting date	The maximum value of shares at grant is capped at 300% in respect of a financial year.
Shareholding Requirement	Directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. Directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual shareholding for two years after leaving M&S	For the CEO, this requirement is 250% of salary. For all other executive directors, the requirement is 200%

FIGURE 2: RECRUITMENT POLICY & SERVICE CONTRACTS

The table below summarises the Company's policy on the recruitment of new executive directors. Similar considerations may also apply where a director is promoted to the Board.

In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate, considering the specific circumstances of the individual, subject to the limit on variable remuneration set out below. The rationale for any such component would be appropriately disclosed.

ELEMENT	APPROACH
Service contract	– All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
Base salary	– Salaries are set by the Committee, taking into consideration a number of factors, including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces
Benefits	– The Committee will offer a benefits package in line with our benefits policy for executive directors
Pension benefits	– Maximum contribution in line with our policy for future executive directors (currently up to 12% of salary)
Annual Bonus Scheme	– Eligible to take part in the Annual Bonus Scheme with a maximum bonus of 200% of salary in line with our policy for executive directors.
PSP	– A maximum award of up to 300% of salary in line with our policy.
Buy-out awards	– The Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. – The specifics of any buy-out awards would be dependent on the individual circumstances of recruitment. The Committee's intention would be that the expected value awarded is no greater than the expected value forfeited by the individual

FIGURE 3: TERMINATION POLICY

The Company may choose to terminate the contract of any executive director in line with the terms of their service agreement either by means of a payment in lieu of notice or through a series of phased payments subject to mitigation. Service agreements may be terminated without notice and, in certain circumstances such as gross misconduct, without payments

The table below summarises our termination policy for executive directors under their service agreements and the incentive plan rules.

ELEMENT	APPROACH
Base salary, benefits and pension benefits	– Payment made up to the termination date in line with contractual notice periods.
Annual Bonus Scheme	– There is no contractual entitlement to payments under the Annual Bonus Scheme. If the director is under notice or not in active service at either the relevant year end or on the date of payment, awards (and any unvested deferred bonus shares) may lapse. The Committee may use its discretion to make a bonus award.
Long-term incentive awards	– The treatment of outstanding awards is determined in accordance with the plan rules.
Repatriation	– M&S may pay for repatriation where a director has been recruited from overseas
Legal expenses & outplacement	– Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

The full Policy sets out further detail on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control or winding up of the Company.

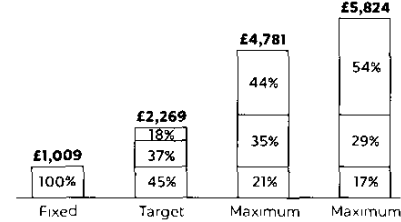
SUMMARY REMUNERATION POLICY CONTINUED

APPLICATION OF REMUNERATION POLICY

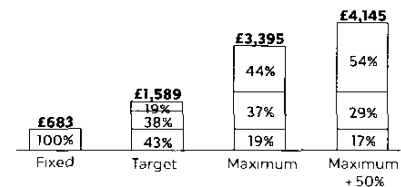
The charts below provide an illustration of what could be received by each of the executive directors in 2021/22 under the Policy. These charts are illustrative, as the actual value which will ultimately be received will depend on business performance in the year 2021/22 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2023/24 (for the PSP), as well as share price performance to the date of the vesting of the PSP awards in 2024.

DIRECTORS

Steve Rowe £000



Eoin Tonge £000



BASIS OF CALCULATIONS AND KEY

Fixed	Fixed remuneration only. No vesting under the ABS and PSP
Target	Includes the following assumptions for the vesting of the incentive components of the package: <ul style="list-style-type: none"> ABS: 50% of maximum, assumes no share price growth. PSP: 20% of 250%, assumes no share price growth
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: <ul style="list-style-type: none"> ABS: 100% of maximum, assumes no share price growth. PSP: 100% of 250%, assumes no share price growth.
Maximum +50% share price growth	Includes the following assumptions for the vesting of the incentive components of the package: <ul style="list-style-type: none"> ABS: 100% of maximum, assumes no share price growth PSP: 100% of 250% with 50% share price growth Grant share price for the purpose of demonstrating the 50% growth taken as closing share price at 2020/21 year end.

● Fixed remuneration

Includes all elements of fixed remuneration:

- Base salary (effective 1 July 2021), as shown in the table on page 95
- Pension benefits as detailed on page 95.
- Benefits (using the value for 2020/21 included in the single figure table on page 94). For Eoin Tonge this excludes his temporary relocation allowances.

● Annual Bonus Scheme (ABS)

Represents the potential total value of the annual bonus for 2021/22. Half of any bonus would be deferred into shares for three years and this is included in the value shown.

● PSP

PSP represents the potential value of the PSP to be awarded in 2021, which would vest in 2024 subject to the relevant performance targets. Awards would then be held for a further two years

FIGURE 4: SUMMARY OF REMUNERATION POLICY

The diagram below illustrates the balance of pay and time period of each element of the Remuneration Policy for executive directors, approved in July 2020. The Committee believes this mixture of short- and long-term incentives and fixed to performance-related pay is currently appropriate for M&S's strategy and risk profile.

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	<ul style="list-style-type: none"> – Base salary – Benefits – Pension benefits 				
Annual Bonus Scheme	<ul style="list-style-type: none"> – Up to 100% salary (cash) – One-year performance – Clawback provisions apply 				
PSP	<ul style="list-style-type: none"> – Maximum 300% of salary – Three-year performance – Malus provisions apply 				
Total pay	<ul style="list-style-type: none"> – Up to 100% salary (deferred shares) – Three-year deferral period – No further performance conditions – Malus provisions apply – Two-year holding period post-vesting – No further performance conditions – Clawback provisions apply 				

FIGURE 5: NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

The table below sets out our Policy for the operation of non-executive director fees and benefits at the Company. The Policy was approved in July 2020 and may operate for up to three years.

ELEMENT	OPERATION AND OPPORTUNITY
Chairman's fees	<ul style="list-style-type: none"> – Fees are reviewed annually and are determined by the Remuneration Committee. – Total fee comprises the non-executive director basic fee and the additional fee for undertaking the role. – The maximum aggregate fees for the non-executive directors' basic fees, including the Chairman's basic fee, is £750,000 p.a. as set out in our Articles of Association
Non-executive director's basic fee	<ul style="list-style-type: none"> – Fees are reviewed annually and are determined by the Chairman and executive directors. – The maximum aggregate non-executive director basic fees, including the Chairman, is £750,000 p.a. as set out in our Articles of Association
Additional fees	<p>Additional fees are paid for undertaking the extra responsibilities of:</p> <ul style="list-style-type: none"> – Board Chairman – Senior Independent Director – Committee Chair.
Benefits	<ul style="list-style-type: none"> – In line with our other colleagues, the Chairman and non-executive directors are entitled to receive colleague discount. – The Company may reimburse the Chairman and non-executive directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these – The Chairman may also be entitled to the use of a car and driver
Share Ownership	<ul style="list-style-type: none"> – All non-executive directors, including the Chairman, are required to build and maintain a shareholding of at least 2,000 shares upon joining M&S. – This shareholding must be held for the period of their tenure

REMUNERATION FRAMEWORK FOR THE REST OF THE ORGANISATION

M&S's philosophy is to provide a fair and consistent approach to pay. Remuneration is determined by level and is broadly aligned with those of the executive directors.

Base salaries are reviewed annually and reflect the local labour market.

All UK colleagues are eligible to participate in the Your M&S Pension Saving Plan on the same terms as the executive directors. In addition, all UK colleagues are provided with life insurance and colleague discount, and may choose to participate in the Company's all-employee share schemes and salary sacrifice arrangements.

A significant number of colleagues are eligible to be considered to participate in an annual bonus scheme which is partially determined by Group PBT performance. For M&S's most senior executives, part of the bonus is deferred into shares for three years.

Around 170 of M&S's top senior executives may be invited to participate in the PSP, measured against the same performance conditions as executive directors. Award levels granted are determined to be aligned with market practice and reflect an individual's level of seniority as well as their performance and potential within the business.

REMUNERATION

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

Each year, the Remuneration Committee assesses the current senior remuneration framework to determine whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, fulfil current external guidelines and are aligned with a range of internal factors, including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to ensure that not

only is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business and individuals. A significant proportion of the performance measures used in the incentive schemes are integrated with M&S's key performance indicators (KPIs) and strategic priorities detailed in the Strategic Report, as illustrated on pages 37 and 7 respectively.

The diagram below (Figure 6) details the achievement of each executive director under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the table below (Figure 7) and later in this report.

FIGURE 6: REMUNERATION STRUCTURE 2020/21

Fixed pay	+	Annual bonus	+	PSP	=	Total pay for 2020/21
Base salary		200% of salary maximum bonus opportunity (with 50% deferral)		250% of salary awarded in 2018		Total payments are c.22% of maximum potential
Benefits		Measured against a balance of Group PBT before adjusting items and individual performance		Measured against adjusted EPS, average ROCE and TSR Achievement was 0% against targets set		
Pension benefits						
No salary increase in line with other M&S colleagues		Bonus not in operation		0% of award vested		

For more information see p96

For more information see p98

FIGURE 7: TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pensions benefits £000	Total RSP granted £000	Total pay £000	Total fixed pay £000	Total variable pay £000
Steve Rowe	2020/21	834	31	0	0	203	-	1,068	1,068	0
	2019/20	828	37	0	137	203	-	1,205	1,068	137
Eoin Tonge	2020/21	489	105	0	0	39	1,316	1,949	1,949	0
	(from 8 June 2020) 2019/20	-	-	-	-	-	-	-	-	-

Note that the value of the PSP awards vesting in 2019/20 has been restated to reflect the actual share price on the date of vesting, £1.11.

In line with the approved Recruitment Policy, Eoin Tonge's Restricted Share Plan (RSP) award reflects the total face value of share awards granted to compensate him, on a fair value basis, for Greencore Group plc awards forfeited on joining M&S. The fair value was calculated to take account of the original performance period and the estimated satisfaction of the performance conditions of the original awards. The vesting timeline for the first tranche of this award is in line with the time horizons of the original awards. For the remaining tranches the original time horizon has been extended by six months. In addition, as part of his recruitment package, Eoin also received the benefit of a home search, temporary accommodation and relocation allowances (£83,000) and a travel allowance (£15,000).

SALARIES

When reviewing salary levels, the Committee takes into account a number of internal and external factors, including Company performance during the year, external market data, historic increases made to the individual and, to ensure a consistent approach, the salary review principles applied to the rest of the organisation.

As detailed in last year's report, for salaries effective July 2020, in light of the Covid-19 pandemic and the salary freeze across the wider organisation, the Committee discussed pay arrangements for all

colleagues and decided it was appropriate to also freeze the salary for Steve Rowe. Eoin Tonge joined the Company on 8 June 2020, his salary on joining was £600,000.

For salaries effective July 2021, in line with increases for management positions, the Committee has awarded Steve Rowe an increase of 1%, making his salary £842,845. Eoin Tonge was similarly awarded an increase of 1% of salary. Effective 1 July 2021 his salary will increase to £606,000. Across the wider population salary increases ranged from 1% for management roles to 5.6% for customer assistants.

The next annual salary review for the executive directors will be effective in July 2022.

The table below details the executive directors' salaries as at 3 April 2021 and salaries which will take effect from 1 July 2021.

FIGURE 8: SALARIES

	Annual salary as of 3 April 2021 £000	Annual salary as of 1 July 2021 £000	Change in salary % increase
Steve Rowe	834.5	842.8	1%
Eoin Tonge	600.0	606.0	1%

BENEFITS (AUDITED)

The Remuneration Policy permits that each executive director may receive a car or cash allowance as well as being offered the benefit of a driver. During the year, in lieu of a car allowance, Steve Rowe received a car and the benefit of a driver during periods when England was not under lockdown. Eoin Tonge does not receive a car or cash allowance. To facilitate Eoin Tonge's recruitment and relocation, he was provided with temporary short-term travel and accommodation allowances. The total cost of this provision is reflected in the single figure table.

In line with all other colleagues, executive directors receive life assurance, colleague discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work.

PENSION BENEFITS (AUDITED)

During the year, Steve Rowe received a cash payment in lieu of participation in an M&S pension scheme. As reported last year, the CEO has agreed that his pension cash supplement be reduced to zero over a three-year period. For 2021/22, the CEO's total annual cash supplement will be reduced by one-third to £135,000 and will be reflected in the single figure table in next year's report.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 3 April 2021 are shown below.

Eoin Tonge is a member of the Your M&S Pension Savings Plan, as described on page 90. Eoin contributes 6% of his salary into the scheme and the Company matches this with a 12% contribution. The value of the Company's contribution in the year is shown in Figure 7 on page 94. This is the maximum level of contribution offered by M&S and is consistent with the terms available to all other colleagues.

FIGURE 9: PENSION BENEFITS (AUDITED)

	Normal retirement age	Accrued pension entitlement as at year end £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
Steve Rowe	60	159.7	0	0.7	0	4,998

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 3 April 2021. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

REMUNERATION REPORT CONTINUED

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2020/21 (AUDITED)

As was disclosed in last year's report, the Committee took decisive action at the start of the pandemic, and cancelled the executive directors' bonus scheme for 2020/21. Despite this, the Committee continued to review the achievement of the individual objectives aligned with the strategic priorities set at the start of

the financial year to fulfil its remit and to enable transparent disclosure to shareholders. The table below describes the achievements of the executive directors, without disclosing the specific targets associated. These targets are considered commercially sensitive. The Committee will continue to assess

the commercial sensitivity of targets with the aim of disclosure wherever possible.

The Committee ensures that targets set are the relevant drivers of required annual performance, recognising that it operates in the context of a highly competitive market and uncertain market conditions.

FIGURE 10: INDIVIDUAL OBJECTIVES (AUDITED)

Director	Individual
Steve Rowe	<p>Broadening M&S Food appeal Significant overhaul of Food ranges and value position along with repurposing of space towards core categories allowing the loss offset of convenience trade. Family focused innovation and the broadening appeal of Food led to strong Christmas and Easter sales performance.</p> <p>Food distribution Significant Food cost reductions and synergy savings from Ocado growth. Better Food availability through the Vangarde supply chain programme and food waste reductions.</p> <p>Turbocharging online growth in Clothing & Home and Food Successful launch of M&S products on Ocado from 1 September 2020. Positive customer response with M&S products forming 25% of sales, outperforming Waitrose</p> <p>Successful relaunch of Sparks with over 10m members reached. Creation of MS2 to further enhance the Sparks data insights for customer personalisation.</p> <p>Progressive increase in growth in online sales throughout the year satisfied by the Castle Donington distribution centre and the expansion of BOSS capability resulted in overall online sales growth of 53.9%</p> <p>Establishing a store estate for the new world 15 Food stores renewed with a further 16 opening in the coming months, with the efficiency of a supermarket and the 'soul of a fresh food market' offering customers quality produce, ambient, grocery and frozen in a distinctive environment</p> <p>Re-evaluated store estate roadmap and locations as part of three-year plan. Renegotiated rental arrangements to churn Simply Foods. Launched five '10x' stores as part of the omni-channel Clothing & Home strategy.</p>
Eoin Tonge	<p>Restore M&S to sustainable, profitable growth Delivery of a stronger balance sheet than expected through investment in technology to reduce fixed costs, reduction in discretionary costs, managed stock flow and a focus on working capital.</p> <p>Cashflow was preserved through a combination of actions including new terms with suppliers, adjustments to arrangements with landlords and careful management of capital expenditure.</p> <p>Strengthened liquidity by reducing net debt, refinancing 2022 finance commitments and managing standby liquidity with the banks</p> <p>Implemented an effective planning and review process in annual and three-year financial planning including improvements to budgeting.</p> <p>Accelerate the transformation in Finance capability across the organisation Successful recruitment and onboarding of high calibre Finance leaders to build a strong new management team to support the family of businesses</p>

DEFERRED SHARE BONUS PLAN (AUDITED)

Currently 50% of any bonus payment is compulsorily deferred into shares. These awards vest after three years subject to continued employment as well as malus provisions. As no bonus was awarded in respect of performance year 2019/20, no share awards under the Deferred Share Bonus Plan (DSBP) were made during the year. In relation to the 2020/21 performance year, as the Annual Bonus Scheme did not operate, there will be no awards under the DSBP made in 2021.

ANNUAL BONUS SCHEME FOR 2021/22

During the year, the Committee reviewed the 2021/22 scheme, considering the accelerated transformation programme Never the Same Again together with bonus arrangements elsewhere in the business.

The Committee was satisfied that the structure of the annual bonus scheme, as approved by shareholders at the 2020 AGM, remains appropriate. Subject to the achievement of stretching targets, set in line with the 2021/22 financial plan, the scheme provides for a competitive bonus opportunity with a strong focus on stretching PBT performance

Executive directors are eligible to receive a bonus payment of up to 200% of salary.

Performance will be focused on Group PBT before adjusting items (PBT) (70%) with individual measures set against key areas of delivery of the transformation plan. Individual performance will again be measured independently of PBT performance; no individual element may be earned until a threshold level of PBT is achieved.

ANNUAL BONUS SCHEME CONTINUED

The remaining 30% of the bonus will be measured against a scorecard of individual objectives, identified as the measurable key priorities required to drive the continued transformation of M&S.

The performance targets for the 2021/22 Scheme are deemed by the Board to be too commercially sensitive to disclose at this time as they are not disclosed elsewhere in the report. Where possible, they will be disclosed in next year's report. The Committee, in its absolute discretion,

may use its judgement to adjust outcomes to ensure that any payments made reflect overall business and individual performance during the year. Any discretion applied will be clearly disclosed and justified.

	CORPORATE TARGETS		INDIVIDUAL OBJECTIVES	
	Group PBT before adjusting items PBT	Scorecard of individual measures		
Director	% bonus	% bonus	Measures	
Steve Rowe	70%	30%	<ul style="list-style-type: none"> – Creation and implementation of revised Executive Committee structure and roles and the development of strong succession plans. – Delivery of the transformation programme in Clothing & Home. – Reset the strategic relationship with Ocado regarding platform integration, data sharing, infrastructure and category strategy. – Revitalise Plan A. 	
Eoin Tonge	70%	30%	<ul style="list-style-type: none"> – Drive a focus on financial delivery of critical transformation strategies in Property and supply chain. – Design and deliver critical Group investment evaluation processes and models. – Shape and strengthen the balance sheet. – Deliver step change in the control environment 	

PERFORMANCE SHARE PLAN (PSP)

PSP AWARDS MADE IN 2020/21 (AUDITED)

As reported last year, between September 2019 and January 2020, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable and actively consulted with shareholders during this time. As part of this review and engagement process and taking into account shareholder feedback, it was determined that 20% of the PSP award would be based upon strategic transformation goals relevant to the achievement of the business strategy over the next three years. The remaining 80% of the award would be based on EPS (30%), ROCE (30%) and relative TSR (20%) similar to recent years.

TSR is measured against a bespoke group of 13 companies taken from the FTSE 350 General and Food & Drug Retailers indices, reviewed prior to grant to ensure the constituents remained appropriately

aligned to M&S's business operations to best reflect the value of shareholders' investment in M&S over the respective performance period. These companies are listed in Figure 12.

Recognising the material fall in share price, the Committee significantly reduced the quantum of the PSP grant for 2020 only from the typical 250% of salary to 175% of salary. The grant was made on 6 July 2020.

Having taken the decision to delay target setting, the Committee consulted with shareholders on the proposed targets and received support for the action taken to reduce awards and for the proposed targets and strategic measures. For clarity, the Food like-for-like sales growth excludes sales on Ocado as around 95% of M&S product sold on Ocado does not pass through the M&S network. Ocado sales are

incorporated into the EPS figures. The strategic targets are deemed too commercially sensitive to disclose but will be reported at the time of vesting.

In line with Policy, awards will vest three years after the date of grant, to the extent that the performance conditions are met, and must then be held for a further two years. Clawback provisions apply during this holding period. For financial measures, 20% of awards will vest for threshold performance increasing to 100% on a straight-line basis between threshold and maximum performance. For strategic measures no payment shall be made if the target is not achieved. This supports the Committee's view that delivery of these strategic measures is critical; payment for achievement below the target is not appropriate. Detailed targets can be seen in Figure 11.

FIGURE 11: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2020/21 (AUDITED)

2020/21 award measures	Weighting	Details	
		Threshold	Maximum
Adjusted EPS in 2022/23 (p)	30%	13p	22p
ROCE in 2022/23 (%)	30%	9%	12%
Relative TSR	20%	Median	Upper quartile
Strategic measures	20%	M&S.com growth	
		Food like-for-like sales	
		Store staff cost to sales ratio	

REMUNERATION REPORT CONTINUED

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 12: TSR COMPARATOR GROUP 2020/21 AWARDS

J Sainsbury	ASOS	Dunelm Group	N Brown Group
Wm Morrisons	B&M European	JD Sports Fashion	Next
Tesco	Dixons Carphone	Kingfisher	Frasers (formerly Sports Direct International)
			WHSmith

FIGURE 13: PSP AWARDS MADE IN 2020/21 (AUDITED)

	Basis of award % of salary	Threshold level of vesting	Face value of award £000	End of performance period	Vesting date
Steve Rowe	175%	20%	1,460	01/04/2023	06/07/2023
Eoin Tonge	175%	20%	1,050	01/04/2023	06/07/2023

PSP grants were made as a conditional share award. When calculating the face value of awards to be granted, the number of shares awarded was multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For the 2020 award, the share price was calculated as £1.00, being the average share price between 29 June 2020 and 3 July 2020.

FIGURE 14: PSP AWARDS VESTING IN 2020/21 (AUDITED)

For directors in receipt of PSP awards granted in 2018, the awards will vest in July 2021 based on three-year performance over the period to 3 April 2021. Performance has been assessed and it has been determined that 0% of the total award will vest. The Committee reviewed this level of vesting against the wider business performance of the period and determined this level of payment was appropriate; no discretion was applied either for share price movements or for formulaic vesting outcomes.

Details of performance against the specific targets set are shown in the table below.

The total vesting values shown in Figure 15 directly correspond to the figure included in the single figure table on page 94.

	Adjusted EPS in 2020/21 (p)	Average ROCE (2018/19-2020/21) (%)	TSR	Total vesting % of award
2018/19 award	1/3 of award	1/3 of award	1/3 of award	
Threshold performance	26.9	11.1	Median	
Maximum performance	32.7	14.1	Upper quartile	
Actual performance achieved	1.1	9.3	Below median	
Percentage of maximum achieved	0%	0%	0%	0%

Targets outlined above are stated on a post-IFRS 16 basis and include adjustments that have been made for the impact of the investment in Ocado Retail Limited. The original targets were EPS 31.7p-38.7p and ROCE 13.0%-17.0%.

FIGURE 15: VESTING VALUE OF AWARDS VESTING IN 2020/21 (AUDITED)

	On grant		At the end of performance period (3 April 2021)			Impact of share price performance	Total vesting of award £000
	Number of shares granted (incl. rights issue adjustment)	% of salary granted	Dividend equivalents accrued during the performance period	Number of shares vesting	Number of shares lapsing		
Steve Rowe	680,545	250%	52,935	0	733,480	—	£0k

Dividend equivalents accrued during the performance period have been included in the table above.

PSP AWARDS TO BE MADE IN 2021/22

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable. While the 2021 PSP will maintain the measures used for the 2020 PSP awards (30% adjusted EPS, 30% ROCE, 20% relative TSR and 20% strategic measures), given the continuing uncertainty of the impact of the pandemic on macroeconomic factors, the Committee has again decided to delay the setting of PSP targets. The targets will be disclosed by 31 December 2021 and will be discussed with shareholders prior to confirmation. Having reduced award levels in 2020 to acknowledge the shareholder experience of Covid-19 and to mitigate against windfall gains from directors' awards, the Committee believes, in light of the return of the share price to pre-pandemic levels, it is appropriate to incentivise the executives and ensure they remain aligned with shareholders' long-term interests. It is intended to grant PSP awards of 250% of salary for 2021, noting that the expected number of shares to be granted will be fewer than in 2020 as a result of the share price recovery over the last 12 months.

RESTRICTED SHARE PLAN (RSP)

RSP AWARDS MADE TO EOIN TONGE IN 2020/21 (AUDITED)

As reported last year and in line with the approved Recruitment Policy, Eoin Tonge received replacement share awards to compensate for the awards that he forfeited on resigning from Greencore Group PLC. The fair value of these conditional share awards was calculated taking account of the original performance period and estimated satisfaction of the performance conditions of the original awards.

For the purposes of this award, the share price was calculated as £1.00, being the average share price between 29 June 2020 and 3 July 2020. The vesting timeline for the first tranche of this award is in line with the time horizons of the original awards; for the remaining tranches, the original time horizon has been extended by six months.

Face value of award £000	Vesting date	End of post vesting holding period
526	10/12/2020	10/12/2022
526	24/06/2022	24/06/2024
263	19/06/2023	19/06/2025

Dividend equivalents will be paid on the vesting date based on the number of vested shares.

FIGURE 16: DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below sets out the total number of shares held by each executive director serving on the Board during the period to 3 April 2021. Shares owned outright include those held by connected persons.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 25 May 2021. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

	Shares owned outright	Unvested		Vested unexercised options
		With performance conditions Performance Share Plan	Without performance conditions Restricted Share Plan	
Steve Rowe	562,662	3,228,450	–	–
Eoin Tonge	277,999	1,049,538	789,252	–

FIGURE 17: SHAREHOLDING REQUIREMENTS INCLUDING POST-CESSATION (AUDITED)

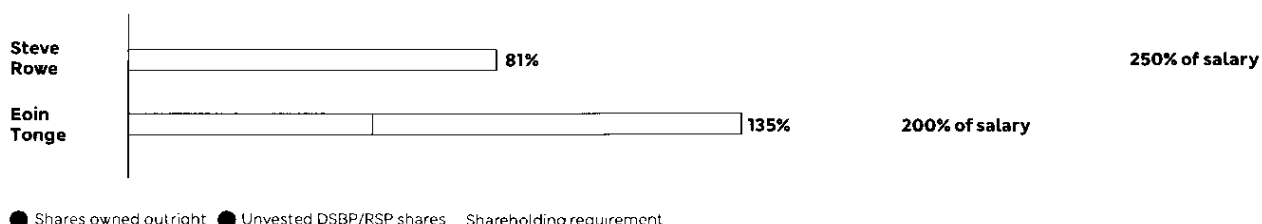
All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 200% of salary. A similar requirement of 100% of salary currently applies to members of the Executive Committee below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 3 April 2021. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO. Although the respective target has not yet been achieved, the Committee is satisfied that no shares granted or held have been sold by either the CEO or his related parties and that the CEO's interests remain strongly aligned with shareholders.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee continues to keep both shareholding requirement guidelines and actual director shareholdings under review and will take appropriate action should they feel it to be necessary.

Supporting the Committee's intention to drive long-term, sustainable decision-making for the benefit of M&S and our shareholders and in line with the 2018 Code changes and the Investment Association's updated guidelines, in 2020 the Committee approved the extension of shareholding guidelines beyond the time at which an executive director leaves M&S. Directors are required to maintain their minimum shareholding requirement, or, if their level of shareholding is below this, their actual shareholding for two years after leaving M&S. For the avoidance of doubt, the Committee has approved all vesting awards from 2020 grants onwards to be held in a nominee vehicle to ensure the successful operation of this policy.

For the purposes of this calculation, an average share price is used to reduce the impact of share price volatility on the results. The average share price for the year was £1.16, with resultant shareholdings illustrated in the chart below. At 3 April 2021, the share price was £1.524, which would increase the CEO's and CFO's total shareholding by 33% (106% of salary) and 31% (177% of salary) respectively.



REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (AUDITED)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme, and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible colleagues. Further details of the schemes are set out in note 13 to the financial statements on pages 153 to 155.

DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

Awards granted under the Company's Save As You Earn Scheme and discretionary share plan can be met by the issue of new shares when the options are exercised or through market purchase shares.

The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared with the dilution limits set by the Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 3 April 2021 is as follows:

FIGURE 18: All share plans



FIGURE 19: Executive share plans



FIGURE 20: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 29 March 2020	Awarded during the year	Exercised during the year	Lapsed during the year	Dividend equivalents accrued	Maximum receivable at 3 April 2021
Steve Rowe						
Performance Share Plan	2,499,156	1,459,732	267,878	566,932	104,372	3,228,450
Deferred Share Bonus Plan	90,744	-	90,744	-	-	-
SAYE	9,557	21,951	-	9,557	-	21,951
Total	2,599,457	1,481,683	358,622	576,489	104,372	3,250,401
Eoin Tonge						
Performance Share Plan	-	1,049,538	-	-	-	1,049,538
Restricted Share Plan	-	1,315,420	526,168	-	-	789,252
SAYE	-	21,951	-	-	-	21,951
Total	-	2,386,909	526,168	-	-	1,860,741

The aggregate gain for Steve Rowe arising in the year from the exercise of awards granted under the DSBP and the PSP totalled £395,471 based on the respective share price on the date of exercise of £1.100 and £1.113. The aggregate gain for Eoin Tonge arising during the year from the exercise of awards granted under the RSP totalled £718,845 based on a share price on the date of exercise of £1.3661. The market price of the shares at the end of the financial year was £1.524, the highest and lowest share price during the financial year were £1.589 and £0.850 respectively.

Figure 21 shows the time horizons of outstanding discretionary share awards (including dividend equivalent shares accrued during the performance period) for all directors serving on the Board during the year.

FIGURE 21: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

		Maximum receivable at 3 April 2021 (all discretionary schemes)	2021/22		2022/23		2023/24	
			Maximum receivable	Lapsed	Maximum receivable	Lapsed	Maximum receivable	Lapsed
Steve Rowe	Performance Share Plan	3,228,450	-	733,480	1,035,238	-	1,459,732	-
Eoin Tonge	Performance Share Plan	1,049,538	-	-	-	-	1,049,538	-
	Restricted Share Plan	789,252	-	-	526,168	-	263,084	-

As reported on page 98, the 2018 PSP awards included within the totals shown in Figure 21 will vest at 0% in July 2021. This has been reflected above in the 2021/22 Lapsed column.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 22: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past 10 years. While M&S is not currently a constituent of the FTSE 100 Index, the Committee feels that it remains the most appropriate comparator. The calculation of TSR is in accordance with the relevant remuneration regulations. The table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last 10 financial years.

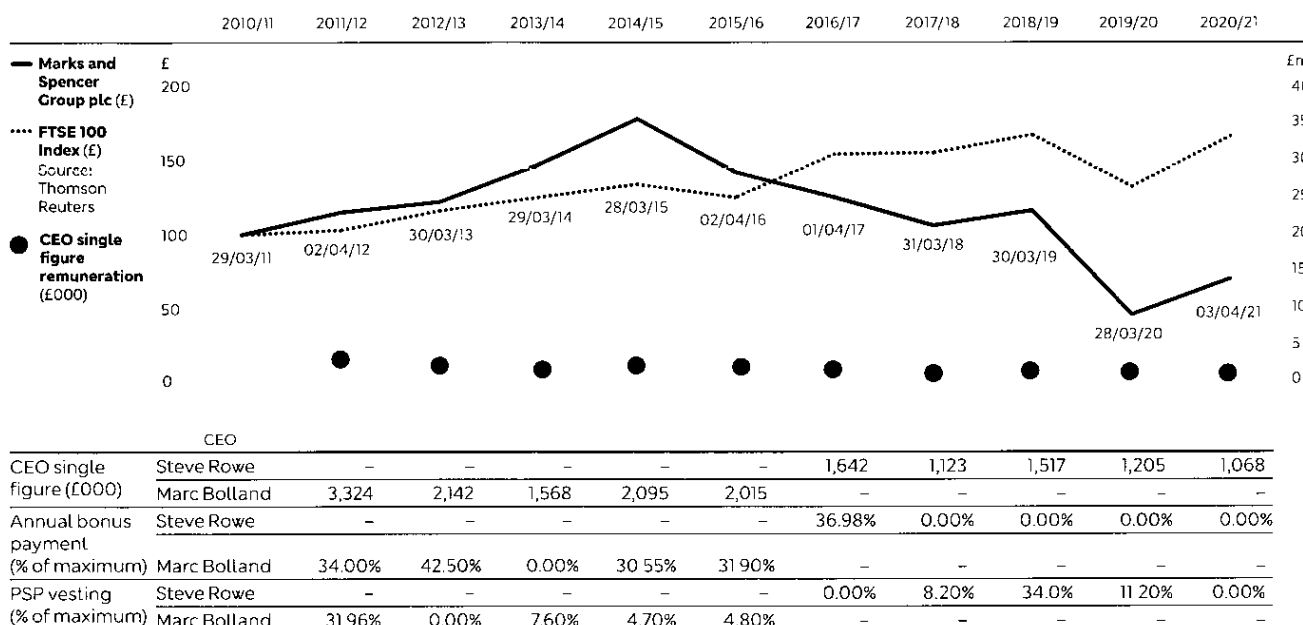


FIGURE 23: PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

	% change 2019/20 - 2020/21		
	2019/20 Base salary/fees	Benefits	Annual bonus
Steve Rowe	0%	-36.8%	-
Eoin Tonge	0%	-	-
Archie Norman	0%	-74%	N/A
Andy Halford	0%	0%	N/A
Alison Brittain	0%	0%	N/A
Andrew Fisher	0%	-100%	N/A
Katie Bickerstaffe	0%	-100%	N/A
Pip McCrostie	0%	0%	N/A
Justin King	0%	100%	N/A
Tamara Ingram	0%	-	N/A
Sapna Sood	0%	-	N/A
UK colleagues (average FTE)	0%	0%	-

The table sets out the annual percentage change in salary, benefits and bonus for each director compared with that of the average full-time equivalent total reward for all UK colleagues.

For non-executive directors, benefits comprise taxable expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year. The significant change in the taxable benefits is a result of travel being impacted by Covid-19 and not a change in the benefits policy.

FIGURE 24: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company's expenditure on pay in comparison with profits before tax and distributions to shareholders by way of dividend payments and share buy-back.

Total colleague pay is the total pay for all Group colleagues. Group PBT before adjusting items has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

	2019/20 £m	2020/21 £m	% change
Total colleague pay	1,464.4	1,437.7	-1.82%
Total returns to shareholders	191.1	Nil	-100%
Group PBT before adjusting items	403.1	41.6	-89.70%

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 25: SERVICE AGREEMENTS

In line with our Policy, directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

	Date of appointment	Notice period
Steve Rowe	02/04/2016	12 months/6 months
Eoin Tonge	08/06/2020	12 months/6 months

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2020/21

DIRECTORS APPOINTED TO THE BOARD

Eoin Tonge joined the Board on 8 June 2020 as Chief Financial Officer. His basic annual salary is £600,000. Eoin does not receive a pension supplement or car allowance. Eoin has joined the pension scheme on the same terms as all other colleagues. Eoin received temporary short-term travel and accommodation allowances in the year. In line with the

Company's recruitment policy, Eoin received a replacement share award to compensate him for shares forfeited by him joining M&S. These shares will vest broadly in line with the original award time horizons although some have been extended by six months. Further details of Eoin's award is set out on page 99. The rest of Eoin's incentive arrangements are aligned with that of an executive director.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

There were no payments made for loss of office during the period.

PAYMENTS TO PAST DIRECTORS (audited)

There were no payments made to past directors during the period.

EXTERNAL APPOINTMENTS

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments

can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee. There are currently

no external appointments held by the executive directors.

FIGURE 26: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (AUDITED)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. Fees paid to the non-executive directors and Board Chairman for 2020/21 and 2019/20 are detailed in the table opposite.

Benefits include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which are deemed by HMRC to be taxable. The amounts in the table opposite include the grossed-up cost of UK tax paid by the Company on behalf of the non-executive directors. Non-taxable expense reimbursements have not been included in the table.

During the year, fees for all non-executive directors were reviewed. Taking into account the relevant market data and the increases for the wider workforce, it was agreed that the basic non-executive fee will be increased by 1% to £72,215 with effect from 1 July 2021. The Board Chairman was similarly awarded an increase of 1% with effect from 1 July 2021. The total aggregate fee for the Board Chairman will be increased to £618,000.

Fee levels will be reviewed again during 2022/23 as per the normal annual process.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Archie Norman	2020/21	71	541	5	617
	2019/20	71	538	19	628
Andy Halford	2020/21	71	31	0	102
	2019/20	71	31	0	102
Alison Brittain (to 3 July 2020)	2020/21	18	0	0	18
	2019/20	71	0	0	71
Andrew Fisher	2020/21	71	16	0	87
	2019/20	71	15	2	88
Katie Bickerstaffe (to 27 April 2020)	2020/21	6	0	0	6
	2019/20	71	0	3	74
Pip McCrostie (to 24 March 2021)	2020/21	71	0	0	71
	2019/20	71	0	0	71
Justin King	2020/21	71	0	1	72
	2019/20	71	0	0	71
Tamara Ingram (from 1 June 2020)	2020/21	60	5	0	65
	2019/20	0	0	0	0
Sapna Sood (from 1 June 2020)	2020/21	60	0	0	60
	2019/20	0	0	0	0
Evelyn Bourke (from 1 February 2021)	2020/21	12	0	0	12
	2019/20	0	0	0	0

NON-EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 27: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (AUDITED)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. All non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company upon joining M&S.

The table opposite details the shareholding of the non-executive directors who served on the Board during the year as at 3 April 2021 (or upon their date of retiring from the Board), including those held by connected persons.

Changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 25 May 2021 (or upon their date of retiring from the Board) are shown in the table opposite.

Director	Number of shares held as at 3 April 2021	Number of shares held as at 25 May 2021
Archie Norman	148,600	No change
Andy Halford	25,200	No change
Alison Brittain	6,115	No change
Andrew Fisher	4,243	No change
Katie Bickerstaffe	24,800	No change
Pip McCrostie	7,200	No change
Justin King	64,000	No change
Tamara Ingram	0	2,000
Sapna Sood	2,000	No change
Evelyn Bourke	50,000	No change
Fiona Dawson	0	12,352

FIGURE 28: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice (six months' for the Chairman).

The table opposite sets out these terms for all current members of the Board.

Director	Date of appointment	Notice period
Archie Norman	01/09/2017	6 months/6 months
Andy Halford	01/01/2013	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Justin King	01/01/2019	3 months/3 months
Tamara Ingram	01/06/2020	3 months/3 months
Sapna Sood	01/06/2020	3 months/3 months
Evelyn Bourke	01/02/2021	3 months/3 months
Fiona Dawson	25/05/2021	3 months/3 months

NON-EXECUTIVE DIRECTOR CHANGES TO THE BOARD DURING 2020/21

DIRECTORS APPOINTED TO THE BOARD

Evelyn Bourke joined the Board as a non-executive director on 1 February 2021. Evelyn receives the standard annual non-executive director fee of £71,500 (increasing to £72,215 with effect from 1 July 2021) and is a member of the Nomination and Audit Committee.

Fiona Dawson joined the Board as a non-executive director on 25 May 2021. Fiona receives the standard annual non-executive director fee of £71,500 (increasing to £72,215 with effect from 1 July 2021) and is a member of the Nomination Committee.

ROLE CHANGES WITHIN THE BOARD

Katie Bickerstaffe stepped down from the Board at the AGM on 3 July 2020; she started in her role of Chief Strategy and Transformation Director on 27 April 2020.

DIRECTORS RETIRING FROM THE BOARD

Pip McCrostie retired as a non-executive director and stepped down from the Board on 24 March 2021. As is required from a reporting perspective, we can confirm that there were no payments made for loss of office to Pip.

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee reviewed the Terms of Reference ensuring that they reflected the government's latest recommendations and the revised principles of the Remuneration Policy, as set out in the UK Corporate Governance Code 2018. In particular the Committee, in its support of the Nomination Committee, expanded its remit to specifically discuss the talent and succession in the senior leadership group and associated pay arrangements. The Terms of Reference can be found on the Company's website at corporate.marksandspencer.com/investors/corporate-governance/governance-framework

KEY RESPONSIBILITIES

The role of the Committee continues to have a strong focus on ensuring an appropriate alignment between the remuneration of executive directors, the Executive Committee and that of colleagues across M&S, ensuring that the senior remuneration framework is strategically aligned with the business but that it also attracts and recognises the talent required to drive transformation and cultural change within M&S. The responsibilities are broadly as follows:

- Setting remuneration policy and practices that are designed to support strategy and promote the long-term success of M&S while following the below principles:
 - **Clarity** – remuneration arrangements are transparent and promote effective engagement with shareholders and the workforce
 - **Simplicity** – remuneration structures are uncomplicated, and their rationale and operation are easy to understand
 - **Risk** – ensure that reputational and other risks from excessive rewards, and

behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

- **Predictability** – the range of possible values of rewards to executive directors are identified and explained at the time of approving the policy.
- **Proportionality** – the link between individual awards, the delivery of strategy and the long-term performance of the Company is clear. Outcomes should not reward poor performance.
- **Alignment with culture** – incentive schemes that drive behaviours consistent with M&S's purpose, values and strategy.
- Determining the terms of employment and remuneration for the executive directors and the Executive Committee, including recruitment and termination arrangements.
- Considering the appropriateness of the senior remuneration framework and exercising independent judgement and

discretion when authorising remuneration outcomes, taking account of Company and individual performance, and the context of the wider workforce.

- Noting the total pay budgets including salary, bonus and share scheme allocations across all of M&S together with the principles of allocation to ensure appropriate consistency with the senior pay frameworks
- Approving the design, targets and total payments for all performance-related pay schemes operated by M&S, seeking shareholder approval where necessary.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share-based incentive plan for the executive directors and Executive Committee
- Receiving direct feedback from BIC, the Group's colleague representative body, colleague voice surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and inclusion and diversity are considered.

REMUNERATION COMMITTEE AGENDA FOR 2020/21

REGULAR ITEMS

Pay arrangements

- Within the terms of the M&S Remuneration Policy, approval of the remuneration packages for the executive directors, the Executive Committee, and any termination payments where applicable.
- Consideration of the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Noting of the total budgeted salary expenditure across M&S, ensuring principles for reward allocation are aligned across M&S

Annual Bonus Scheme

- Review of achievements against 2020/21 performance objectives for executive directors and the Executive Committee
- Approval of targets for the 2021/22 Annual Bonus Scheme ensuring that the performance conditions are transparent, stretching and rigorously applied
- Approval of the 2021/22 individual performance objectives for executive directors and the Executive Committee.

- Noting of the total budgeted expenditure for the Annual Bonus Scheme across M&S.

Long-term incentives

- Approval of 2021 PSP awards for the executive directors and the Executive Committee, following engagement with key stakeholders
- Approval of the vesting level of the 2018 PSP awards across M&S.
- Regular review of all in-flight performance share plans against targets.
- Consideration of long-term share awards granted to colleagues below Executive Committee level

Governance and external market

- Review of the M&S Remuneration Policy, ensuring that it continues to support the long-term success of M&S and is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice
- Review the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.

- Approval of the Directors' Remuneration Report for 2020/21 and review of the AGM voting outcome for the 2019/20 Report.
- Review of the Committee's performance in 2020/21, including assurance that the principles of the revised Terms of Reference and broader remit of the Committee are embedded
- Assessment of the external market when considering remuneration arrangements for executive directors and the Executive Committee.
- Review the effectiveness and transparency of remuneration reporting.
- Noting of direct feedback from the Business Involvement Group (BIC), M&S's colleague representative body, to ensure that all employee views are received and considered by the Board when making remuneration and reward decisions

Talent planning

- Noting the performance management process across the business
- Discussing senior leadership talent and succession planning

EFFECTIVENESS OF THE REMUNERATION COMMITTEE

The Committee's performance was reviewed as part of the 2020/21 externally facilitated Board Evaluation. The review found that the Committee functions effectively and ensures a sound independent review of remuneration policies across the business

2021/22 ACTION PLAN

- Approve the 2021 PSP targets ensuring appropriate alignment between driving exceptional performance and motivating and retaining top talent
- Review and discuss the link between ESG, executive pay and incentives to ensure appropriate focus on Plan A goals with strategic and transformational performance
- Continue to review the pay framework for senior leaders of the business with those in the wider workforce to ensure a fairness of principles in line with M&S's values.
- Support the work of the Nomination Committee through the assessment of senior leadership talent, succession planning and associated pay arrangements

REMUNERATION COMMITTEE CONTINUED

FIGURE 29: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2020/21.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Andrew Fisher (Committee Chair)	1 October 2018	8	8	100%
Archie Norman	3 November 2017	8	8	100%
Katie Bickerstaffe (to 27 April 2020)	10 July 2018	2	2	100%
Tamara Ingram	11 September 2020	5	5	100%

COMMITTEE ADVISERS

In carrying out its responsibilities, the Committee is independently advised by external advisers. The Committee was advised by PwC during the year. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at remunerationconsultantsgroup.com

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied that any conflicts are appropriately

managed. PwC was appointed by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £54,000 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

The Committee also seeks internal support from the CEO, CFO, General Counsel & Company Secretary and the Head of Executive Reward & Pay Governance as necessary. All may attend the Committee meetings by invitation but are not present for any discussions that relate directly to their own remuneration.

The Committee also reviews external survey and bespoke benchmarking data, including that published by Aon Hewitt Limited, KPMG, PwC, FIT Remuneration Consultants, Korn Ferry and Willis Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER AND SHAREHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Executive Reward & Pay Governance, the Committee gives colleagues, through colleague representatives, the opportunity to raise questions or concerns regarding the

remuneration of the executive directors. During the year, colleague representatives were given the opportunity to raise their views with the Remuneration Committee via the BIG chair. Details of the directors' pay arrangements were discussed in the context of the reward framework for the rest of the organisation and external factors; no concerns were raised either during these discussions or subsequently.

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. As described in the Committee Chair's letter, dialogue continued during the year, on the PSP proposed measures and weightings. Shareholders were positive in their feedback and confirmed that the targets set aligned with their expectations.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2019/20 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 3 July 2020, 97.65% of shareholders voted in favour of approving the Directors' Remuneration Report for 2019/20. In addition, 97.14% of shareholders voted

in favour of the Remuneration Policy. The Committee believes that this illustrates the strong level of shareholder support for the senior remuneration framework. The table below shows full

details of the voting outcomes for the 2019/20 Directors' Remuneration Report and Remuneration Policy.

FIGURE 30: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2019/20 REMUNERATION REPORT AND REMUNERATION POLICY AT THE 2020 AGM

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy	1,125,697,134	97.14%	33,187,602	2.86%	942,792
2019/20 Remuneration Report	1,131,776,274	97.65%	27,184,460	2.35%	867,638

APPROVED BY THE BOARD

Andrew Fisher, Chair of the Remuneration Committee
London, 25 May 2021

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations"). Where required, data has been audited by Deloitte and this is indicated appropriately.

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group").

The Directors' Report for the year ended 3 April 2021 comprises pages 58 to 110 and pages 210 to 211 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 57, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on page 47.
- Details of branches operated by the Company on pages 9 to 23.
- Total global M&S greenhouse gas emissions 2020/21 on page 32.
- Information on how the directors have had regard for the Company's stakeholders, and the effect of that regard, on pages 34 to 36.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

Information relating to financial instruments can be found on pages 164 to 175 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please see our ESG Committee report on pages 73 to 76, and refer to our Plan A website marksandspencer.com/plana.

Other information to be disclosed in the Directors' Report is given in this section.

The Directors' Report fulfils the requirements of the corporate governance statement for the purposes of DTR 7.2.3R. Further information is available online at marksandspencer.com/thecompany.

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law, and the liabilities of the directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	85-87, 90-93 and 97-98

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 62 and 63. Changes to the directors during the year and up to the date of this report are set out opposite. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 99, 100 and 103. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 100. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 153 to 155.

Name	Role	Effective date of departure/appointment
Departures		
Pip McCrostie	Non-Executive Director	24 March 2021
Alison Brittain	Non-Executive Director	3 July 2020
Katie Bickerstaffe	Non-Executive Director	3 July 2020
Appointments		
Eoin Tonge	Executive Director	8 June 2020
Sapna Sood	Non-Executive Director	1 June 2020
Tamara Ingram	Non-Executive Director	1 June 2020
Evelyn Bourke	Non-Executive Director	1 February 2021
Fiona Dawson	Non-Executive Director	25 May 2021

The appointment and replacement of directors is governed by the Company's Articles of Association (the "Articles"), the UK Corporate Governance Code (the "Code"), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

The Company may, by ordinary resolution, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next Annual General Meeting ("AGM") where they will stand for annual election.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with Marks & Spencer, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Company Secretary to the extent permitted by law. Qualifying third-party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 3 April 2021 and remain in force in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors or Company Secretary or employees of the Company or of any associated company. Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 3 April 2021 for the benefit of the Trustees of the Marks & Spencer UK Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The (loss)/profit for the financial year, after taxation, amounts to £(194.4m) (last year £27.4m). The directors have declared dividends as follows:

Ordinary shares	£m
No proposed interim dividend (last year 3.9p per share)	–
No proposed final dividend (last year no proposed final dividend)	–
No dividend proposed for 2020/21 (last year 3.9p per share)	–

SHARE CAPITAL

The Company's issued ordinary share capital as at 3 April 2021 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the financial year, 556 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at a price of 151p.

In addition, during the period, ordinary shares were issued to satisfy employee share awards at a price of 25p as follows:

Performance Share Plan	861,888
Restricted Share Plan	4,351,339*
Deferred Bonus Share Plan	1,240,000

* This includes shares issued to satisfy the Company's 5% Covid-19 award made to colleagues for working through the pandemic

Details of movements in the Company's issued share capital can be found in note 24 to the financial statements on page 177.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

VARIATION OF RIGHTS

Subject to applicable statutes, rights attached to any class of share may be varied with the written consent of the holders of at least three-quarters in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to the provisions of the Companies Act 2006, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2020 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 3 April 2021 and up to the date of this report.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 3 April 2021, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Voting rights	% of capital disclosed	Nature of holding as per disclosure
Schroders plc	90,153,730	5.549*	Indirect interest (5.547%), CFD (0.001%)
Citadel LLC and its group	97,679,549	5.00052**	Equity swap
Blackrock, Inc.	112,631,280	5.74	Indirect interest (5.08%), securities lending (0.43%), CFD (0.23%)
RWC Asset Management LLP	104,965,660	5.38	Indirect interest
Norges Bank	78,149,847	3.99	Direct interest (3.98%), securities lending (0.1%)

* Disclosures made prior to the 2019 rights issue

** Disclosed on 15 September 2020. A further disclosure was made on 15 September notifying the Company that Citadel's holding had decreased below the 5% notifiable threshold, which did not state the new position

In the period from 3 April 2021 to the date of this report, we received four further notifications in accordance with DTR 5 from Blackrock Inc., the most recent of which was on 24 May 2021, disclosing a holding of 107,746,080 ordinary shares (5.49%, broken down as follows: Indirect 5.01%; Securities lending, 0.39%; and CFD, 0.09%).

OTHER DISCLOSURES CONTINUED

This standard authority is renewable annually; the directors will seek to renew this authority at the 2021 AGM.

The directors were granted authority at the 2020 AGM to allot relevant securities up to a nominal amount of £162,504,984. This authority will apply until the conclusion of the 2021 AGM. At this year's AGM, depending on the voting outcome of resolutions 15, 16 and 22, which have the effect of reducing the nominal value of the Company's ordinary shares from £0.25 to £0.01, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of (a) £163,043,966 (if resolution 15 is not passed) or (b) £6,521,758.64 (if resolution 15 is passed) and (ii) comprising equity securities up to a nominal amount of (a) £326,087,932.25 (if resolution 15 is not passed) or (b) £13,043,517.29 (if resolution 15 is passed) (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM to be held in 2022 or, if earlier, on 1 October 2022.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of (i) £24,456,595 (if resolution 15 is not passed) or (ii) £978,263.80 (if resolution 15 is passed). In addition, this year a separate special resolution will be proposed, in line with institutional shareholder guidelines, to authorise the directors to make non-pre-emptive issues for cash in connection with acquisitions/specified capital investments, up to a further nominal amount of (i) £24,456,595 (if resolution 15 is not passed) or (ii) £978,263.80 (if resolution 15 is passed).

A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 195,652,759 ordinary shares and sets the minimum and maximum prices which will be paid.

DEADLINES FOR EXERCISING VOTING RIGHTS

Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy or, in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. However, when calculating the 48-hour period, the directors can, and have, decided not to take account of any part of a day that is not a working day.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

- The \$300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.
- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control, the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as practicable (while not being required to do anything that would breach such a third-party arrangement).

- Where a third-party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate the Relationship Agreement. The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

COLLEAGUE INVOLVEMENT

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement, and information on our approach to our workforce, are highlighted throughout this Annual Report and specifically on pages 26 to 29, 34 to 36 and 66 to 69.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. As at 3 April 2021, 15,738 colleagues were participating in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 153 to 155.

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

EQUAL OPPORTUNITIES

The Group is committed to an active inclusion, diversity and equal opportunities policy: from recruitment and selection, through training and development, performance reviews and promotion, to retirement.

The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, health condition, age, marital or civil partner status, sexual orientation, gender identity or faith. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large.

M&S is an organisation which uses everyone's talents and abilities and where inclusion and diversity are valued. M&S has a business-wide inclusion and diversity strategy, which is led by the Inclusion Activation Group and chaired by a member of the Executive Committee. Our seven employee-led diversity networks are supported by a central Inclusion and Diversity team, who work to embed a culture of inclusion across the organisation. In 2017, our inclusion and diversity targets were agreed as: aiming to have 50% female representation and 15% ethnic minority representation on the M&S senior management team by 2022.

Further information on our inclusion and diversity initiatives can be found on pages 27 to 29, and page 65.

EMPLOYEES WITH DISABILITIES

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

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A Report, available online.

GROCERIES SUPPLY CODE OF PRACTICE

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

M&S submitted its report, covering the period from 29 March 2020 to 3 April 2021 to the Audit Committee on 12 May 2021. It was approved on 20 May 2021.

In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been four instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and three of them have been resolved or closed. One additional Code reference made by a supplier before 29 March 2020 was also resolved during the reporting period.

A detailed summary of the compliance report is available on our website.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 3 April 2021. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 10 to 25 as well as the Group's principal risks and uncertainties as set out on pages 48 to 56, including the downside sensitivities outlined on page 57.

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

➤ See note 20 to the financial statements for more information on our facilities.

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to March 2024. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

➤ See our approach to assessing long-term viability on page 57.

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2021 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be broadcast online from M&S' Waterside House support centre on 6 July 2021 at 11am. Shareholders are advised not to travel to the venue on the day. The Notice of Meeting is given, together with explanatory notes and guidance on how to access the meeting and vote electronically, on pages 196 to 209.

OTHER DISCLOSURES CONTINUED

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy.

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 79.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

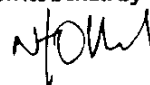
Each of the current directors, whose names and functions are listed on pages 62 and 63, confirms that, to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' Report is approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 25 May 2021 and signed on its behalf by



Nick Folland, General Counsel and Company Secretary

London, 25 May 2021

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MARKS AND SPENCER GROUP PLC

Report on the audit of the financial statements

1. OPINION

In our opinion:

- the financial statements of Marks and Spencer Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 3 April 2021 and of the Group's loss for 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and

- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statement of Cash Flows; and
- the related notes 1 to 31 and C1 to C7.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. BASIS FOR OPINION

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




We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services

provided to the Group and Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS	MATERIALITY	SIGNIFICANT CHANGES IN OUR APPROACH
<p>The key audit matters that we identified in the current period were:</p> <ul style="list-style-type: none"> – accounting for the UK store estate programme; – impairment of UK store assets; – impairment of per una goodwill; – inventory provisions for UK Clothing & Home; – disclosure of adjusting items as part of alternative performance measures; and – the going concern basis of accounting. <p>Within this report, key audit matters are identified as follows:</p> <p>Increased level of risk </p> <p>Similar level of risk </p> <p>Decreased level of risk </p>	<p>The materiality that we used for the Group financial statements was £16.0m (2020: £18.0m) which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included:</p> <ul style="list-style-type: none"> – adjusted profit before tax; – earnings before interest, tax, depreciation and amortisation; and – revenue. <p>SCOPING</p> <p>We have performed a full-scope audit on the UK component of the business, representing 96% (2020: 95%) of the Group's revenue, 95% (2020: 93%) of adjusted profit before tax, 93% (2020: 92% of profit before tax) of loss before tax, 80% (2020: 82%) of total assets and 88% (2020: 90%) of total liabilities. We perform analytical review procedures on the residual balances.</p>	<p>We have determined that the recognition of lease balances under IFRS 16 Leases and the accounting for the Ocado Retail Limited transaction are no longer key audit matters in the current period. These changes are discussed further in section 5.</p>

4. CONCLUSIONS RELATING TO GOING CONCERN

<p>In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p> <p>Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.6.</p>	<p>Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.</p> <p>In relation to the reporting on how the Group has applied the UK Corporate</p>	<p>Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.</p> <p>Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.</p>
--	---	---

5. KEY AUDIT MATTERS

<p>Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.</p> <p>These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.</p>	<p>Changes in the current period relative to prior periods are as follows:</p> <ul style="list-style-type: none"> – We have not identified the recognition of lease balances under IFRS 16 Leases as a key audit matter in the current period. The adoption of IFRS 16 in the prior period was significant for the Group as leased stores form a significant proportion of the estate and the application and judgements made in transitioning to IFRS 16 were significant. This is the second period in which IFRS 16 is applied and the level of complexity and judgement required has reduced, accordingly we have not identified this as a key audit matter. 	<ul style="list-style-type: none"> – We have not identified the accounting for the Ocado Retail Limited ("ORL") transaction as a key audit matter in the current period. The ORL transaction completed in the prior period and accordingly there is a reduced audit effort required and a number of judgments and estimates, such as the initial assessment of control and the identification and valuation of intangible assets, no longer apply.
---	---	---

5.1 ACCOUNTING FOR THE UK STORE ESTATE PROGRAMME

KEY AUDIT MATTER DESCRIPTION

In February 2018, the Board approved a list of stores marked for closure as part of its UK store estate programme. The total charge recognised in connection with this closure programme in previous periods was £562.3 million. A further net charge of £95.3 million has been recognised in the current period as a result of:

- accelerating rotation of the store estate, with an increase in the number of stores assessed as probable for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current

trading performance, negotiations with landlords and changes in the retail property market;

- depreciation of store assets where previously identified for closure as they approach their planned closure dates; and
- accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme.

Further information is set out in notes 1 and 5 to the financial statements and page 24 of the strategic report.

Our key audit matter was focused on the specific assumptions applied in the discounted cash flow analysis prepared by management including the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs.

The Audit Committee considers this to be a significant matter. Their consideration is on page 80.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to the review and approval of the Group's UK store exit model;
- performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings;
- understood and challenged the basis of management's judgement where stores previously marked for closure are no longer expected to close and additional stores have been identified for closure;
- with the involvement of our internal real estate specialists, we evaluated the appropriateness of management's judgements for a representative sample of properties and benchmarked with reference to external data;
- assessed the mechanical accuracy of discounted cash flow models and other key provision calculations;
- assessed the integrity of key inputs to the discounted cash flow models including the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs with reference to supporting evidence;
- recalculated the closing provision for a representative sample of stores;
- evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the Group's estimate of the impairments and store exit charges and the associated disclosures are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

5.2 IMPAIRMENT OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

As at 3 April 2021 the Group held £3,594.0 million (2020: £3,926.0 million) of UK store assets in respect of stores not considered for closure within the UK store estate programme. In accordance with IAS 36 Impairment of Assets, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £66.4 million (2020: £69.3 million) and the reversal of previously recognised impairment charges of £64.5 million for the UK store assets have been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared

by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period (which takes into account the time new stores take to establish themselves in the market), all of which involve a high degree of estimation uncertainty (as disclosed in note 1 and note 15). The level of risk related to the impairment of UK store assets has decreased relative to the prior period as a result of some reduction in the level of uncertainty in forecasting future cash flows.

The key assumptions applied by management in the impairment reviews performed are:

- future revenue growth and changes in gross margin;
- long term growth rates; and
- discount rates.

The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately, with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to be a single group of assets for the purpose of impairment testing.

The Audit Committee considers this to be a significant matter. Their consideration is on page 80.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to the impairment review process;
- evaluated and challenged management's range of impairment indicators with due consideration given to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data and with reference to historical forecasting accuracy;
- assessed the appropriateness of the discount rates applied with the involvement of our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated the appropriateness and completeness of information included in the impairment model based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the judgements applied, impairments and impairment reversals recorded and disclosures within the financial statements are appropriate.

KEY AUDIT MATTERS CONTINUED

5.3 IMPAIRMENT OF PER UNA GOODWILL

KEY AUDIT MATTER DESCRIPTION

As at 3 April 2021 the Group held £16.5 million (2020: £56.1 million) of goodwill associated with per una. The Group is required to assess the goodwill and intangible assets annually for impairment in accordance with IAS 36. These represent a key source of estimation uncertainty as disclosed in note 1, and management has provided sensitivities in note 14.

The test for impairment of intangible assets compares the carrying value of related assets to the higher of their fair value or value-in-use (a 'recoverable

amount') using an impairment model. Developing a recoverable amount requires significant management judgement; the key judgements applied by management in the development of its impairment model are:

- the revenue and gross margin growth rates;
- longer term growth forecasts; and
- the discount rate used.

Following the completion of the impairment review, management has

recognised an impairment charge of £39.6 million (2020: £13.4 million) in relation to the per una goodwill.

We consider this to represent a key audit matter reflecting the sensitivity of the recoverable amount calculation to changes in these key assumptions.

Refer to note 14 of the financial statements.

The Audit Committee considers this to be a significant matter. Their consideration is on page 80.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to the review and approval of the impairment review;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data to determine if it provided corroborative or contradictory evidence in relation to management's assumptions, and with reference to historical forecasting accuracy;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- assessed the appropriateness of the discount rates applied with the involvement of our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated other material assumptions applied to the cash flow forecasts with reference to the macro-economic and industry environment; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the assumptions used by management in determining their valuation and the disclosure made are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

5.4 INVENTORY PROVISIONS FOR UK CLOTHING & HOME

KEY AUDIT MATTER DESCRIPTION

As at 3 April 2021, the Group held UK Clothing & Home inventories of £430.6 million (2020: £355.4 million), inclusive of a provision of £78.2 million (2020: £184.3 million).

In 2020 the Group recognised an inventory write-down of £157.0 million (of which £145.3 million related to UK Clothing & Home inventory) which was included within the Group's directly attributable gains/(expenses) resulting from the Covid-19 pandemic adjusting item.

In 2021 a net reversal of the inventory impairment of £90.8 million (£101.6 million relating to UK Clothing & Home inventory) has been recorded within the same adjusting item as disclosed in note 5.

As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value. As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement due to historical trading performance and the quantum of gross inventory.

Whilst it remains a significant judgement, the level of risk associated with inventory provision has reduced in the period as a result of a reduction in the uncertainty associated with forecasting future sales.

Management has determined the level of provision with reference to forecast future sales and purchases, utilising available data from the past period on the saleability of stock in the current environment. Management has described its methodology for the calculation of the inventory provision in notes 1 and 5.

The Audit Committee considers this to be a significant matter. Their consideration is on page 80.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to inventory management and the review and approval of the inventory provision;
- assessed the validity, accuracy and completeness of the information used by management in computing the provision;
- assessed the mechanical accuracy and logic of the models underpinning the provision;
- understood the changes in the provisioning methodology and challenged the appropriateness thereof;
- challenged and validated the key assumptions applied by management in estimating the provision, by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, assessed the historical accuracy of forecasting stock to be subject to a future discount;
- tested the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied with the judgements taken by management and that the resulting inventory provision for UK Clothing & Home is appropriate. We believe the disclosures made around the level of uncertainty appropriately reflect reasonably possible future changes to management's estimates.

KEY AUDIT MATTERS CONTINUED

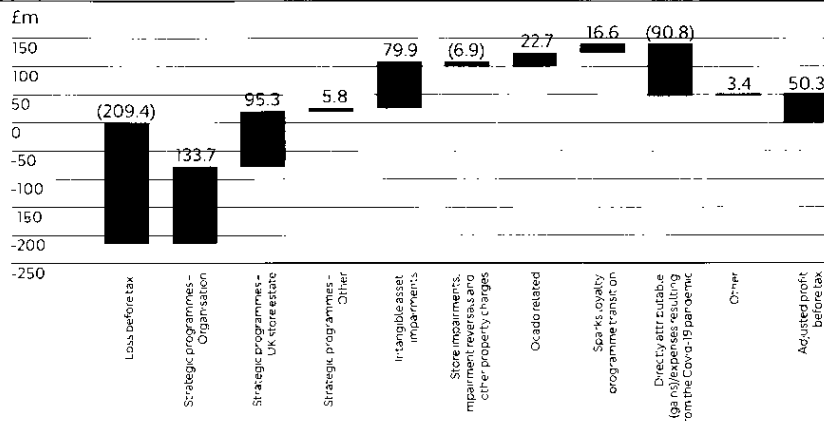
5.5 DISCLOSURE OF ADJUSTING ITEMS AS PART OF ALTERNATIVE PERFORMANCE MEASURES

KEY AUDIT MATTER DESCRIPTION

The Group has presented an alternative performance measure being adjusted profit before tax of £50.3 million (2020: £403.1 million), which is derived from statutory loss before tax of £209.4 million (2020: profit before tax of £67.2 million) adjusted for a number of items (totalling £259.7 million (2020: £335.9 million)) which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items and accordingly we consider there to be a risk of fraud in the reporting of adjusting items within the alternative performance measures.

Guidance has been issued by the FRC and European Securities and Markets Authority ('ESMA') during the period in relation to the impact of Covid-19 on alternative performance measures which encourages companies not to include such costs within adjusting items, rather to include separate disclosure.

Explanations of each adjusting item are set out in note 5 to the financial statements and are summarised in the graphic to the right:



In determining adjusted profit before tax, we identified the following risks:

- the identification and classification of items as 'adjusting' as part of the presentation of alternative performance measures may be inappropriate, distorting the reported results;
- the omission of items which are considered material, one-off or significant in nature, distorting the alternative performance measures, and

– the clarity and detail of disclosures in respect of adjusting items as part of alternative performance measures may be insufficient, preventing investors from obtaining a clear understanding of the Group's results and performance.

The Group's policy regarding adjusting items is set out in note 1. This is a significant matter considered by the Audit Committee on page 80.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls, relating to the identification and disclosure of adjusting items within alternative performance measures;
- performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature;
- assessed the identification and consistency of items reported as adjusting period on period with reference to guidance published by ESMA and the FRC specifically considering the treatment of directly attributable gains/(expenses) resulting from the Covid-19 pandemic;
- performed tests over a representative sample of adjusting items through agreement to supporting evidence;
- used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which display characteristics of being material, significant or one-off in nature;
- considered the impact of adjusting items on the directors' remuneration targets to determine whether any increased fraud risk factor existed based on actual results for the period; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied that the items included in adjusting items within the alternative performance measures (including the directly attributable gains/(expenses) resulting from the Covid-19 pandemic of £90.8 million) are in line with the Group's policy and that they are appropriately disclosed.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

5.6 THE GOING CONCERN BASIS OF ACCOUNTING

KEY AUDIT MATTER DESCRIPTION

In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant relaxation that the Group has obtained in relation to its financing facility, and cost saving actions that the Group have taken in their response to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme

and business rates holidays). The Directors have also determined appropriate sensitivities to these forecasts and considered the results in forming their conclusion.

Whilst there continues to be a high level of judgement as a result of the current challenges in the retail property market and the increasing move towards online retail as well as the longer-term wider economic impact of Covid-19, the level of risk associated with the going concern conclusion has reduced as a result of a reduction in the uncertainty associated with forecasting future cash flows.

Taking into account the sensitivity analyses performed by management the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on pages 57 and 109 and in note 1 to the financial statements.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of relevant controls relating to the assessment of going concern models, including the review of the inputs and assumptions used in those models;
- obtained management's board approved three-year cash flow forecasts and covenant compliance forecasts, including the sensitivity analyses;
- assessed the appropriateness of forecast assumptions by:
 - reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
 - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
 - enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Group's control;
 - testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
 - reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough;
 - reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant relaxation obtained by the Group in relation to its financing facility;
 - understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
 - considering the results of the sensitivity analyses performed; and
- evaluated the Group's disclosures on going concern against the requirements of IAS 1.

Key observations

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

6. OUR APPLICATION OF MATERIALITY

6.1 MATERIALITY

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

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

	Group financial statements	Company financial statements								
Materiality	£16.0 million (2020: £18.0 million)	£14.4 million (2020: £16.2 million)								
Basis for determining materiality	<p>We considered the following metrics in the current and prior period:</p> <ul style="list-style-type: none">– Adjusted profit before tax– Earnings before interest, tax, depreciation and amortisation ('EBITDA')– Revenue <p>Using professional judgement we determined materiality to be £16.0m.</p>	<p>3% of net assets.</p> <p>We have used 3% of net assets in both the current and prior periods, capped at 90% of Group materiality, as the basis for materiality.</p>								
Rationale for the benchmark applied	<p>In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements.</p> <p>Group materiality represents:</p> <table><tr><th>Metric</th><th>%</th></tr><tr><td>Adjusted profit before tax</td><td>31.8</td></tr><tr><td>EBITDA</td><td>2.8</td></tr><tr><td>Revenue</td><td>0.2</td></tr></table>	Metric	%	Adjusted profit before tax	31.8	EBITDA	2.8	Revenue	0.2	<p>Net assets is used as the benchmark as the Company operates primarily as a holding company for the Group and we therefore consider this as the key metric for the Company.</p> <p>We capped materiality at 90% of Group materiality to reduce the risk of a material error arising as a result of the consolidation of the Company's result in the Group financial statements.</p>
Metric	%									
Adjusted profit before tax	31.8									
EBITDA	2.8									
Revenue	0.2									

6.2 PERFORMANCE MATERIALITY

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	60% (2020: 50%) of Group materiality	60% (2020: 50%) of Company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> our cumulative knowledge of the Group and its environment, including industry wide pressure on retailers; the level of change to the business in the period; the changes to management personnel; the level of centralisation in the Group's financial reporting controls and processes; and the level of misstatements identified in prior periods. <p>We have increased the performance materiality used as a percentage of Group materiality, primarily due to the reduction in risk during this period associated with the impact of Covid-19 on the Group's internal control environment and the financial close process compared with the prior period.</p>	

6.3 ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8 million (2020: £0.9 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

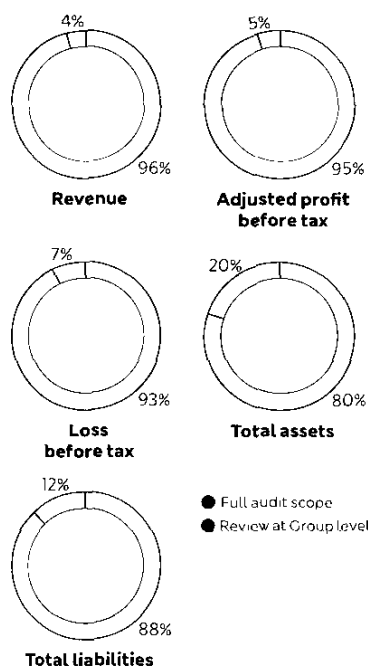
7.1 IDENTIFICATION AND SCOPING OF COMPONENTS

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

Components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified. Based on our assessment we have focused our audit on the UK business which was subject to full audit procedures. We have performed our full audit scope of the UK component using a materiality of £15.2 million (or 95% of Group materiality) (2020: £16.2 million) as this makes up substantially all of the Group's operations (96% of the Group's revenue, 2020: 95%).

The Group holds 50% of the ordinary shares of ORL, and this interest is accounted for as an investment in associate in accordance with IAS 28 on the basis that the shareholders' agreement gives control over ORL to Ocado Group plc. In the current period the Group recorded a share of profit of associate from ORL of £64.2 million and is subject to specified audit procedures.

We have also tested the consolidation process and carried out analytical procedures in forming our conclusion that there were no significant risks of material misstatement remaining in the consolidated financial information arising from the components not subject to a full audit.



7.2 OUR CONSIDERATION OF THE CONTROL ENVIRONMENT

Our audit strategy is to rely on controls over certain processes within a number of business cycles. These included procurement within UK Clothing & Home and Food, inventory, treasury and fixed assets including IFRS 16 Leases. As part of our controls testing, we obtained an understanding of the Group's processes and tested controls through a combination of tests of inquiry,

observation, inspection and re-performance.

On certain business cycles, we obtained an understanding of, but did not rely on, controls. These included inventory provisions, food rebates and financial close and reporting.

Given the importance of information technology ("IT") to the recording of financial information and transactions, we have tested General IT controls relating to certain of the Group's IT systems where relevant to our audit work. We have been able to place IT controls reliance across these systems to support the audit over a number of business cycles, such as payables.

7.3 WORKING WITH OTHER AUDITORS

ORL is the only component of the Group where work is conducted by a Deloitte component auditor. We have issued detailed instructions to the component audit team to perform specified audit procedures. Due to the non-co-terminus year-end of ORL, we have performed a review of the component auditor's files for the period ended 29 November 2020 and the reporting received from the component auditor for the period subsequent to 29 November 2020. We have engaged regularly with the component auditor throughout the audit process, determining the nature, timing and extent of the specified audit procedures to be performed and to review their component reporting. A dedicated member of the Group audit team is assigned to facilitate an effective and consistent approach to component oversight.

8. OTHER INFORMATION

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly

stated in our report, we do not express any form of assurance conclusion thereon.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements

that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going

concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an

audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of these financial statements.

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

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas in which management is required to exercise significant judgment, such as disclosure of adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included UK Companies Act, Financial Conduct Authority regulations including the Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the competition and anti-bribery laws, data protection, Groceries Supply Code of Practice, and employment, environmental and health and safety regulations.

11.2 AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the disclosure of adjusting items as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgments made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT CONTINUED

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

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

13. CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 109;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 57;
- the directors' statement on fair, balanced and understandable set out on page 110;

- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 110;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 47 to 57; and
- the section describing the work of the audit committee set out on pages 77 to 83.

14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

14.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2 Directors' remuneration

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

We have nothing to report in respect of these matters.

15. OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 periods, covering the periods ending 28 March 2015 to 3 April 2021.

15.2 Consistency of the audit report with the additional report to the Audit Committee

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

16. USE OF OUR REPORT

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


Richard Muschamp FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London
25 May 2021

CONSOLIDATED INCOME STATEMENT

		53 weeks ended 3 April 2021	52 weeks ended 28 March 2020
	Notes	Total £m	Total £m
Revenue	2, 3	9,155.7	10,181.9
Share of result in associate – Ocado Retail Limited	3, 5, 29	64.2	(14.2)
Operating (loss)/profit	2, 3, 5	(30.7)	254.8
Finance income	5, 6	57.4	46.9
Finance costs	5, 6	(236.1)	(234.5)
(Loss)/profit before tax	4, 5	(209.4)	67.2
Income tax credit/(expense)	7	8.2	(39.8)
(Loss)/profit for the year		(201.2)	27.4
Attributable to:			
Owners of the parent		(198.0)	23.7
Non-controlling interests		(3.2)	3.7
		(201.2)	27.4
(Loss)/earnings per share			
Basic (loss)/earnings per share	8	(10.1p)	1.3p
Diluted (loss)/earnings per share	8	(10.1p)	1.2p
Reconciliation of profit before tax & adjusting items:			
(Loss)/profit before tax		(209.4)	67.2
Adjusting items	5	259.7	335.9
Profit before tax & adjusting items – non-GAAP measure		50.3	403.1
Adjusted earnings per share – non-GAAP measure			
Adjusted basic earnings per share	8	1.4p	16.7p
Adjusted diluted earnings per share	8	1.4p	16.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 £m
(Loss)/profit for the year		(201.2)	27.4
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	11	(1,352.0)	927.9
Tax credit/(charge) on retirement benefit schemes		256.5	(196.7)
		(1,095.5)	731.2
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		(27.7)	5.1
– reclassified and reported in profit or loss		3.7	2.9
Cash flow hedges			
– fair value movements recognised in other comprehensive income	21	(215.5)	140.3
– reclassified and reported in profit or loss	21	26.5	(18.4)
Tax credit/(charge) on cash flow hedges		37.0	(27.0)
		(176.0)	102.9
Other comprehensive (expense)/income for the year, net of tax		(1,271.5)	834.1
Total comprehensive (expense)/income for the year		(1,472.7)	861.5
Attributable to:			
Owners of the parent		(1,469.5)	857.8
Non-controlling interests		(3.2)	3.7
		(1,472.7)	861.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION


	Notes	As at 3 April 2021 £m	As at 28 March 2020 (Restated) £m	As at 30 March 2019 (Restated) £m
Assets				
Non-current assets				
Intangible assets	14	232.0	399.1	499.9
Property, plant and equipment	15	5,058.6	5,494.2	5,662.3
Investment property		15.2	15.5	15.5
Investments in joint ventures and associates	29	825.8	760.4	4.0
Other financial assets	16	9.7	9.7	9.9
Retirement benefit asset	11	639.2	1,915.0	931.5
Trade and other receivables	17	261.4	262.6	273.0
Derivative financial instruments	21	0.3	112.4	19.8
		7,042.2	8,968.9	7,415.9
Current assets				
Inventories	5	624.6	564.1	700.4
Other financial assets	16	18.4	11.7	141.8
Trade and other receivables	17	209.6	298.0	267.2
Derivative financial instruments	21	32.8	73.5	40.3
Current tax assets		35.4	19.3	–
Cash and cash equivalents	18	674.4	254.2	310.4
		1,595.2	1,220.8	1,460.1
Total assets		8,637.4	10,189.7	8,876.0
Liabilities				
Current liabilities				
Trade and other payables	19	1,599.0	1,501.0	1,518.2
Partnership liability to the Marks & Spencer UK Pension Scheme	12	124.9	71.9	71.9
Borrowings and other financial liabilities	20	432.8	247.8	625.6
Derivative financial instruments	21	96.0	13.0	7.3
Provisions	22	43.1	21.5	100.7
Current tax liabilities		–	–	26.2
		2,295.8	1,855.2	2,349.9
Non-current liabilities				
Retirement benefit deficit	11	7.8	12.4	17.2
Trade and other payables	19	192.3	222.6	15.6
Partnership liability to the Marks & Spencer UK Pension Scheme	12	68.6	135.5	200.5
Borrowings and other financial liabilities	20	3,659.9	3,865.9	3,628.5
Derivative financial instruments	21	10.7	0.7	2.8
Provisions	22	74.2	56.5	72.7
Deferred tax liabilities	23	42.3	332.4	119.6
		4,055.8	4,626.0	4,056.9
Total liabilities		6,351.6	6,481.2	6,406.8
Net assets		2,285.8	3,708.5	2,469.2
Equity				
Issued share capital	24	489.2	487.6	406.3
Share premium account	24	910.4	910.4	416.9
Capital redemption reserve		2,210.5	2,210.5	2,210.5
Hedging reserve	21	(54.8)	68.6	(14.6)
Cost of hedging reserve	21	4.6	5.7	11.7
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(59.9)	(35.9)	(43.9)
Retained earnings		5,325.2	6,597.8	6,024.8
Equity attributable to owners of the parent		2,283.0	3,702.5	2,469.5
Non-controlling interests		2.8	6.0	(0.3)
Total equity		2,285.8	3,708.5	2,469.2

1 See note 1 for details of a change in accounting policy and the resulting restatement of prior years.

The financial statements were approved by the Board and authorised for issue on 25 May 2021. The financial statements also comprise notes 1 to 31.



Steve Rowe, Chief Executive Officer



Eoin Tonge, Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total £m
As at 31 March 2019	406.3	416.9	2,210.5	(14.6)	11.7	(6,542.2)	(43.9)	6,024.8	2,469.5	(0.3)	2,469.2
Profit for the year	-	-	-	-	-	-	-	23.7	23.7	3.7	27.4
Other comprehensive income/(expense):											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	5.1	-	5.1	-	5.1
- reclassified and reported in profit or loss	-	-	-	-	-	-	2.9	-	2.9	-	2.9
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	927.9	927.9	-	927.9
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(196.7)	(196.7)	-	(196.7)
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	147.8	(7.5)	-	-	-	140.3	-	140.3
- reclassified and reported in profit or loss	-	-	-	(18.4)	-	-	-	-	(18.4)	-	(18.4)
Tax on cash flow hedges	-	-	-	(28.5)	1.5	-	-	-	(27.0)	-	(27.0)
Other comprehensive income/ (expense)	-	-	-	100.9	(6.0)	-	8.0	731.2	834.1	-	834.1
Total comprehensive income/ (expense)	-	-	-	100.9	(6.0)	-	8.0	754.9	857.8	3.7	861.5
Cash flow hedges recognised in inventories	-	-	-	(21.8)	-	-	-	-	(21.8)	-	(21.8)
Tax on cash flow hedges recognised in inventories	-	-	-	4.1	-	-	-	-	4.1	-	4.1
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(191.1)	(191.1)	-	(191.1)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-	2.6	2.6
Shares issued on exercise of employee share options	-	0.1	-	-	-	-	-	-	0.1	-	0.1
Shares issued on rights issue ³	81.3	493.4	-	-	-	-	-	-	574.7	-	574.7
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(8.9)	(8.9)	-	(8.9)
Credit for share-based payments	-	-	-	-	-	-	-	18.5	18.5	-	18.5
Deferred tax on share schemes	-	-	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
As at 28 March 2020	487.6	910.4	2,210.5	68.6	5.7	(6,542.2)	(35.9)	6,597.8	3,702.5	6.0	3,708.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total £m
As at 29 March 2020	487.6	910.4	2,210.5	68.6	5.7	(6,542.2)	(35.9)	6,597.8	3,702.5	6.0	3,708.5
Loss for the year	-	-	-	-	-	-	-	(198.0)	(198.0)	(3.2)	(201.2)
Other comprehensive (expense)/income:											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	(27.7)	-	(27.7)	-	(27.7)
- reclassified and reported in profit or loss	-	-	-	-	-	-	3.7	-	3.7	-	3.7
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(1,352.0)	(1,352.0)	-	(1,352.0)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	256.5	256.5	-	256.5
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	(214.2)	(1.3)	-	-	-	(215.5)	-	(215.5)
- reclassified and reported in profit or loss	-	-	-	26.5	-	-	-	-	26.5	-	26.5
Tax on cash flow hedges	-	-	-	36.8	0.2	-	-	-	37.0	-	37.0
Other comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	-	(24.0)	(1,095.5)	(1,271.5)	-	(1,271.5)
Total comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	-	(24.0)	(1,293.5)	(1,469.5)	(3.2)	(1,472.7)
Cash flow hedges recognised in inventories	-	-	-	33.9	-	-	-	-	33.9	-	33.9
Tax on cash flow hedges recognised in inventories	-	-	-	(6.4)	-	-	-	-	(6.4)	-	(6.4)
Transactions with owners:											
Shares issued in respect of employee share options	1.6	-	-	-	-	-	-	(1.6)	-	-	-
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Credit for share-based payments	-	-	-	-	-	-	-	19.3	19.3	-	19.3
Deferred tax on share schemes	-	-	-	-	-	-	-	4.0	4.0	-	4.0
As at 3 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8

1 The "Other reserve" was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

2 Included within Retained earnings is the fair value through other comprehensive income reserve.

3. The share premium amount of £493.4m is net of £26.6m in relation to transaction costs associated with the rights issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	26	876.7	1,045.4
Income tax paid		(5.8)	(91.6)
Net cash inflow from operating activities		870.9	953.8
Cash flows from investing activities			
Proceeds on property disposals		2.9	2.7
Purchase of property, plant and equipment		(158.9)	(251.0)
Purchase of intangible assets		(47.8)	(77.6)
(Purchase)/sale of current financial assets		(6.7)	130.1
Purchase of investments in associates and joint ventures ²		8.7	(580.3)
Interest received		9.2	10.4
Net cash used in investing activities		(192.6)	(765.7)
Cash flows from financing activities			
Interest paid ³		(219.3)	(224.2)
Issuance of Medium Term Notes		300.0	250.0
Redemption of Medium Term Notes		(136.4)	(400.0)
Repayment of lease liabilities		(184.3)	(201.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		(17.2)	(63.5)
Equity dividends paid	9	-	(191.1)
Shares issued on exercise of employee share options	24	-	0.1
Proceeds from rights issue net of issue costs	24	-	574.4
Purchase of own shares by employee trust		(0.8)	(8.9)
Cash received from settlement of derivatives		14.0	7.7
Net cash used in financing activities		(244.0)	(256.9)
Net cash inflow/(outflow) from activities		434.3	(68.8)
Effects of exchange rate changes		(3.3)	0.5
Opening net cash		238.7	307.0
Closing net cash	27	669.7	238.7

¹ See note 1 for details on a change in accounting policy and the resulting restatement.

² Includes inflow of £11.2m upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited (last year: outflow of £577.8m) and outflow of £2.5m (last year: £2.5m) in relation to Founders Factory Retail Limited.

³ Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £6.4m (last year: £8.4m) and interest paid on lease liabilities of £132.3m (last year: £134.3m).

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations is as a Clothing & Home and Food retailer.

These financial statements are presented in sterling, which is also the Company's functional currency, and are rounded to the nearest hundred thousand. Foreign operations are included in accordance with the policies set out within this note.

Basis of preparation

The financial statements have been prepared for the 53 weeks ended 3 April 2021 (last year: 52 weeks ended 28 March 2020) in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 10 to 25, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 38 to 46, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 21 and the principal risks and uncertainties as set out on pages 48 to 56.

At 3 April 2021, the Group had available liquidity of £1,799.4m, comprising cash and cash equivalents of £674.4m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £1.1bn (set to mature in April 2023), and undrawn uncommitted facilities amounting to £25.0m. This is an increase of £395.2m compared to the £1,404.2m liquidity position as at 28 March 2020 and has been achieved through the active measures taken by the Group to strengthen liquidity in response to the risks posed by the Covid-19 pandemic. In addition to operational cash preservation actions, the following measures have also been undertaken:

- Refinancing the upcoming December 2021 bond maturity with a £300m 2026 bond issuance.
- Extending the relaxation of covenant tests with the lending syndicate of banks providing the £1.1bn revolving credit facility, up to and including the period to March 2022.

In adopting the going concern basis of preparation, the directors have assessed the Group's cash flow forecasts which incorporate a latest estimate of the ongoing impact of Covid-19 on the Group. The forecast assumes that the UK government's four-step roadmap out of lockdown continues as planned, but that a full lifting of restrictions does not occur until Q3 2021/22.

Under these latest forecasts, the Group is able to operate without the need to draw on its available facilities and without taking any supplementary mitigating actions, such as reducing capital expenditure and other discretionary spend. The forecast cash flows also indicate that the Group will comply with all relevant banking covenants during the forecast period, being at least 12 months from the approval of the financial statements.

The directors have reviewed the evolution of Covid-19 and the impact on the business and considered the potential longer-term impacts of the pandemic by modelling a more severe, but plausible, downside scenario. This downside scenario assumes that:

- A four-month lockdown between December 2021 and March 2022 will be mandated by the government, resulting in store closures and a 3% decline in Food sales. Between this period, a range of 10% – 20% decline in Clothing & Home sales has been modelled, as well as a 10% decline in International sales. These declines have been set with reference to the 2020/21 results; and,
- An economic recession in the UK from October 2021, following the cessation of the Coronavirus Job Retention Scheme in the UK, that continues into 2022/23 and 2023/24, resulting in a decline in sales of between 1% – 5% per annum, continuing for three years, across both sides of the business.

Even under this severe but plausible downside scenario, the Group would continue to have sufficient liquidity headroom on its existing facilities and against the revolving credit facility financial covenant for the forecast period. Although should such a scenario arise, there are a range of mitigating actions that could be taken to reduce the impact. Given current trading and expectations for the business, the directors consider that this downside scenario reflects a plausible, but remote, outcome for the Group.

In addition, reverse stress testing has been applied to the model, which represents a significant decline in sales compared to the downside scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

As a result, the directors believe that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. For this reason, the directors consider it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Change in accounting policy

Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

The impact on the 28 March 2020 balance sheet is an increase to current trade and other payables of £74.6m (2019: £93.8m), a decrease to bank loans and overdrafts, within current liabilities, of £68.8m (2019: £68.8m) and an increase to cash and cash equivalents of £5.8m (2019: £25.0m). Net cash outflow from activities in 2019/20 has increased by £19.3m while net debt as at 28 March 2020 has decreased by £74.6m (2019: £93.9m). There is no impact on the income statement, earnings per share or net assets.

New accounting standards adopted by the Group

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 29 March 2020:

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The Group also elected to adopt the following amendment early:

- Amendment to IFRS 16: Covid-19-Related Rent Concessions

The impact of early adopting the amendment to IFRS 16 is described below.

The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

Amendment to IFRS 16: Covid-19-Related Rent Concessions

The Group has applied the amendment to IFRS 16 in advance of its effective date and, as a result, has treated rent concessions occurring as a direct consequence of Covid-19 as variable lease payments rather than as lease modifications.

The amount recognised in profit or loss in the period to reflect changes in lease payments arising from Covid-19-related rent concessions was a gain of £10.9m.

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform Phase 2
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018–2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Alternative performance measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. The Group's definition of adjusting items is consistent with prior periods. Previously these were presented in the consolidated income statement in a columnar format; the Group now presents a reconciliation of profit before tax and adjusting items to profit before tax on the face of the consolidated income statement. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. On this basis, the following items were included within adjusting items for the 53-week period ended 3 April 2021:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (GMP) and other pension equalisation.
- Significant costs arising from establishing the investment in Ocado Retail Limited.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- Transition costs associated with the Sparks loyalty programme¹.

¹ Adjusting items in the current year include the charges associated with the transition of the Sparks loyalty programme. While the Group provides vouchers to customers as part of its ongoing operations, vouchers of this nature and quantum have never been provided before in relation to a one-off event (refer to note 5 for further details). The Group has reviewed how it applies its policy and has concluded to include these charges in adjusting items.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except for certain financial instruments (including derivative instruments) and plan assets of defined benefit pension schemes which are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

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

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Company has control. Control is achieved when the Company has the power over the entity; is exposed, or has rights to, variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of these three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

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

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

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment.

Associated undertakings acquired during the year are recorded using the equity method of accounting and their results are included from the date of acquisition. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. The Group's share of the net fair value of identified intangible assets is amortised over the expected useful economic life of the assets.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

When a Group company transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer. Online sales are recognised when items are delivered, as this is when the performance obligation is deemed to have been satisfied.

A right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

The Group enters into agreements which entitle other parties to operate under the Marks & Spencer brand name for certain activities and operations, such as M&S Bank and M&S Energy. These contracts give rise to performance-based variable consideration. Income dependent on the performance of the third-party operations is recognised when it is highly probable that a significant reversal in the amount of income recognised will not occur, and presented as other operating income.

Supplier income

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

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

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

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

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

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

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

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

M&S Bank

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate contractual deductions.

Dividends

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

Government grants

Government grants are recognised where there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached to them.

Government grants that compensate the Group for expenses incurred are recognised in profit or loss, as a deduction against the related expense, over the periods necessary to match them with the related costs.

Government grant income is disclosed in note 30.

Pensions

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

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method. An asset can be recognised as in the event of a plan wind-up, the pension scheme rules provide the Group with an unconditional right to a refund of surplus assets assuming a full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind-up, or change, the benefits due to the members of the scheme. As a result, any net surplus in the UK defined benefit (DB) scheme is recognised in full.

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

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

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

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

For further details on pension schemes and the partnership liability to the Marks & Spencer UK Pension scheme, see notes 11 and 12.

Intangible assets

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

B. Acquired intangible assets Acquired intangible assets include trademarks or brands. These assets are capitalised on acquisition at cost and amortised on a straight-line basis over their estimated useful lives.

Acquired intangible assets are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

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

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 10 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Leasehold buildings with lease premiums and ongoing peppercorn lease payments are considered in-substance purchases and are therefore included within the buildings category of property, plant and equipment.

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

- Freehold land – not depreciated.
- Buildings – depreciated to their residual value over their estimated remaining economic lives of 25–50 years.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

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

Any impairment in value, or reversal of an impairment, is recognised within the income statement.

Leasing

The Group recognises a right-of-use asset and corresponding liability at the date at which a leased asset is made available for use by the Group, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities are measured at the present value of the future lease payments, excluding any payments relating to non-lease components. Future lease payments include fixed payments, in-substance fixed payments, and variable lease payments that are based on an index or a rate, less any lease incentives receivable. Lease liabilities also take into account amounts payable under residual value guarantees and payments to exercise options to the extent that it is reasonably certain that such payments will be made. The payments are discounted at the rate implicit in the lease or, where that cannot be readily determined, at an incremental borrowing rate.

Right-of-use assets are measured initially at cost based on the value of the associated lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease. The Group presents right-of-use assets in 'property, plant and equipment' in the consolidated statement of financial position.

Subsequent to initial recognition, the lease liability is reduced for payments made and increased to reflect interest on the lease liability (using the effective interest method). The related right-of-use asset is depreciated over the term of the lease or, if shorter, the useful economic life of the leased asset. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Leases for which the Group is a lessor are classified as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee and classified as an operating lease if it does not. When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours. Bank transactions are recorded on their settlement date.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment").

Provisions

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

Share-based payments

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Foreign currencies

The financial statements are presented in sterling which is the Company's functional currency.

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year-end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income. On disposal of an overseas subsidiary the related cumulative translation differences recognised in reserves are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

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

Taxation

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

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

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

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

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

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

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss, fair value through other comprehensive income or amortised cost depending on the Group's business model for managing the financial asset and its cash flow characteristics. Financial assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost.

A. Trade and other receivables Trade receivables are recorded initially at transaction price and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

B. Other financial assets Other financial assets consist of investments in unlisted equity securities and short-term investments with a maturity date of over 90 days and are classified as either fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). Financial assets held at FVOCI are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at FVPL are initially recognised at fair value and transaction costs are expensed.

For equity investments at FVOCI, gains or losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income and accumulated in the FVOCI reserve is transferred to retained earnings.

The Group designated all non-listed equity investments not held for trading as FVOCI on initial recognition because the Group intends to hold them for long-term strategic purposes.

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI are measured at FVPL with gains and losses arising from changes in fair value included in the income statement for the period.

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

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to or deducted from the carrying amount of the instrument.

E. Loan notes Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost. If the loan is designated in a fair value hedge relationship, the carrying value of the loan is adjusted for fair value gains or losses attributable to the risk being hedged.

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Derivative financial instruments and hedging activities

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

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

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

In 2019/20, the Group early adopted the Phase 1 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. The application of the amendments impacts the Group's accounting in relation to a sterling denominated fixed rate debt, for which it fair value hedge accounts using sterling fixed to GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income. The element of the change in fair value which relates to the foreign currency basis spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve and any ineffective portion is recognised immediately in the income statement in finance costs. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income and accumulated in the cash flow hedge reserve are removed directly from equity and included in the initial measurement of the asset or liability. If the hedged item is transaction-related the foreign currency basis spread is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a systematic and rational basis. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged

item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item.

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

B. Fair value hedges Changes in the fair value of a derivative instrument designated in a fair value hedge are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

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

C. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedge relationship no longer qualifies for hedge accounting. This includes when the hedging instrument expires, is sold, terminated or exercised, or when occurrence of the forecast transaction is no longer highly probable. The Group cannot voluntarily de-designate a hedging relationship.

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

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement based on the recalculated effective interest rate at that date.

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

Reserves

The following describes the nature and purpose of each reserve within equity:

A. Share premium account Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.

B. Capital redemption reserve Amounts transferred from share capital on redemption or repurchase of issued shares.

C. Hedging reserve Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges.

D. Cost of hedging Cumulative gains and losses on the portion excluded from the designated hedging instrument that relates to changes in the foreign currency basis.

E. Other reserve Originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

F. Foreign exchange reserve Gains and losses arising on retranslating the net assets of overseas operations into sterling.

G. Retained earnings All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Critical accounting judgements and key sources of estimation uncertainty

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

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

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

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

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

UK defined benefit pension surplus

Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK defined benefit scheme is in surplus at 3 April 2021. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £639.2m has been recognised.

Assessment of control

The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate (see note 29). This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. These rights include determinative rights currently held by Ocado Group Plc, after agreed dispute-resolution procedures, in relation to the approval of the Ocado Retail Limited business plan and budget and the appointment and removal of Ocado Retail Limited's Chief Executive Officer. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

Determining the lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has several lease contracts for land and buildings that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination, including: whether there are significant penalties to terminate (or not extend); whether any leasehold improvements are expected to have a significant remaining value; historical lease durations; the importance of the underlying asset to the Group's operations; and the costs and business disruption required to replace the leased asset.

Most renewal periods and periods covered by termination options are included as part of the lease term for leases of land and buildings. The Group typically exercises its option to renew (or does not exercise its option to terminate) for these leases because there will be a significant negative effect on trading if a replacement property is not readily available.

The lease term is reassessed if a significant event or a significant change in circumstances occurs which affects the assessment of reasonable certainty, for example if a store is identified to be closed as part of the UK store estate strategic programme.

Determining whether forecast purchases are highly probable

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing Clothing & Home products from Asia which are paid for predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether forecast purchases are "highly probable". In making this assessment, the Group has considered the most recent budgets and plans. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, a reduction in the supply pipeline of inventory does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Last year, a £2.9m gain was recognised in the income statement as a result of US\$76.6m notional forecast purchases no longer being expected to occur. There was no such occurrence in the current year.

During the year, the settlement of certain forecast purchases were delayed as a result of the Covid-19 pandemic and, as a result, the deferred fair value of the applicable forward foreign exchange contracts has been retained in reserves to be recycled in line with the delayed forecast purchases. As discussed above, due to our progressive hedging strategy, this delay does not affect the qualification of "highly probable". At 3 April 2021, the Group had £4.0m of deferred fair value retained in the cash flow hedge reserve which will be released over the first half of 2021/22.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £95.3m (last year: £29.3m) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs.
- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 15 for further detail.

Useful lives and residual values of property, plant and equipment and intangibles

Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions in relation to the cash flow projections over the three-year strategic plan period (which is a key source of estimation uncertainty), the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation uncertainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles, particularly where the store carrying value exceeds fair value less cost to sell. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis for this source of estimation uncertainty.

Inventory provisioning

The Group assesses the recoverability of inventories by applying assumptions around the future saleability and estimated selling prices of items. At 28 March 2020, the Group recorded a write-down of £157.0m, based on the estimated impact of trade restrictions introduced in response to the Covid-19 pandemic. Performance during 2020/21 has exceeded the estimates made at last year end and the Group has updated the assumptions regarding future performance. As a result, and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net release of £101.6m of this provision has been recognised in the period. See note 5 for further details on the assumptions and associated sensitivities.

Post-retirement benefits

The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 SEGMENTAL INFORMATION

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

The chief operating decision-maker has been identified as the Executive Committee. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment.

The Group's reportable operating segments have therefore been identified as follows:

- UK Clothing & Home – comprises the retailing of womenswear, menswear, lingerie, kidswear and home products through UK retail stores and online.
- UK Food – includes the results of the UK retail food business and UK Food franchise operations, with the following five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals, dessert and frozen; and hospitality and 'Food on the Move'; and direct sales to Ocado Retail Limited.
- International – consists of Marks and Spencer owned businesses in Europe and Asia and the international franchise operations.
- Ocado – includes the Group's share of profits or losses from the investment in Ocado Retail Limited.

The Ocado operating segment has been identified as reportable in the current period based on the quantitative thresholds in IFRS 8. As the Group's reportable segments have changed, the comparative information has been restated.

Other business activities and operating segments, including M&S Bank and M&S Energy, are combined and presented in "All other segments". Finance income and costs are not allocated to segments as each is managed on a centralised basis.

The Executive Committee assesses the performance of the operating segments based on a measure of operating profit before adjusting items. This measurement basis excludes the effects of adjusting items from the operating segments.

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

	53 weeks ended 3 April 2021						52 weeks ended 28 March 2020					
	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Revenue before adjusting items¹	2,239.0	6,138.5	789.4	–	–	9,166.9	3,209.1	6,028.2	944.6	–	–	10,181.9
Operating (loss)/ profit before adjusting items²	(130.8)	228.6	44.1	78.4	1.9	222.2	223.9	236.7	110.7	2.6	16.8	590.7
Finance income before adjusting items						57.4						44.0
Finance costs before adjusting items						(229.3)						(231.6)
(Loss)/profit before tax and adjusting items	(130.8)	228.6	44.1	78.4	1.9	50.3	223.9	236.7	110.7	2.6	16.8	403.1
Adjusting items						(259.7)						(335.9)
(Loss)/profit before tax	(130.8)	228.6	44.1	78.4	1.9	(209.4)	223.9	236.7	110.7	2.6	16.8	67.2

¹ Revenue is stated prior to adjusting items of £11.2m (see note 5)

² Operating (loss)/profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 SEGMENTAL INFORMATION CONTINUED

Other segmental information

	53 weeks ended 3 April 2021						52 weeks ended 28 March 2020					
	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Additions to property, plant and equipment, and intangible assets (excluding goodwill and right-of-use assets)	50.5	105.0	6.8	–	–	162.3	166.5	170.1	15.7	–	–	352.3
Depreciation and amortisation ^{1,2}	(312.3)	(259.4)	(25.1)	–	–	(596.8)	(350.6)	(283.4)	(34.6)	–	–	(668.6)
Impairment charges, impairment reversals and asset write-offs ¹	(155.1)	(34.9)	(4.7)	–	–	(194.7)	(69.9)	(45.3)	(10.3)	–	–	(125.5)

¹ These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.

² Includes £0.3m (last year: £nil) depreciation charged on the investment property.

Segment assets and liabilities, including investments in associates and joint ventures, are not disclosed because they are not reported to or reviewed by the Executive Committee.

3 EXPENSE ANALYSIS

	2021 Total £m	2020 Total £m
Revenue	9,155.7	10,181.9
Cost of sales	(6,244.1)	(6,746.5)
Gross profit	2,911.6	3,435.4
Selling and administrative expenses	(3,018.9)	(3,225.2)
Other operating income	12.4	58.8
Share of results of Ocado Retail Limited	64.2	(14.2)
Operating (loss)/profit	(30.7)	254.8

The figures above include revenue adjusting item charges of £11.2m (last year: £nil) and operating profit adjusting item charges of £241.7m (last year: £335.9m), totalling £252.9m (last year: £335.9m) adjusting item charges within operating (loss)/profit.

The £252.9m (last year: £335.9m) adjusting items charges for the year (see note 5) are further analysed against the categories of revenue (£11.2m; last year: £nil), cost of sales (£86.3m gain; last year: £157.0m charge), selling and administrative expenses (£313.8m; last year: £188.8m), other operating income (£nil; last year: £26.7m) and share of results of Ocado Retail Limited (£14.2m; last year: £16.8m).

The selling and administrative expenses are further analysed below:

	2021 Total £m	2020 Total £m
Employee costs ^{1,2}	1,339.1	1,434.3
Occupancy costs	223.9	352.5
Repairs, renewals and maintenance of property	95.8	81.0
Depreciation, amortisation and asset impairments and write-offs ³	791.7	772.4
Other costs	568.4	585.0
Selling and administrative expenses	3,018.9	3,225.2

¹ There are an additional £68.8m (last year: £53.1m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.

² Includes furlough income (see note 30).

³ Includes £0.3m (last year: £nil) depreciation charged on the investment property.

Adjusting items categorised as selling and administrative expenses are further analysed as employee costs £100.4m (last year: £23.1m), occupancy costs £6.1m (last year: release £25.2m); depreciation, amortisation and asset impairments/reversals and write-offs £188.6m (last year: £139.9m); and other costs £18.7m (last year: £51.0m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 (LOSS)/PROFIT BEFORE TAXATION

The following items have been included in arriving at (loss)/profit before taxation:

	2021 £m	2020 £m
Net foreign exchange gains	2.9	(2.1)
Cost of inventories recognised as an expense	5,427.6	5,762.3
Write-down of inventories recognised as an expense	117.0	389.0
Depreciation of property, plant and equipment		
– owned assets ¹	312.1	329.2
– right-of-use assets	153.1	174.6
Amortisation of intangible assets	131.6	164.8
Impairments and write-offs of intangible assets and property, plant and equipment	252.0	149.4
Impairment reversals of property, plant and equipment	(73.1)	(58.1)
Impairments of right-of-use assets	52.7	84.4
Impairment reversals of right-of-use assets	(36.9)	(50.2)

¹ Includes £0.3m (last year: £n-1) depreciation charged on the investment property

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

	2021 £m	2020 £m
Annual audit of the Company and the consolidated financial statements	1.6	1.4
Audit of subsidiary companies	0.6	0.6
Total audit fees	2.2	2.0
Audit-related assurance services	0.2	0.2
Transaction-related services	–	0.5
Total non-audit services fees	0.2	0.7
Total audit and non-audit services	2.4	2.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS

The total adjusting items reported for the 53-week period ended 3 April 2021 is a net charge of £259.7m (last year: £335.9m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2021 £m	2020 £m
Included in revenue			
Sparks loyalty programme transition		(11.2)	–
		(11.2)	–
Included in operating profit			
Strategic programmes – Organisation	15, 22	(133.7)	(13.8)
Strategic programmes – UK store estate ¹	15, 22	(95.3)	(29.3)
Strategic programmes – International store closures and impairments	22	(3.6)	(2.2)
Strategic programmes – UK logistics	15, 22	(2.2)	(10.2)
Strategic programmes – Operational transformation		–	(11.6)
Strategic programmes – Changes to pay and pensions	22	–	(2.9)
Strategic programmes – IT restructure	22	–	(0.4)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic ¹		90.8	(166.5)
Intangible asset impairments	14	(79.9)	(13.4)
Store impairments, impairment reversals and other property charges ¹	15, 22	6.9	(78.5)
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		(14.2)	(16.8)
Sparks loyalty programme transition		(5.4)	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		(2.4)	(12.6)
Establishing the investment in Ocado Retail Limited		(1.7)	(1.2)
GMP and other pension equalisation	11	(1.0)	–
Other		–	23.5
		(241.7)	(335.9)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind		(6.8)	(2.9)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic ^{1,2}		–	2.9
		(6.8)	–
Adjustments to profit before tax		(259.7)	(335.9)

¹ Gains/(expenses) directly attributable to the Covid-19 pandemic in the current and prior year are presented below, this includes the resulting incremental impairment charge disclosed within the strategic programmes above related to the UK store estate, UK store impairments, International store impairments and the impairment of per una goodwill.

	2021 £m	2020 £m
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic – included in operating profit	90.8	(166.5)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic – included in net finance costs ²	–	2.9
UK store estate impairments	–	(11.6)
Store impairments	–	(24.2)
Goodwill impairment – per una	–	(13.4)
Total Covid-19 gains/(charges)	90.8	(212.8)

² The 2019/20 gain for Directly attributable gains/(expenses) resulting from the Covid-19 pandemic within net finance costs is a £2.9m gain relating to forecast purchases no longer expected to occur

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – Organisation (£133.7m)

During 2020/21, the Group announced a commitment to *integrate more flexible management structures into store operations* as well as streamline the business at store and management level in the UK and Republic of Ireland as part of the 'Never the Same Again' transformation. As part of the transformation, the Group has incurred £9.5m of consultancy costs. The changes have resulted in a reduction of c.8,200 roles across central support centres, regional management and stores, with a charge of £99.7m recognised in the period primarily for redundancy costs associated with these changes. The majority of the charges have been settled during 2020/21, with a provision being held on the balance sheet for the remaining charges. The provision is expected to be fully utilised during 2021/22, with no further significant charges anticipated.

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. A further £24.5m of costs have been recognised in the period associated with *centralising the Group's London Head Office functions*, with a £9.7m charge relating to the sub-let of previously closed offices. £14.8m of these charges relate to closure costs to further consolidate our London Head Office functions as announced in February 2021. Total costs of centralising our London Head Office functions into one building incurred to date are c.£98m. Any future charges will relate to the updating of assumptions and market fluctuations over the life of the sub-let lease.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our organisation structure and to aid comparability from one period to the next. The treatment as adjusting items is consistent with the disclosure of costs for similar restructuring and centralisation programmes previously undertaken.

Strategic programmes – UK store estate (£95.3m)

In November 2016, the Group announced a strategic programme to transform the UK store estate with the overall objective to *improve our store estate to better meet our customers' needs*. The Group has incurred charges of £562.3m up to March 2020 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

While Covid-19 has continued to impact the Group's day-to-day operations, the Group has experienced a significant channel shift from stores to online. The pandemic has driven a much faster and more acute switch to online, accelerating the Group's ambition to now achieve a Clothing & Home online sales mix of at least 40% over the next three years. This acceleration in channel shift has required the Group to revise the UK store estate strategic programme in order to ensure the estate continues to meet our customers' needs. As a result, the programme has been further accelerated with additional stores identified as part of the transformation, extending the length to 10 years. Coupled with this, the Group is identifying opportunities to unlock value from the estate through redevelopments and new site acquisitions, with charges and gains associated with these activities now included within the UK store estate programme.

The Group has recognised a charge of £95.3m in the year in relation to those stores identified as part of the revised *transformation plans*. The charge primarily reflects a revised view of latest store exit routes and assumptions underlying estimated store closure costs in response to the unanticipated acceleration in channel shift experienced as a result of the pandemic. The charge primarily relates to impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful

economic life of stores based on the latest approved exit routes. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated over the next 10 years as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Following the latest view of store closure costs, at 3 April 2021, further charges of c.£268m are estimated within the next 10 financial years, bringing anticipated total programme costs since 2016 up to c.£926m.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our store estate and to aid comparability from one period to the next.

Strategic programmes – International store closures and impairments (£3.6m)

In 2016/17, the Group announced its intention to close owned stores in 10 international markets. A charge of £3.6m has been *recognised in the year, reflecting an updated view of the estimated final closure costs* for certain markets and those costs which can only be recognised as incurred, taking the programme cost to date to £148.6m.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the five years of charges has been significant in both quantum and nature to the results of the Group. No further significant charges are expected.

Strategic programmes – UK logistics (£2.2m)

In 2017/18, as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green. As a direct result, the Group announced the closure of two existing distribution centres.

In February 2020, the next phase of the single-tier programme was announced with the closure of two further distribution centres across 2020/21 and 2021/22. A net charge of £2.2m has been recognised in the period, reflecting an updated view of estimated closure costs and transition project costs relating to these closures. Total programme costs to date are £39.8m with further charges next financial year.

The Group considers these costs to be adjusting items as they have been significant in quantum and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network.

Directly attributable gains/(expenses) resulting from the Covid-19 pandemic (£90.8m gain)

In March 2020, following the onset of the Covid-19 global pandemic and subsequent UK government restrictions, the Group sustained significant disruption to its operations. In response to the uncertainty resulting from the pandemic, coupled with the fast-paced changes taking place across the retail sector, the Board approved a Covid-19 scenario to reflect management's best estimate of the significant volatility and business disruption expected as a result of the ongoing pandemic.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

As a result, in 2019/20 the Group identified total Covid-19 charges of £212.8m across four adjusting items programmes. The charges related to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. The Group disclosed in 2019/20 that should the estimated charges prove to be in excess of the amounts required, the release or reassessment of any amounts previously provided would also be treated as adjusting items.

The pandemic continued to impact the Group throughout 2020/21 and it became increasingly more difficult to differentiate Covid-19 items from costs that support the underlying performance of the business. In addition, the estimated timeframe over which these effects may impact the business increased. As a result, the Group took the decision in the interim 2020/21 results to only include changes in estimates to items that were included in adjusting items in 2019/20, in this case relating to the inventory provision. Impairment reversals in the period were not able to be reliably differentiated from the underlying performance of the business and therefore have not been recognised within this category.

Write-back of inventories to net realisable value (£90.8m gain)

The carrying value of the Group's inventories at 28 March 2020 was £564.1m. The carrying value of this inventory split across the UK Clothing & Home, UK Food and International businesses included gross inventories of £539.7m, £162.9m and £66.3m respectively, against which a provision of £184.3m, £8.3m and £12.2m was recognised.

Included within directly attributable expenses resulting from the Covid-19 pandemic of £163.6m at 2019/20, was an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m; and International: £5.7m), reflecting management's best estimate of the impact on the Group of the Covid-19 pandemic. Accordingly, of the total £204.8m inventory provision, £157.0m was recognised in adjusting items and £47.8m in the underlying results.

The Group's half year results announced on 4 November 2020 included a partial release of the £157.0m incremental write-down of inventory. At the time of our half year results announcement, a second national lockdown had just been implemented with the return of restrictions on non-essential retail and an expectation that at the end of national lockdown the United Kingdom would remain under regional tiered restrictions. However, stronger trading, particularly in online, has allowed the Group to continue to sell much higher volumes of stock than assumed versus the Covid-19 scenario.

As a result, and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net credit of £90.8m has been recorded, representing a significant release to the inventory provisions recorded in the 2019/20 financial statements to align to our latest estimates based on current sales performance, offset by charges in the period relating to reassessment of storage and fabric cancellation provisions. Incremental provisions remain in place where risk remains and include a provision of £10.8m against excess slow moving personal protective equipment, committed to during the peak of the first Covid-19 lockdown and incurred directly in response to the Covid-19 pandemic. The total remaining provision held is £35.0m.

The carrying value of the Group's inventories at 3 April 2021 is £624.6m, split across the UK Clothing & Home, UK Food and International businesses represents gross inventories of £508.8m, £144.0m and £78.5m respectively, against which a

provision of £78.2m, £15.9m and £12.6m has been recognised. Included within the UK Clothing & Home provision is an incremental write-down of inventory to net realisable value of £18.6m reflecting management's best estimate of the impact of the Covid-19 pandemic on UK Clothing & Home inventory as at 3 April 2021. The total UK Clothing & Home inventory provisions represent 15.4% of UK Clothing & Home inventory. The UK Clothing & Home inventory provision is based on future trading assumptions in line with the Group's 2021/22 Budget. However, trading could be higher or lower than expected and a 5% increase in the UK Clothing & Home inventory provision (from 15% to 20%) would result in a reduction in the valuation of inventory held on the balance sheet of £25.4m and would result in a corresponding increase to recognised loss before tax in the period.

The £90.8m directly attributable net gains from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period and treatment as adjusting items is consistent with the treatment of charges of a consistent nature recognised in 2019/20. Further charges may be incurred in 2021/22 should government lockdown restrictions be reinstated and restrictions on trade and consumer behaviour return. Any future credits relating to these items will continue to also be classified as adjusting.

The impact that Covid-19 has had on underlying trading continues not to be recognised within adjusting items. The Group has provided additional disclosure of the significant impacts of Covid-19 on the underlying results on pages 38 to 42.

Within this, the Group has received support from the government during the period in the form of Business Rates relief of £174.6m and the Coronavirus Job Retention Scheme of £131.5m. Further details of which are provided in note 30 – government support.

Intangible asset impairments (£79.9m)

The Group has recognised impairment charges in the period for certain intangible assets.

A further impairment charge of £39.6m has been recorded against per una goodwill. The charge primarily reflects an updated view of assumptions and cash flows to reflect the impact of the new broader Brands strategy and a longer Covid-19 recovery period. Refer to note 14 for further details on the impairment charge related to per una goodwill.

The per una goodwill impairment charge has been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group and for consistency with prior periods.

In November 2020, the Group performed a critical review of the UK Clothing & Home operations leading to the launch of the new MS2 division within UK Clothing & Home to build on our investment in data and digital and step change online growth.

The Group conducted a review of the intangible computer software assets held on the balance sheet which were to be replaced, retired or decommissioned as part of the MS2 programme. An impairment charge of £40.3m has been recognised reflecting significant changes to certain intangible assets used by UK Clothing & Home.

These costs are considered to be adjusting items as they relate to the transformation and the total costs are significant in quantum and as a result not considered to be normal operating costs of the business. No further significant charges are expected to be recognised within adjusting items in relation to MS2.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Store impairments, impairment reversals and property charges (£6.9m gain)

The Group has recognised a number of charges and credits in the period associated with the carrying value of items of property, plant and equipment.

In response to the ongoing pressures impacting the retail industry in light of the ongoing Covid-19 pandemic, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future cash flow projections for UK and international stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £66.4m has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £73.3m has been incurred for the reversal of store impairments recognised in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 15 for further details on the impairments.

The charges/credits have been classified as an adjusting item on the basis of the significant quantum of the charge/credit in the period to the results of the Group.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£14.2m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10–40 years with an amortisation charge of £17.5m recognised in the period and a related deferred tax credit of £3.3m.

The amortisation charge and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. Identifying these items as adjusting allows greater comparability of underlying performance.

Sparks loyalty programme transition (£16.6m)

In July 2020, the Group relaunched its Sparks loyalty programme as a Digital First loyalty scheme. The new Sparks programme removed certain elements of the old, such as points and sale access tiers, and introduced new instant rewards to deliver immediate and clearer value to customers for shopping with M&S. As part of the transition to the new Sparks programme, customers who were members of the old loyalty scheme were provided with 'thank you' gifts for their loyalty, the value of which was determined in part with reference to the number of Sparks points earned historically. These 'thank you' gifts consisted of tote bags and vouchers for money off future purchases. As a result, a charge of £16.6m has been recognised in the period relating to one-off transition and 'thank-you' costs associated with the closure of the old Sparks programme.

These costs are directly attributable to the closure of the old Sparks programme and are considered to be adjusting as they are significant in quantum, are one-off in nature and not considered to be part of the normal operating costs of the business. No similar charges of this type have been incurred by the Group in the past, and no further charges are expected in future years.

M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision (£2.4m)

The Group has an economic interest in Marks and Spencer Financial Services plc (trading as M&S Bank), a wholly owned subsidiary of HSBC UK Bank plc, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £2.4m.

The treatment of this in adjusting items is in line with previous charges in relation to settlement of PPI claims and although it is recurring, it is significant in quantum in the context of the total charges recognised for PPI mis-selling to-date and is not considered representative of the normal operating performance of the Group. As previously noted, while the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue. The total charges recognised in adjusting items since September 2012 for both PPI and Covid-19 forward economic guidance provision is £338.3m which exceeds the total offset against profit share of £225.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Establishing the investment in Ocado Retail Limited (£1.7m)

In 2018/19, the Group announced its 50/50 investment in Ocado Retail Limited. £4.6m of charges were recognised across 2018/19 and 2019/20 primarily relating to due diligence for the Ocado Retail transaction and one-off charges, that are not part of the day-to-day operational costs of our business with Ocado Retail, incurred in preparation for the launch in September 2020.

A further £1.7m of "getting ready" charges were incurred in the period prior to launch on 1 September, bringing the total one-off charges relating to Ocado Retail to £6.3m. No further costs are expected.

These costs are adjusting items as they relate to a major transaction and as a result are not considered to be normal operating costs of the business.

GMP and other pension equalisation (£1.0m)

The Group has recognised a charge of £1.0m in respect of the Group's defined benefit pension liability arising from equalisation of GMP for past transfers following a High Court ruling in November 2020. Additional detail on the Group's GMP assessment is provided in note 11.

Treatment of the costs as being adjusting items is consistent with the treatment of charges recognised in 2018/19 in relation to the equalisation of GMP and other pension equalisation. Total GMP and other pension equalisation costs are £21.5m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Remeasurement of contingent consideration including discount unwind (£6.8m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. A charge of £6.8m has been recognised in the period, representing the revaluation of the contingent consideration payable. The change in fair value is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

6 FINANCE INCOME/COSTS

	2021 £m	2020 £m
Bank and other interest receivable	2.9	8.6
Other finance income	1.8	5.9
Pension net finance income (see note 11F)	47.2	23.6
Interest income of subleases	5.5	5.9
Finance income before adjusting items	57.4	44.0
Finance income in adjusting items	-	2.9
Finance income	57.4	46.9
Other finance costs	(0.6)	-
Interest payable on syndicated bank facility	(3.9)	(2.3)
Interest payable on Medium Term Notes	(86.4)	(78.2)
Interest payable on commercial paper facility	(0.4)	-
Interest payable on lease liabilities	(130.4)	(139.3)
Unwind of discount on provisions	(2.7)	(4.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(4.9)	(6.9)
Finance costs before adjusting items	(229.3)	(231.6)
Finance costs in adjusting items	(6.8)	(2.9)
Finance costs	(236.1)	(234.5)
Net finance costs	(178.7)	(187.6)

7 INCOME TAX (CREDIT)/EXPENSE

A. Taxation charge

	2021 £m	2020 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
- current year	3.7	42.8
- adjustments in respect of prior years	(12.1)	(4.1)
UK current tax	(8.4)	38.7
Overseas current taxation		
- current year	0.2	8.8
- adjustments in respect of prior years	(0.2)	(0.1)
Total current taxation	(8.4)	47.4
Deferred tax		
- origination and reversal of temporary differences	6.7	0.4
- adjustments in respect of prior years	(5.9)	(4.1)
- changes in tax rate	(0.6)	(3.9)
Total deferred tax (see note 23)	0.2	(7.6)
Total income tax (credit)/expense	(8.2)	39.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 3.9% (last year: 59.3%) and is explained below.

	2021 £m	2020 £m
(Loss)/profit before tax	(209.4)	67.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	(39.8)	12.8
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	5.2	4.8
Other income and expenses that are not taxable or allowable for tax purposes	8.6	16.5
Joint venture results accounted for as profit after tax	(14.6)	–
Retranslation of deferred tax balances due to the change in statutory UK tax rates	–	(6.6)
Overseas profits taxed at rates different to those of the UK	0.7	(0.6)
Movement in unrecognised overseas deferred tax assets	0.9	0.8
Adjustments to the current and deferred tax charges in respect of prior periods	(18.2)	(8.3)
Capital losses no longer recognised	25.8	–
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	8.5	11.5
– International store closures and impairments	(1.0)	0.7
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	13.0	5.0
– Amortisation arising as a part of the investment in Ocado Retail Limited	2.7	3.2
Total income tax (credit)/expense	(8.2)	39.8

The effective tax rate of profit before tax and adjusting items was 50.3% (last year: 20.7%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £4.1m (last year: £12.8m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

Capital losses no longer recognised relate to a restriction on deferred tax assets recognised following changes to the UK tax legislation. Please refer to note 23.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the Group's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax charge of £13.3m. It is not possible to accurately calculate how much of the deferred tax liability at the balance sheet date would reverse at 19% vs 25%. This is because a large portion of the liability relates to the pension surplus for which future actuarial gains or losses cannot be reliably forecasted.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

C. Current tax reconciliation

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

	2021 £m	2020 £m
(Loss)/profit before tax	(209.4)	67.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	(39.8)	12.8
Disallowable accounting depreciation and other similar items	75.1	52.5
Deductible capital allowances	(50.0)	(56.8)
Adjustments in relation to employee share schemes	1.9	2.3
Adjustments in relation to employee pension schemes	(4.7)	8.2
Overseas profits taxed at rates different to those of the UK	0.7	(0.6)
Movement in unrecognised overseas deferred tax	0.9	0.8
Joint venture results accounted for as profit after tax	(14.6)	–
Current year losses carried forward	11.3	–
Other income and expenses that are not taxable or allowable	(0.1)	4.6
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	8.5	21.0
– International store closures and impairments	(1.0)	0.5
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	5.5	3.1
– Impairment to per una goodwill	7.5	–
– Amortisation arising as a part of the investment in Ocado Retail Limited	2.7	3.2
Current year current tax charge	3.9	51.6
Represented by:		
UK current year current tax	3.7	42.8
Overseas current year current tax	0.2	8.8
	3.9	51.6
UK adjustments in respect of prior years	(12.1)	(4.1)
Overseas adjustments in respect of prior years	(0.2)	(0.1)
Total current taxation (note 7A)	(8.4)	47.4

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has four types of dilutive potential ordinary shares, being: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 EARNINGS PER SHARE CONTINUED

Details of the adjusted earnings per share are set out below:

	2021 £m	2020 £m
(Loss)/profit attributable to equity shareholders of the Company	(198.0)	23.7
Add/(less):		
Adjusting items (see note 5)	259.7	335.9
Tax on adjusting items	(33.5)	(43.6)
Profit before adjusting items attributable to equity shareholders of the Company	28.2	316.0
	Million	Million
Weighted average number of ordinary shares in issue	1,953.5	1,894.9
Potentially dilutive share options under Group's share option schemes ¹	15.0	10.7
Weighted average number of diluted ordinary shares	1,968.5	1,905.6

¹ Potentially dilutive share options only considered in relation to adjusted diluted earnings per share as the Group made a basic loss per share

	Pence	Pence
Basic (loss)/earnings per share	(10.1)	1.3
Diluted (loss)/earnings per share	(10.1)	1.2
Adjusted basic earnings per share	1.4	16.7
Adjusted diluted earnings per share	1.4	16.6

9 DIVIDENDS

	2021 per share	2020 per share	2021 £m	2020 £m
Dividends on equity ordinary shares				
Paid final dividend	–	6.8p	–	115.1
Paid interim dividend	–	3.9p	–	76.0
	–	10.7p	–	191.1

The Board of Directors has not proposed a final dividend for 2020/21. The Board of Directors continues to defer consideration of further dividends until visibility of the pace and scale of market recovery has improved

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including Executive Committee) were:

	2021 Total £m	2020 Total £m
Wages and salaries	1,210.3	1,263.7
Social security costs	99.5	80.0
Pension costs	71.3	72.9
Share-based payments (see note 13)	19.3	18.5
Employee welfare and other personnel costs	43.7	51.8
Capitalised staffing costs	(6.4)	(22.5)
Total aggregate remuneration¹	1,437.7	1,464.4

¹ Excludes amounts recognised within adjusting items of £100.4m (last year: £23.1m) (see notes 3 and 5)

Details of key management compensation are given in note 28.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 EMPLOYEES CONTINUED

B. Average monthly number of employees

	2021	2020
UK stores		
– management and supervisory categories	4,870	5,278
– other	54,076	62,027
UK head office		
– management and supervisory categories	2,948	2,947
– other	749	764
UK operations		
– management and supervisory categories	117	115
– other	1,507	1,302
Overseas	5,579	5,598
Total average number of employees	69,846	78,031

The average number of full-time equivalent employees is 49,177 (last year: 53,988).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Your M&S Pension Saving Plan (a defined contribution (DC) arrangement) and prior to 2017, through the Marks & Spencer Pension Scheme ("UK DB Pension Scheme") (a defined benefit (DB) arrangement).

The UK DB Pension Scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB Pension Scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB Pension Scheme had no active members (last year: nil), 53,674 deferred members (last year: 55,887) and 52,794 pensioners (last year: 52,165).

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 46,191 active members (last year: 52,059) and some 40,604 deferred members (last year: 33,578).

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

The total Group retirement benefit cost was £23.9m (last year: £49.2m). Of this, income of £43.3m (last year: income of £20.2m) relates to the UK DB Pension Scheme, costs of £64.0m (last year: costs of £65.6m) to the UK DC plan and costs of £3.2m (last year: costs of £3.8m) to other retirement benefit schemes.

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. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 12). We have yet to reach agreement with the Trustee of the UK DB Pension Scheme with regards to the triennial actuarial valuation of the scheme as at 31 March 2021.

In September 2020, the UK DB Pension Scheme purchased additional pensioner buy-in policies with two insurers for approximately £750m. Together with the policies purchased in 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.

In November 2020, there was a further High Court ruling in relation to guaranteed minimum pension benefits. The latest ruling states that trustees of defined benefit (DB) schemes that provided guaranteed minimum payments should revisit, and where necessary, top-up historic cash equivalent transfer values that were calculated on an unequalised basis if an affected member makes a successful claim. The impact of the ruling implies that pension scheme trustees are responsible for equalising the guaranteed minimum payments for members who transferred out of its DB pension scheme. This has resulted in an increase in the liabilities of the UK DB Pension Scheme of £1.0m, which was recognised in the results as a past service cost.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

A. Pensions and other post-retirement liabilities

	2021 £m	2020 £m
Total market value of assets	10,442.9	10,653.8
Present value of scheme liabilities	(9,803.7)	(8,743.3)
Net funded pension plan asset	639.2	1,910.5
Unfunded retirement benefits	(3.8)	(3.9)
Post-retirement healthcare	(4.0)	(4.0)
Net retirement benefit surplus	631.4	1,902.6

Analysed in the statement of financial position as:

Retirement benefit asset	639.2	1,915.0
Retirement benefit deficit	(7.8)	(12.4)
Net retirement benefit surplus	631.4	1,902.6

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

B. Financial assumptions

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

	2021 %	2020 %
Rate of increase in pensions in payment for service	2.2-3.2	1.9-2.7
Discount rate	2.00	2.40
Inflation rate for RPI	3.30	2.70
Long-term healthcare cost increases	7.30	6.70

C. Demographic assumptions

The UK demographic assumptions are mainly in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2018. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2018. The specific mortality rates used are based on the VITA lite tables, with future projections based on up-to-date industry models, parameterised to reflect scheme data. The life expectancies underlying the valuation are as follows:

	2021	2020
Current pensioners (at age 65)		
– male	22.2	22.2
– female	25.0	24.9
Future pensioners – currently in deferred status (at age 65)		
– male	24.0	24.0
– female	26.8	26.8

D. Sensitivity analysis

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

	2021 £m	2020 £m
(Decrease)/increase in scheme surplus caused by a decrease in the discount rate of 0.25%	(20.0)	50.0
(Decrease)/increase in scheme surplus caused by a decrease in the discount rate of 0.50%	(30.0)	100.0
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	(20.0)	(50.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	(30.0)	(100.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	300.0	240.0

The discount rate sensitivity is comparable to the sensitivity quoted last year-end. However, the sign has changed from an increase in surplus to a reduction in surplus, as the 'IAS19 over-hedge' on gilt yields increased materially during the previous year. Consequently, assets are projected to grow by less than liabilities this year, whereas assets were projected to grow by more than liabilities last year.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets

The investment strategy of the UK DB Pension Scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bond (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 105% of interest rate movements and 102% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

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

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

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

	2021			2020		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government bonds net of repurchase agreements ¹	3,945.2	(1,443.5)	2,501.7	3,596.8	352.0	3,948.8
– Corporate bonds	6.4	1,036.6	1,043.0	6.2	728.3	734.5
– Asset-backed securities and structured debt	–	256.1	256.1	–	264.4	264.4
Scottish Limited Partnership Interest (see note 12)	–	142.5	142.5	–	211.2	211.2
Equity investments						
– Developed markets	450.9	–	450.9	338.7	56.6	395.3
– Emerging markets	131.1	–	131.1	90.3	–	90.3
Growth asset funds						
– Global property	5.4	276.8	282.2	5.8	291.4	297.2
– Hedge and reinsurance	43.8	299.0	342.8	32.6	385.1	417.7
– Private equity and infrastructure	–	224.1	224.1	–	175.4	175.4
Derivatives						
– Interest and inflation rate swaps	18.4	298.6	317.0	19.9	253.7	273.6
– Foreign exchange contracts and other derivatives	93.2	4.5	97.7	(0.4)	162.4	162.0
Cash and cash equivalents	13.6	148.9	162.5	108.1	181.8	289.9
Other						
– Buy-in insurance	–	3,177.0	3,177.0	–	2,430.0	2,430.0
– Secure income asset funds	–	1,064.4	1,064.4	–	934.6	934.6
– Other	38.7	211.2	249.9	28.8	0.1	28.9
	4,746.7	5,696.2	10,442.9	4,226.8	6,427.0	10,653.8

¹ Repurchase agreements were £1,443.5m (last year: £820.5m)

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

At year end, the UK schemes (UK DB Pension Scheme and post-retirement healthcare) indirectly held 75,223 (last year: 63,527) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

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

	2021 £m	2020 £m
Current service cost	0.2	0.2
Administration costs	4.5	4.5
Past service costs	1.0	–
Net interest income	(47.2)	(23.6)
Total	(41.5)	(18.9)

Remeasurement on the net defined benefit surplus:

Actual return on scheme assets excluding amounts included in net interest income	117.5	(477.3)
Actuarial (gain)/loss – demographic assumptions	(12.5)	10.0
Actuarial gain – experience ¹	(82.6)	(46.1)
Actuarial loss/(gain) – financial assumptions	1,332.1	(414.5)
Components of defined benefit expense/(income) recognised in other comprehensive income	1,354.5	(927.9)

¹ Includes a £2.5m loss (last year: £nil) relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions in the current period

G. Scheme assets

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

	2021 £m	2020 £m
Fair value of scheme assets at start of year	10,653.8	10,224.7
Interest income based on discount rate	254.9	245.4
Actual return on scheme assets excluding amounts included in net interest income ¹	(117.5)	477.3
Employer contributions	41.5	41.8
Benefits paid	(379.4)	(333.2)
Administration costs	(4.3)	(4.3)
Exchange movement	(6.1)	2.1
Fair value of scheme assets at end of year	10,442.9	10,653.8

¹ The actual return on scheme assets was a gain of £137.4m (last year: gain of £722.7m)

H. Pensions and other post-retirement liabilities

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

	2021 £m	2020 £m
Present value of obligation at start of year	8,751.2	9,310.4
Current service cost	0.2	0.2
Administration costs	0.2	0.2
Past service cost	1.0	–
Interest cost	207.7	221.8
Benefits paid	(379.4)	(333.2)
Actuarial gain – experience ¹	(82.6)	(46.1)
Actuarial (gain)/loss – demographic assumptions	(12.5)	10.0
Actuarial loss/(gain) – financial assumptions	1,332.1	(414.5)
Exchange movement	(6.4)	2.4
Present value of obligation at end of year	9,811.5	8,751.2
Analysed as:		
Present value of pension scheme liabilities	9,803.7	8,743.3
Unfunded pension plans	3.8	3.9
Post-retirement healthcare	4.0	4.0
Present value of obligation at end of year	9,811.5	8,751.2

¹ Includes a £2.5m loss (last year: £nil) relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions in the current period

The average duration of the defined benefit obligation at 3 April 2021 is 19 years (last year: 19 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

The Partnership holds £1.4bn (last year: £1.4bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £193.5m (last year: £207.4m) is included as a financial liability in the Group's financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the year to 3 April 2021, an interest charge of £4.9m (last year: £6.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets, valued at £142.5m (last year: £211.2m).

The second partnership interest is not a transferable financial instrument as the Scheme Trustee does not have the right to transfer it to any party other than a successor Trustee. It is therefore not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly, the associated liability is not included on the Group's statement of financial position, rather the annual distribution is recognised as a contribution to the scheme each year.

13 SHARE-BASED PAYMENTS

This year, a charge of £19.3m was recognised for share-based payments (last year: charge of £18.5m). Of the total share-based payments charge, £9.2m (last year: £7.6m) relates to the Save As You Earn share option scheme and a charge of £1.7m (last year: £4.9m) relates to the Performance Share Plan. The remaining charge of £8.4m (last year: £6m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn scheme

The Save As You Earn (SAYE) scheme was approved by shareholders for a further 10 years at the 2017 Annual General Meeting (AGM). Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The scheme allows participants to save up to a maximum of £500 (last year: £250) each month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2021		2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	53,139,941	190.7p	38,023,501	267.9p
Granted	101,466,321	82.0p	34,087,655	151.0p
Exercised	(556)	151.0p	(49,610)	250.2p
Forfeited	(23,811,474)	155.7p	(15,727,568)	237.9p
Expired	(11,642,826)	248.7p	(3,194,037)	380.2p
Outstanding at end of year	119,151,406	99.4p	53,139,941	190.7p
Exercisable at end of year	7,211,376	212.5p	11,272,515	249.6p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 152.4p (last year: 265.7p).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

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

	2021		2020
	3-year plan	3-year plan 2020 modified ¹	3-year plan
Grant date	Dec-20	Dec-20	Dec 19
Share price at grant date	103p	103p	189p
Exercise price	82p	151p	151p
Option life in years	3 years	3 years	3 years
Risk-free rate	0.0%	0.0%	0.5%
Expected volatility	45.6%	45.6%	27.6%
Expected dividend yield	0.0%	0.0%	5.7%
Fair value of option	34p	19p	33p
Incremental fair value of option	N/A	15p	N/A

1. In the current year, there has been a modification to the 2021 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2021 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2021 options, being 34p, and the fair value of repriced previous awards, calculated using 2020 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 15p for 2021 modified options is already recognised in operating loss.

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

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

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

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2021	2020	2021	2020	
January 2016	–	3,720	–	–	416p
January 2017	9,202	11,344,003	–	0.3	250p
January 2018	4,112,855	5,557,053	0.3	1.3	251p
January 2019	3,405,862	4,910,783	1.3	2.3	238p
February 2020	12,331,683	31,324,382	2.3	3.3	151p
February 2021	99,291,804	–	3.3	–	82p
	119,151,406	53,139,941	3.1	2.4	99p

1. For the purpose of the above table the option granted date is the contract start date

B. Performance Share Plan¹

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 170 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2020 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2020/21 included earnings per share (EPS), return on capital employed (ROCE), total shareholder return (TSR) and strategic measures. The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report.

During the year, 19,777,921 shares (last year: 12,924,621) were awarded under the plan. The weighted average fair value of the shares awarded was 101.4p (last year: 161.0p). As at 3 April 2021, 33,878,325 shares (last year: 20,502,705) were outstanding under the plan.

C. Deferred Share Bonus Plan¹

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme and was approved by shareholders at the 2020 AGM. It may be operated for approximately 4,000 of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 3 April 2021, 422,672 shares (last year: 1,359,166) were outstanding under the plan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business and was approved by shareholders at the 2020 AGM. The plan operates for the senior management team. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, 11,996,948 shares (last year: 3,645,421) have been awarded under the plan. The weighted average fair value of the shares awarded was 124.3p (last year: 150.0p). As at 3 April 2021, 10,722,919 shares (last year: 4,896,084) were outstanding under the plan.

E. Republic of Ireland Save As You Earn scheme

Sharesave, the Company's Save As You Earn scheme, was introduced in 2009 to all employees in the Republic of Ireland for a 10-year period, after approval by shareholders at the 2009 AGM and again at the 2019 AGM. The scheme is subject to Irish Revenue rules and allows participants to save up to a maximum of €500 (last year: €320) each month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

During the year, 1,409,129 options (last year: 327,689) were granted, at a fair value of 33.7p (last year: 33.4p). As at 3 April 2021, 1,846,589 options (last year: 790,977) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 527,116 (last year: 1,557,996) shares with a book value of £0.1m (last year: £3.4m) and a market value of £0.8m (last year: £1.5m). These shares were acquired by the Trust through a combination of market purchases and new issues and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under the senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

* All awards both this year and last year were conditional shares. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation and impairments	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9
Year ended 28 March 2020					
Opening net book value	77.5	2.8	377.1	42.5	499.9
Additions	–	–	1.1	76.5	77.6
Transfers and reclassifications	–	–	91.8	(91.4)	0.4
Asset impairments	(13.4)	–	–	–	(13.4)
Asset write-offs	–	–	(0.5)	–	(0.5)
Amortisation charge	–	(2.8)	(162.0)	–	(164.8)
Exchange difference	(0.1)	–	–	–	(0.1)
Closing net book value	64.0	–	307.5	27.6	399.1
At 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation, impairments and write-offs	(72.4)	(112.3)	(1,187.6)	(32.1)	(1,404.4)
Net book value	64.0	–	307.5	27.6	399.1
Year ended 3 April 2021					
Opening net book value	64.0	–	307.5	27.6	399.1
Additions	–	6.3	0.1	41.4	47.8
Transfers and reclassifications	–	–	44.7	(44.2)	0.5
Asset impairments ¹	(39.6)	–	(40.0)	–	(79.6)
Asset write-offs	–	–	(3.2)	–	(3.2)
Amortisation charge	–	(0.2)	(131.4)	–	(131.6)
Exchange difference	(0.7)	–	(0.3)	–	(1.0)
Closing net book value	23.7	6.1	177.4	24.8	232.0
At 3 April 2021					
Cost	135.7	118.6	1,539.6	56.9	1,850.8
Accumulated amortisation, impairments and write-offs	(112.0)	(112.5)	(1,362.2)	(32.1)	(1,618.8)
Net book value	23.7	6.1	177.4	24.8	232.0

Goodwill related to the following assets and groups of cash generating units (CGUs):

	per una £m	India £m	Other £m	Total goodwill £m
Net book value at 28 March 2020	56.1	7.2	0.7	64.0
Asset impairments	(39.6)	–	–	(39.6)
Exchange difference	–	(0.7)	–	(0.7)
Net book value at 3 April 2021	16.5	6.5	0.7	23.7

¹ Asset impairments of £79.6m made up of £39.6m charge recorded against per una goodwill, £40.0m in relation to replaced, retired or decommissioned as part of MS2 (see note 5)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Goodwill impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations.

The goodwill balance relates to the goodwill recognised on the acquisition of per una £16.5m (last year: £56.1m), India £6.5m (last year: £7.2m) and other £0.7m (last year: £0.7m).

Goodwill for India is monitored by management at a country level, including the combined retail and wholesale businesses, and has been tested for impairment on that basis.

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m and is held at a net book value of £nil (last year: £nil). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network but exclude any growth capital initiatives not committed.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 0.5% (last year: 0.7%), which is a reduction from the overall Group long-term growth rate of 1.75% (last year: 2%). The Group's current view of achievable long-term growth for India is 5.9% (last year: 5.9%).

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital ("WACC") which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 11.0% for per una (last year: 9.7%) and 12.9% for India (last year: 14.3%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions, both individually and in combination. Management has considered reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for each asset.

For India, there is no reasonably possible change in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

per una

The future cash flows applied in the per una calculation reflect the Group's current plan for the per una brand over the next three years. These plans reflect the updated trading position of the per una brand post Covid-19 and rationalisation of the per una range whereby certain product ranges have been removed from the brand.

The trading assumptions applied in the prior year reflected the expectation that the impact of Covid-19 would last 12 months, with sales and customer trends returning to pre-pandemic levels in 2021/22. Therefore, the impact of Covid-19 was reflected within the forecast per una sales for 2020/21 only, with return to pre Covid-19 levels by February 2021. A year on, it has become apparent that the recovery of per una sales will take longer and that there is likely to be a permanent shift in customer behaviour and habits, especially triggered by two additional lockdowns in the second half of the financial year. As a result, the revised plan assumes a per una sales decline of c. 40% in 2021/22 vs 2019/20, followed by moderate increases in sales in years 2 and 3 of the plan. The revised plan does not return to 2019/20 sales levels.

In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. The model assumes 0.5% (last year: 0.7%) growth into perpetuity, which is the per una sales growth assumed in year 3 of the plan. If a shorter trading period was assumed then this could result in a further impairment.

The outcome of the value in use calculation is an impairment of £39.6m (prior year impairment charge of £13.4m).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Individually a 50-basis point increase in the WACC rate or a reduction in the perpetuity growth rate to 0% would cause an increase in the impairment below £0.7m. A 20% reduction in cash flows over the whole three-year plan period would cause a £3.3m further impairment and in combination, these reasonably possible changes in the key assumptions would cause a further impairment of £3.9m.

Computer software impairment testing

Following the announcement of the new MS2 division, the Group conducted a review of the intangible computer software assets held on the balance sheet which were to be decommissioned, replaced or retired as part of the MS2 programme. An impairment charge and write off of £40.0m has been recognised reflecting significant changes to certain intangible assets used by UK Clothing & Home.

Jaeger

During the period, the Group recognised additions to brand intangible assets of £6.3m, relating to the purchase of the Intellectual Property of the Jaeger brand (including registered trademarks, goodwill, logos, domain names and social media accounts) as part of an asset acquisition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £5,058.6m (last year: £5,494.2m) consists of owned assets of £3,562.6m (last year: £3,863.9m) and right-of-use assets of £1,496.0m (last year: £1,630.3m).

PROPERTY, PLANT AND EQUIPMENT – OWNED

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 30 March 2019				
Cost	2,885.9	5,673.6	98.1	8,657.6
Accumulated depreciation, impairments and write-offs	(637.1)	(4,015.6)	(18.0)	(4,670.7)
Net book value	2,248.8	1,658.0	80.1	3,986.9
Year ended 28 March 2020				
Opening net book value	2,248.8	1,658.0	80.1	3,986.9
Additions	2.1	27.7	244.9	274.7
Transfers and reclassifications	22.2	183.6	(205.0)	0.8
Impairment reversals	25.7	32.4	–	58.1
Impairment charge	(73.9)	(52.7)	–	(126.6)
Asset write-offs	(1.8)	(7.1)	–	(8.9)
Depreciation charge	(62.0)	(267.2)	–	(329.2)
Exchange difference	6.3	1.8	–	8.1
Closing net book value	2,167.4	1,576.5	120.0	3,863.9
At 28 March 2020				
Cost	2,887.5	5,457.1	138.0	8,482.6
Accumulated depreciation, impairments and write-offs	(720.1)	(3,880.6)	(18.0)	(4,618.7)
Net book value	2,167.4	1,576.5	120.0	3,863.9
Year ended 3 April 2021				
Opening net book value	2,167.4	1,576.5	120.0	3,863.9
Additions	3.8	18.6	92.1	114.5
Transfers and reclassifications	7.2	157.0	(162.6)	1.6
Impairment reversals	36.9	36.2	–	73.1
Impairment charge ¹	(73.2)	(48.7)	–	(121.9)
Asset write-offs	(29.8)	(17.4)	(0.1)	(47.3)
Depreciation charge	(83.3)	(228.5)	–	(311.8)
Exchange difference	(6.6)	(2.8)	(0.1)	(9.5)
Closing net book value	2,022.4	1,490.9	49.3	3,562.6
At 3 April 2021				
Cost	2,809.9	5,450.2	67.5	8,327.6
Accumulated depreciation, impairments and write-offs	(787.5)	(3,959.3)	(18.2)	(4,765.0)
Net book value	2,022.4	1,490.9	49.3	3,562.6

¹ Asset impairments of £121.9m made up of: £48.2m charge as a result of UK store impairment testing; £/3.4m charge relating to the ongoing UK store estate programme and £0.3m in relation to assets replaced, retired or decommissioned as part of the MS2 programme (see note 5)

Asset write-offs in the year include assets with gross book value of £67.4m (last year: £680.5m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Right-of-use assets

The Group adopted IFRS 16 Leases from 31 March 2019. Refer to note 1 for the accounting policy. The right-of-use assets recognised on adoption of IFRS 16 are reflected in the underlying asset classes of property, plant and equipment.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 30 March 2019	1,637.8	37.6	1,675.4
Additions	140.3	40.4	180.7
Transfers and reclassifications	0.2	(0.2)	–
Disposals	(18.9)	–	(18.9)
Impairment reversals	50.2	–	50.2
Impairment charge	(84.4)	–	(84.4)
Depreciation charge	(155.9)	(18.7)	(174.6)
Exchange difference	1.8	0.1	1.9
As at 28 March 2020	1,571.1	59.2	1,630.3
Additions	37.2	13.1	50.3
Transfers and reclassifications	0.3	–	0.3
Disposals	(5.5)	0.2	(5.3)
Impairment reversals	36.9	–	36.9
Impairment charge	(52.7)	–	(52.7)
Depreciation charge	(132.0)	(21.1)	(153.1)
Exchange difference	(10.6)	(0.1)	(10.7)
As at 3 April 2021	1,444.7	51.3	1,496.0

Impairment of property, plant and equipment and right-of-use assets

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of Outlets stores, which are considered together as one CGU. Click & Collect sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The ongoing Covid-19 pandemic is considered an impairment trigger and as a result all stores have been tested for impairment.

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

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 8.9% to 14.0% (last year: 8.6% to 16.8%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £66.4m and impairment reversals of £64.5m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £69.3m). The impaired stores were impaired to their 'value in use' recoverable amount of £98.5m, which is their carrying value at year end. The stores with impairment reversals were written back to their 'value in use' recoverable amount of £223.0m. These impairments and impairment reversals have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 1.75%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 1.75%. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in year 3 would result in an increase in the impairment charge of £33.0m and a 25 basis point reduction in gross profit margin from year 3 onwards would increase the impairment charge by £4.0m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.0m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

A reduction in sales of 5% from the three-year plan in year 3 would result in a reduction in the reversal of £1.1m and a 25 basis point reduction in gross profit margin from year 3 onwards would have no impact on the reversal. In combination, a 5% fall in sales and a 25 basis point fall in gross profit margin would reduce the reversal by £2.0m.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £107.9m and impairment reversals of £36.7m relating to the ongoing UK store estate programme (last year: impairment charge of £132.0m and impairment reversals of £108.3m). These stores were impaired to their 'value in use' recoverable amount of £109.6m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5). Impairment reversals predominantly reflect improved trading expectations compared to those assumed at the end of the prior year end.

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £24.7m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £21.7m. Neither a 50 basis point increase in the discount rate, a 25 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year, the Group has recognised an impairment reversal of £8.8m in Ireland (last year: impairment charge of £9.0m) and £nil in the Czech Republic (last year: £0.2m) as a result of store impairment testing.

For Irish stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 10.0% (last year: 14.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

For Irish stores, reasonably possible changes in other key assumptions, including a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession, a 25 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a change in the impairment reversal.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 OTHER FINANCIAL ASSETS

	2021 £m	2020 £m
Non-current		
Unlisted investments	9.7	9.7
Current		
Short-term investments ¹	18.4	11.7

¹ Includes £9.2m (last year: £5.8m) of money market deposits held by Marks and Spencer plc in an escrow account.

Upon transition to IFRS 9, unlisted equity investments were irrevocably designated as fair value through other comprehensive income. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Non-current		
Trade receivables	0.1	0.2
Lease receivables – net	62.8	69.2
Other receivables	2.1	2.2
Prepayments	196.4	191.0
	261.4	262.6
Current		
Trade receivables	109.8	150.8
Less: provision for impairment of receivables	(3.7)	(4.0)
Trade receivables – net	106.1	146.8
Lease receivables – net	–	0.1
Other receivables	30.5	41.0
Prepayments	53.9	84.8
Accrued income	19.1	25.3
	209.6	298.0

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The Group's assessment of any expected credit losses is included in note 21. Included in accrued income is £5.7m (last year: £17.4m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An immaterial amount of supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors, where there is a right to offset. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

The maturity analysis of the Group's lease receivables is as follows:

	2021 £m	2020 £m
Timing of cash flows		
Within one year	4.8	7.1
Between one and two years	4.8	4.7
Between two and three years	4.7	4.7
Between three and four years	4.7	4.7
Between four and five years	6.1	4.7
More than five years	128.9	135.0
Total undiscounted cash flows	154.0	160.9
Effect of discounting	(79.3)	(86.9)
Present value of lease payments receivable	74.7	74.0
Less: provision for impairment of receivables	(11.9)	(4.7)
Net investment in the lease	62.8	69.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £674.4m (last year: £254.2m (restated)). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.06% (last year: 0.42%). These deposits have an average maturity of 5 days (last year: 3 days).

19 TRADE AND OTHER PAYABLES

	2021 £m	2020 (Restated) £m
Current		
Trade and other payables ¹	1,091.5	1,017.8
Social security and other taxes	46.8	64.4
Accruals	407.5	379.3
Deferred income	53.2	39.5
	1,599.0	1,501.0
Non-current		
Other payables	179.2	206.6
Deferred income	13.1	16.0
	192.3	222.6

¹ See note 1 for details on a change in accounting policy and the resulting restatement.

Included within current trade and other payables is £33.6m (last year: £nil) and non-current other payables is £178.4m (last year: £202.4m) of contingent consideration relating to the investment in Ocado Retail Limited. See note 21 for further details.

A contract liability arises in respect of gift cards and voucher schemes as payment has been received for a performance obligation which will be performed at a later point in time. Included within trade and other payables are gift card/voucher scheme liabilities:

	2021 £m	2020 £m
Opening balance	180.8	186.9
Issues	363.2	423.8
Released to the income statement	(349.6)	(429.9)
Closing balance	194.4	180.8

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. This is a form of reverse factoring which has the objective of serving the Group's suppliers by giving them early access to funding. The Group settles these amounts in accordance with each supplier's agreed payment terms.

The Group is not party to these financing arrangements and the arrangements do not permit the Group to obtain finance from the provider by paying the provider later than the Group would have paid its supplier. The Group does not incur any interest towards the provider on the amounts due to the suppliers. The Group therefore discloses the amounts factored by suppliers within trade payables because the nature and function of the financial liability remain the same as those of other trade payables.

The payments by the Group under these arrangements are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating – i.e. payments for the purchase of goods and services.

At 3 April 2021, £272.6m (last year: £215.6m) of trade payables were amounts owed under these arrangements. During the year, the maximum facility available at any one time under the arrangements was £305.0m (last year: £299.0m).

In response to the Covid-19 pandemic, during the year the Group implemented extended payment terms for suppliers in Clothing & Home.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2021 £m	2020 (Restated) £m
Current		
Bank loans and overdrafts	4.7	15.5
Lease liabilities	219.4	197.2
6.125% £400m Medium Term Notes 2021 ¹	163.5	–
Interest accrued on Medium Term Notes	45.2	35.1
	432.8	247.8
Non-current		
6.125% £300m Medium Term Notes 2021 ¹	–	299.2
3.00% £300m Medium Term Notes 2023 ¹	298.5	298.0
4.75% £400m Medium Term Notes 2025 ^{1,5}	412.2	399.4
3.75% £300m Medium Term Notes 2026 ^{1,4}	298.3	–
3.25% £250m Medium Term Notes 2027 ¹	248.0	247.6
7.125% US\$300m Medium Term Notes 2037 ^{2,3}	192.2	192.1
Revaluation of Medium Term Notes ⁶	24.2	64.8
Lease liabilities	2,186.5	2,364.8
	3,659.9	3,865.9
Total	4,092.7	4,113.7

1. These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually

2. Interest on these bonds is payable semi-annually

3. US\$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps)

4. In November 2020, a £300m 3.75% Medium Term Note was issued which matures in May 2026

5. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £nil (last year: £175m) was swapped from fixed to floating rate. Also includes £13.6m (last year: £1.2m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.

6. Revaluation consists of foreign exchange loss on revaluation of the 7.125% US\$300m Medium Term Notes 2037 of £24.2m (last year: £50.8m). Last year this also included a fair value hedge adjustment of £13.6m.

7. See note 1 for details on a change in accounting policy and the resulting restatement

Leases

The Group leases various stores, offices, warehouses and equipment with varying terms, escalation clauses and renewal rights.

The Group has certain leases with lease terms of 12 months or less and leases of assets with low values. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of lease liabilities and the movements during the period.

	2021 £m	2020 £m
Opening lease liabilities	2,562.0	2,576.8
Additions	48.3	204.1
Interest expense relating to lease liabilities	133.8	141.3
Payments	(316.7)	(335.7)
Disposals	(7.8)	(25.7)
Exchange difference	(13.7)	1.2
	2,405.9	2,562.0
Current	219.4	197.2
Non-current	2,186.5	2,364.8

The maturity analysis of lease liabilities is disclosed in note 21 (a).

Future cash outflows related to the post break clause period included in the lease liability

The Group holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16, the Group has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £2,405.9m of lease liabilities held on the balance sheet.

The following amounts were recognised in profit or loss:

	2021 £m	2020 £m
Expenses relating to short-term leases	4.6	1.0
Expenses relating to low-value assets	1.0	2.4
Expenses relating to variable consideration	2.5	6.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS

Treasury policy

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

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

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

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

Financial risk management

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

(a) Liquidity and funding risk

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

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

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. The facility contains only one 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 was not in breach of this covenant at the reporting date.

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax the covenant conditions for the tests arising in September 2021 and March 2022.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £25m (last year: £50m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year: £1.3bn) was in issuance as at the balance sheet date. The initial rate of interest is fixed at the date of issue and the Notes are referred to as fixed rate borrowings throughout the Annual Report as the coupon does not change with movements in benchmark interest rates. However, the rate of interest on certain Notes varies both up and down in response to third-party credit ratings (to above/below Baa3 or above/below BBB-) that reflects the relative deterioration or improvement in the Group's cost of credit, and the interest payable on these Notes increases from the next interest payment date following a relevant credit rating downgrade. As the original contractual terms of these Notes provide for changes in cash flows to be reset to reflect the relative deterioration or improvement in the Group's cost of credit, the Group considers these Notes to be floating rate instruments when determining amortised cost under IFRS 9 and consequently the Group applied IFRS 9 paragraph B5.4.5, which requires no adjustment to the carrying amount of the liabilities or immediate impact on profit and loss. If the Group had determined these Notes to be fixed rate instruments, the Notes would be remeasured to reflect the revised cash flows discounted at the original effective rate. This would result in initially a higher interest expense to profit or loss, offset by lower interest charges subsequently, when compared to the Group's treatment. The Group assessed that there are also no implications on the application of fair value hedge accounting. Prior to the early settlement of the Group's interest rate swaps, the hedge effectiveness requirements of IFRS 9 were met, with an identified economic relationship in existence between the designated hedged item and the hedging instrument, with their respective fair values expected to move in opposite directions.

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The table below summarises the contractual maturity of the Group's non-derivative financial liabilities and derivatives, excluding trade and other payables and accruals. The carrying value of all trade and other payables (excluding contingent consideration payable) and accruals of £1,466.2m (last year: £1,401.3m) is equal to their contractual undiscounted cash flows (see note 19) which are due within one year. Contingent consideration (see the fair value hierarchy section within note 21) of £33.7m (last year: £nil) is expected to become payable within one year and £190.8m (last year: £222.6m) between two and five years.

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities ³ £m	Partnership Liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives ¹ £m	Cash outflow on derivatives £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(15.5)	(71.9)	(340.2)	(71.9)	(499.5)	1,972.0	(1,898.0)	74.0
Between one and two years	–	(371.9)	(329.4)	(71.9)	(773.2)	183.5	(167.2)	16.3
Between two and five years	–	(451.6)	(834.2)	(71.9)	(1,357.7)	296.8	(238.4)	58.4
More than five years	–	(1,164.0)	(3,674.2)	–	(4,838.2)	235.3	(188.3)	47.0
Total undiscounted cash flows	(15.5)	(2,059.4)	(5,178.0)	(215.7)	(7,468.6)	2,687.6	(2,491.9)	195.7
Effect of discounting	–	523.2	2,616.0	8.3	3,147.5			
At 28 March 2020 (restated)²	(15.5)	(1,536.2)	(2,562.0)	(207.4)	(4,321.1)			
Timing of cash flows								
Within one year	(4.7)	(244.8)	(326.3)	(124.9)	(700.7)	2,082.2	(2,143.0)	(60.8)
Between one and two years	–	(74.8)	(289.1)	(71.9)	(435.8)	208.8	(210.2)	(1.4)
Between two and five years	–	(898.8)	(754.6)	–	(1,653.4)	46.5	(43.8)	2.7
More than five years	–	(987.7)	(3,293.2)	–	(4,280.9)	404.0	(368.6)	35.4
Total undiscounted cash flows	(4.7)	(2,206.1)	(4,663.2)	(196.8)	(7,070.8)	2,741.5	(2,765.6)	(24.1)
Effect of discounting	–	524.0	2,257.3	3.3	2,784.6			
At 3 April 2021	(4.7)	(1,682.1)	(2,405.9)	(193.5)	(4,286.2)			

1. Cash inflows and outflows on derivative instruments that require gross settlement (such as cross currency swaps and forward foreign exchange contracts) are disclosed gross. Cash inflows and outflows on derivative instruments that settle on a net basis are disclosed net.

2. See note 1 for details on a change in accounting policy and the resulting restatement.

3. Total undiscounted lease payments of £764.0m relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Group's contractual indebtedness under these leases, where there is a contractual right to break.

(b) Counterparty risk

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

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

	Credit rating of counterparty								Total £m
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	
Short-term investments ¹	–	–	–	42.4	59.4	15.7	–	3.6	121.1
Net derivative assets ²	–	–	–	79.2	66.2	26.8	–	–	172.2
At 28 March 2020	–	–	–	121.6	125.6	42.5	–	3.6	293.3
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short term investments ¹	–	–	–	54.4	182.4	250.3	4.7	3.3	495.1
Net derivative assets ²	–	–	–	–	8.3	0.6	–	–	8.9
At 3 April 2021	–	–	–	54.4	190.7	250.9	4.7	3.3	504.0

1 Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit of £197.7m (last year: £144.8m).

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

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £106.2m (last year: £147.0m), lease receivables £62.8m (last year: £69.3m), other receivables £32.6m (last year: £43.2m), cash and cash equivalents £674.4m (last year: £254.2m) and derivatives £33.1m (last year: £172.2m).

Impairment of financial assets

The credit risk management practices of the Group include internal review and reporting of the ageing of trade and other receivables by days past due by a centralised accounts receivable function, and grouped by respective contractual revenue stream, along with liaison with the debtors by the credit control function.

The Group applies the IFRS 9 simplified approach in measuring expected credit losses which use a lifetime expected credit loss allowance for all trade receivables and lease receivables.

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry, as well as by geographical location and days past due. In addition to the expected credit losses calculated using a provision matrix, the Group may provide additional provision for the receivables of particular customers if the deterioration of financial position was observed. The Group's trade receivables are of very low credit risk due to transactions being principally of high volume, low value and short maturity. Therefore, it also has very low concentration risk.

The expected loss rates are determined based on the average write-offs as a proportion of average debt over a period of 36 months prior to the reporting date. The historical loss rates are adjusted for current and forward-looking information where significant. The Group considers GDP growth, unemployment, sales growth and bankruptcy rates of the countries in which goods are sold to be the most relevant factors and, where the impact of these is significant, adjusts the historical loss rates based on expected changes in these factors.

Historical experience has indicated that debts aged 180 days or over are generally not recoverable. The Group has incorporated this into the expected loss model through a uniform loss rate for ageing buckets below 180 days dependent on the revenue stream and country and providing for 100% of debt aged over 180 days past due. Where the Group specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include the failure of the debtor to engage in a payment plan, and failure to make contractual payments within 180 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit and subsequent recoveries are credited to the same line item.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
As at 28 March 2020							
Gross carrying amount – trade receivables	127.7	19.6	1.7	0.4	0.5	0.9	150.8
Expected loss rate	1.59%	2.63%	24.60%	3.75%	29.22%	100.0%	2.67%
Lifetime expected credit loss	2.0	0.5	0.4	–	0.2	0.9	4.0
Net carrying amount	125.7	19.1	1.3	0.4	0.3	–	146.8
As at 3 April 2021							
Gross carrying amount – trade receivables	95.0	9.9	2.0	0.8	0.8	1.3	109.8
Expected loss rate	1.45%	5.43%	12.88%	15.78%	17.06%	100.0%	3.40%
Lifetime expected credit loss	1.4	0.5	0.3	0.1	0.1	1.3	3.7
Net carrying amount	93.6	9.4	1.7	0.7	0.7	–	106.1

The closing loss allowances for trade receivables reconciles to the opening loss allowances as follows:

	2021 £m	2020 £m
Trade receivables expected loss provision		
Opening loss allowance as at 28 March 2020	4.0	3.2
(Decrease)/increase in loss allowance recognised in profit and loss during the year	(0.3)	0.9
Receivables written off during the year as uncollectable	–	(0.1)
Closing loss allowance as at 3 April 2021	3.7	4.0

The closing loss allowances for lease receivables reconciles to the opening loss allowances as follows:

	2021 £m	2020 £m
Lease receivables expected loss provision		
Opening loss allowance as at 28 March 2020	4.7	–
Increase in loss allowance recognised in profit and loss during the year ¹	7.2	4.7
Receivables written off during the year as uncollectable	–	–
Closing loss allowance as at 3 April 2021	11.9	4.7

¹ Relates to the sub-let of previously closed offices associated with the strategic programme to centralise the Group's London Head Office functions (see note 5)

The provision for other receivables is highly immaterial (it can be quantified) and therefore no disclosure is provided.

(c) Foreign currency risk

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

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 14 months ahead of the start of the season, with between 80% and 100% of the risk hedged eight months before the start of the season.

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,776.6m (last year: £1,872.9m) with a weighted average maturity date of six months (last year: six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 3 April 2021 will be reclassified to the income statement at various dates over the following 16 months (last year: 18 months) from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The foreign exchange forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is deferred in equity and subsequently either reclassified to profit or loss or removed from equity and included in the initial cost of inventory as part of the "basis adjustment". This will be realised in the income statement once the hedged item is sold. The Group has considered and elected not to recognise the currency basis spread element in the cost of hedging reserve, owing to the relatively short-dated nature of the hedging instruments.

The Group regularly reviews the foreign exchange hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the Income Statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group's treasury policy, hedges are entered into by business line and by season. In the prior period, management identified over-hedging in Clothing & Home stock purchases resulting in a gain of £2.9m in profit and loss. No such over-hedging has been identified in the current period.

The foreign exchange forwards are recognised at fair value. The Group has considered and elected not to apply credit/debit valuation adjustments, owing to their relatively short-dated nature. The risks at the reporting date are representative of the financial year.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges. The change in the fair value of the hedging instrument, to the degree effective, is retained in other comprehensive income, segregated by cost and effect of hedging. Under IFRS 9 the currency basis on the cross-currency swaps is excluded from the hedge designation and recognised in other comprehensive income – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result. In order to more closely align the hedging instrument with the original hypothetical, the Group successfully renegotiated the cross-currency swaps portfolio during the prior year, receiving £7.7m cash settlement from the counterparty banks, and increasing the average pay fixed GBP leg from 7.3% to 7.5%.

The cross-currency swaps are recognised at fair value. The inclusion of credit risk on cross-currency swaps will cause ineffectiveness of the hedge relationship. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are classified as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £1.4m gain (last year: £3.4m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £172.0m (last year: £157.0m).

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

	2021			2020		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	3,886.2	4.7	3,890.9	3,672.2	205.6	3,877.8
Euro	95.8	–	95.8	109.8	–	109.8
Other	106.0	–	106.0	126.1	–	126.1
	4,088.0	4.7	4,092.7	3,908.1	205.6	4,113.7

The floating rate sterling borrowings are cash balances classified as overdrafts.

As at the balance sheet date and excluding lease liabilities, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 5.3% (last year: 4.8%) and the weighted average time for which the rate is fixed is six years (last year: six years).

During the year, the Group closed out all interest rate swaps designated in hedge relationships (last year: £175m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

(d) Interest rate risk

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

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

At the balance sheet date, fixed rate borrowings amounted to £4,088.0m (last year: £3,908.1m) representing the public bond issues and lease liabilities, amounting to 99% (last year: 95%) of the Group's gross borrowings.

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

	2021 %	2020 %
Committed and uncommitted borrowings	N/A	N/A
Medium Term Notes	5.3%	4.6%
Leases	5.4%	5.5%

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA).

In March 2021, the FCA announced that it will no longer seek to persuade, or compel, banks to submit LIBOR from 31 December 2021 (for USD LIBOR: 30 June 2023).

In response to the announcements, the Group has identified any contracts with reference to LIBOR within the business and has appointed a project team to ensure a smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The work is ongoing but is expected to complete well ahead of the cessation of the publication of LIBOR.

During the year, the Group closed out all pay six-month GBP LIBOR, receive GBP fixed interest rate swaps (last year: £175m). The Group no longer holds any derivatives or hedge relationships that reference LIBOR.

The Group will continue to apply the Phase 1 amendments to IFRS 9 (which were adopted last year) until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

The below table illustrates the effects of hedge accounting on the consolidated statement of financial position and consolidated income statement through detailing separately by risk category and each type of hedge the details of the associated hedging instrument and hedged item.

28 March 2020						
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	FVTPL	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,699.3	157.0	–	193.5	173.6	175.0
Carrying amount assets	71.0	2.5	–	83.8	10.2	18.4
Carrying amount (liabilities)	(10.2)	(2.8)	–	–	(0.7)	–
Maturity date	to Feb 2021	to Oct 2020	–	Dec 2037	to Aug 2021	Jun 2025
Hedge ratio	100%	100%	–	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter- company loans/ deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument	33.4	(0.6)	–	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness	(30.5)	4.0	–	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBP/USD 1.3, GBP/EUR 1.15	N/A	–	7.5% GBP/USD 1.32, GBP/EUR 1.15	–	–
Amounts recognised within finance costs in profit and loss	2.9	3.4	–	5.9	–	–
Balance on cash flow hedge reserve at 28 March 2020	(37.3)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	–	N/A	N/A	(7.1)	–	N/A

3 April 2021						
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	FVTPL	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,585.9	333.8	–	193.5	190.7	–
Carrying amount assets	32.1	0.7	–	–	0.3	–
Carrying amount (liabilities)	(83.9)	(12.1)	–	(8.1)	(2.6)	–
Maturity date	to Sep 2021	to Jan 2022	–	to Dec 2037	to May 2022	–
Hedge ratio	100%	100%	–	100%	100%	–
Description of hedged item	Highly probable transactional FX exposures	Inter- company loans/ deposits	–	USD fixed rate borrowing	Highly probably transactional FX exposures	–
Change in fair value of hedging instrument ¹	(100.2)	(11.1)	–	(91.7)	(11.8)	–
Change in fair value of hedged item used to determine hedge effectiveness	100.2	12.5	–	93.0	11.8	–
Weighted average hedge rate for the year	GBP/USD 1.32, GBP/EUR 1.13	–	–	7.5%	GBP/USD 1.28, GBP/ EUR 1.12	–
Amounts recognised within finance costs in profit and loss	–	1.4	–	1.3	–	–
Balance on cash flow hedge reserve at 3 April 2021	40.6	–	–	25.4	2.2	–
Balance on cost of hedging reserve at 3 April 2021	–	–	–	(5.8)	–	–

¹ The £(11.1) m fair value change represented in the fair value movement of the forward contracts under FVTPL consists of economic hedges of certain intercompany loans/deposits and forward contracts that are no longer in hedge relationships (total equivalent notional £333.8 m). Of this fair value change, £(10.2) m relates to movements in valid hedge relationships that de-designated at the end of the financial year and were reclassified to the cost of inventory. This line also includes the cash settlements of the derivative positions during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

		3 April 2021				28 March 2020			
		Notional value		Fair value		Notional value		Fair value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current									
Forward foreign exchange contracts	– cash flow hedges	449.0	1,136.9	32.1	(83.9)	1,385.0	314.3	71.0	(10.2)
	– FVTPL	72.2	261.6	0.7	(12.1)	61.9	95.1	2.5	(2.8)
		521.2	1,398.5	32.8	(96.0)	1,446.9	409.4	73.5	(13.0)
Non-current									
Cross currency swaps	– cash flow hedges	–	193.5	–	(8.1)	193.5	–	83.8	–
Forward foreign exchange contracts	– cash flow hedges	46.2	144.5	0.3	(2.6)	153.1	20.5	10.2	(0.7)
Interest rate swaps	– fair value hedges	–	–	–	–	175.0	–	18.4	–
		46.2	338.0	0.3	(10.7)	521.6	20.5	112.4	(0.7)

The Group's hedging reserves disclosed in the consolidated statement of changes in equity, relate to the following hedging instruments:

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	Total hedge reserve £m
Opening balance 31 March 2019	–	(14.6)	2.9	(11.7)	(11.1)	32.9	0.2	(7.4)	14.6
Add: Change in fair value of hedging instrument recognised in OCI ²	–	–	–	–	(59.2)	(88.6)	–	–	(147.8)
Add: Costs of hedging deferred and recognised in OCI	–	7.5	–	7.5	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	21.8	–	–	–	21.8
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	–	2.9	15.6	(0.1)	–	18.4
Less: Deferred tax	–	–	(1.5)	(1.5)	–	–	–	24.4	24.4
Closing balance 28 March 2020	–	(7.1)	1.4	(5.7)	(45.6)	(40.1)	0.1	17.0	(68.6)
Opening balance 29 March 2020	–	(7.1)	1.4	(5.7)	(45.6)	(40.1)	0.1	17.0	(68.6)
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	122.2	92.0	–	–	214.2
Add: Costs of hedging deferred and recognised in OCI	–	1.3	–	1.3	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	(33.9)	–	–	–	(33.9)
Less: Reclassified from OCI to profit or loss	–	–	–	–	–	(26.5)	–	–	(26.5)
Less: Deferred tax	–	–	(0.2)	(0.2)	–	–	–	(30.4)	(30.4)
Closing balance 3 April 2021	–	(5.8)	1.2	(4.6)	42.7	25.4	0.1	(13.4)	54.8

1. Cross-currency interest rate swaps

2. Other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

In the previous year, management identified over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases not expected to occur amounted to a gain of £2.9m. The corresponding cash flow hedges were discontinued prospectively; derivatives with the notional value of US\$76.6m were subsequently accounted for at fair value through profit or loss. No such over-hedging has been identified in the current year.

During the year, the Group closed out all interest rate swaps designating its GBP fixed debt to floating debt which were reported as fair value hedges (see note 20 for details of fair value adjustment). At 3 April 2021, the Group had a deferred fair value adjustment of £13.6m in borrowings relating to terminated fair value hedges. The ineffective portion recognised in profit or loss that arose from fair value hedges amounted to a nil gain or loss as the loss on the hedged items was £4.4m (last year: gain of £3.8m) and the gain on the hedging instruments was £4.4m (last year: loss of £3.8m).

Movement in hedged items and hedging instruments	2021 £m	2020 £m
Net gain/(loss) in fair value of interest rate swap	4.4	(3.8)
Net (loss)/gain on hedged items	(4.4)	3.8
Ineffectiveness	–	–

The Group holds a number of cross-currency interest rate swaps to designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in profit or loss that arises from the cash flow hedge amounts to a £1.3m gain (last year: nil gain or loss) as the gain on the hedged items was £93.0m (last year: £79.7m loss) and the movement on the hedging instruments was a £91.7m loss (last year: £79.7m gain). A nil gain or loss (last year: £5.9m gain) was recognised in profit or loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	2021 £m	2020 £m
Net (loss)/gain in fair value of cross-currency interest rate swap	(91.7)	79.7
Net gain/(loss) on hedged items	93.0	(79.7)
Ineffectiveness	1.3	–

Sensitivity analysis

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

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

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

Foreign exchange The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivatives. This value is expected to be materially offset by the re-translation of the related transactional exposures.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	–	–
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)
At 3 April 2021				
Impact on income statement: (loss)/gain	(9.2)	9.2	–	–
Impact on other comprehensive income: (loss)/gain	(2.1)	4.7	199.4	(199.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	–	4.3
Derivative financial assets	185.9	–	185.9	(13.7)	172.2
	204.5	(14.3)	190.2	(13.7)	176.5
Trade and other payables	(272.8)	14.3	(258.5)	–	(258.5)
Derivative financial liabilities	(13.7)	–	(13.7)	13.7	–
	(286.5)	14.3	(272.2)	13.7	(258.5)
	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 3 April 2021					
Trade and other receivables	16.5	(12.8)	3.7	–	3.7
Derivative financial assets	33.1	–	33.1	(33.1)	–
	49.6	(12.8)	36.8	(33.1)	3.7
Trade and other payables	(257.4)	12.8	(244.6)	–	(244.6)
Derivative financial liabilities	(106.7)	–	(106.7)	33.1	(73.6)
	(364.1)	12.8	(351.3)	33.1	(318.2)

Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair value hierarchy

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

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

	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– derivatives held at FVTPL	–	0.7	–	0.7	–	2.5	–	2.5
Derivatives used for hedging	–	32.4	–	32.4	–	183.4	–	183.4
Short-term investments	–	18.4	–	18.4	–	11.7	–	11.7
Unlisted investments ¹	–	–	9.7	9.7	–	–	9.7	9.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– derivatives held at FVTPL	–	(12.1)	–	(12.1)	–	(2.8)	–	(2.8)
– contingent consideration ²	–	–	(212.0)	(212.0)	–	–	(202.4)	(202.4)
Derivatives used for hedging	–	(94.6)	–	(94.6)	–	(10.9)	–	(10.9)

There were no transfers between the levels of the fair value hierarchy during the period. There were also no changes made to any of the valuation techniques during the period.

¹ The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) (see note 16) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.

² As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The fair value of contingent consideration payable is estimated by calculating the present value of the future expected cash flows. The contingent consideration arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets, the most significant of which is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The maximum potential, undiscounted amount of all future payments that the Group could be required to make under the arrangement is £187.5m plus interest of 4%.

The fair value was estimated by applying an appropriate discount rate to the expected future payments. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance targets are binary and, based on the latest five-year plan of Ocado Retail Limited, are expected to be met and therefore the fair value reflects the full, discounted £187.5m plus interest, and it is therefore expected that £33.7m will become payable in 2021/22 and £190.8m will become payable in 2024/25. Should some, or all, of these targets not be met, less, or no, consideration would be payable. Should the discount rate applied be changed, the fair value of the contingent consideration would change, but the amount of consideration that would ultimately be paid would not necessarily change. The discount rates used ranged from 0.8% to 2.0% (last year: 1.7% to 2.2%) and a 1.0% change in the discount rates would result in a change in fair value of £6.0m (last year: £7.3m). A 5% change in the forecast level of earnings used to assess the performance targets would not result in a significant change in fair value of the contingent consideration.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,442.9m (last year: £10,653.8m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £5,446.0m (last year: £6,328.7m). Additionally, the scheme assets include £4,996.9m (last year: £4,325.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

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

	2021 £m	2020 £m
Opening balance	4,325.1	3,216.1
Fair value gain/(loss) recognised in other comprehensive income	68.3	(130.1)
Additional investment	603.5	1,239.1
Closing balance	4,996.9	4,325.1

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 12), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt (level 1 equivalent) was £1,682.1m (last year: £1,536.2m); the fair value of this debt was £1,807.6m (last year: £1,531.4m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (level 2 equivalent) is £193.5m (last year: £207.4m) and the fair value of this liability is £185.5m (last year: £202.7m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to fund investment in the transformation and rebuild balance sheet metrics towards levels consistent with investment grade, to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so, the Group's strategy is to rebuild a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was six years (last year: six years). During the year, the Group maintained credit ratings of Ba1 (negative) with Moody's and BB+ (negative) with Standard & Poor's.

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

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2021 £m	2020 £m
At 28 March 2020	60.0	12.6	5.4	78.0	173.4
Provided in the year – charged to profit or loss	22.5	105.2	9.6	137.3	44.3
Provided in the year – charged to property, plant and equipment	25.9	–	–	25.9	(16.9)
Released in the year	(29.8)	(7.6)	(0.1)	(37.5)	(93.2)
Utilised during the year	(4.6)	(81.6)	(0.3)	(86.5)	(35.1)
Exchange differences	–	(0.1)	–	(0.1)	0.6
Discount rate unwind	2.7	–	–	2.7	4.9
Reclassified to the pension liability	–	–	(2.5)	(2.5)	–
At 3 April 2021	76.7	28.5	12.1	117.3	78.0
Analysed as:					
Current				43.1	21.5
Non-current				74.2	56.5

Property provisions relate primarily to obligations such as dilapidations arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

Restructuring provisions relate to the estimated costs associated with the strategic programme to reduce roles across central support centres, regional management and our UK and Republic of Ireland stores; the historical International exit strategy; and the strategic programme to transition to a single-tier UK distribution network. These provisions are expected to be utilised within the next year and over the period of closure of sites.

Other provisions include amounts in respect of probable liabilities for employee-related matters.

Provisions related to adjusting items were £100.8m at 3 April 2021 (last year: £71.1m), with a net charge in the year of £90.1m (see note 5).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 DEFERRED TAX

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

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

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 31 March 2019	(30.1)	(6.1)	(195.2)	110.4	(121.0)	1.4	(119.6)
Credited/(charged) to income statement	1.8	5.9	(7.1)	9.2	9.8	(2.2)	7.6
Credited/(charged) to equity/ other comprehensive income	–	–	(196.5)	(24.4)	(220.9)	0.5	(220.4)
At 28 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
At 29 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
Credited/(charged) to income statement	(22.0)	22.8	(7.6)	4.5	(2.3)	2.1	(0.2)
Credited/(charged) to equity/ other comprehensive income	–	–	257.7	35.8	293.5	(3.2)	290.3
At 3 April 2021	(50.3)	22.6	(148.7)	135.5	(40.9)	(1.4)	(42.3)

Other short-term temporary differences relate mainly to employee share options, financial instruments and IFRS 16.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £228.0m (last year: £335.7m) and a tax value of £43.3m (last year: £63.8m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m per year were extended to include capital losses. The change in tax legislation has resulted in a restriction in the capital losses recognised by £108.6m (last year: £nil). It is not considered there are sufficient future taxable profits to recognise the carry forward loss which is considered an unrecognised deferred tax asset at the year end. Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £11.0m (last year: £9.5m) and a tax value of £3.0m (last year: £2.6m).

A deferred tax asset of £10.5m has been recognised on current year trading losses in the UK which are being carried forward. The utilisation of these losses is dependent on the existence of future taxable profits, which we expect to arise in future years without the one-off current year impact on trading from Covid-19.

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £24.1m (last year: £27.0m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.3m (last year: £2.6m) however this has not been recognised by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 ORDINARY SHARE CAPITAL

	Shares	2021 £m	Shares	2020 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	1,950,059,808	487.6	1,625,000,230	406.3
Shares issued on rights issue	–	–	325,009,968	81.3
Shares issued in respect of share option schemes	6,453,783	1.6	49,610	–
At end of year	1,956,513,591	489.2	1,950,059,808	487.6

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.1m. Transaction costs of £26.4m were incurred resulting in £493.4m being recognised in share premium.

6,453,783 (last year: 49,610) ordinary shares having a nominal value of £1.6m (last year: £0.0m) were allotted during the year under the terms of the Company's share schemes which are described in note 13 of the Group financial statements. The increase from prior year is driven by DSBP, PSP and RSP schemes which were previously satisfied through market purchase. The aggregate consideration received was £0.0m (last year: £0.1m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2021 £m	2020 £m
Commitments in respect of properties in the course of construction	88.3	78.7
Software capital commitments	10.6	8.6
	98.9	87.3

B. Other material contracts

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

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

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

Cash flows from operating activities

	2021 £m	2020 £m
(Loss)/profit on ordinary activities after taxation	(201.2)	27.4
Income tax (credit)/expense	(8.2)	39.8
Finance costs	236.1	234.5
Finance income	(57.4)	(46.9)
Operating (loss)/profit	(30.7)	254.8
Share of results of Ocado Retail Limited	(78.4)	(2.6)
Decrease/(increase) in inventories	41.2	(29.3)
Decrease/(increase) in receivables	67.4	(9.2)
Increase/(decrease) in payables ¹	159.5	(29.3)
Depreciation, amortisation and write-offs	603.1	632.5
Non-cash share-based payment expense	19.3	18.5
Defined benefit pension funding	(37.1)	(37.9)
Adjusting items net cash outflows ^{2,3}	(118.1)	(75.4)
Adjusting items M&S Bank ⁴	(2.4)	(12.6)
Adjusting operating profit items	252.9	335.9
Cash generated from operations	876.7	1,045.4

1. See note 1 for details on a change in accounting policy and the resulting restatement.

2. Excludes £12.4m (last year: £11.3m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

3. Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, organisation, UK logistics, the utilisation of the provisions for International store closures and impairments, expenses directly attributable to the Covid-19 pandemic, cash outflows incurred as part of the Sparks loyalty programme transition and establishing the investment in Ocado Retail Limited.

4. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 31 March 2019 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 28 March 2020 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 20) ¹	(3.5)	(12.0)	–	–	–	(15.5)
	(3.5)	(12.0)	–	–	–	(15.5)
Cash and cash equivalents (see note 18) ¹	310.5	(56.8)	–	–	0.5	254.2
Net cash per statement of cash flows	307.0	(68.8)	–	–	0.5	238.7
Current other financial assets (see note 16)	141.8	(130.1)	–	–	–	11.7
Medium Term Notes (see note 20)	(1,673.8)	230.1	–	–	(92.5)	(1,536.2)
Lease liabilities (see note 20)	(2,576.8)	335.7	–	(204.1)	(116.8)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(266.2)	71.9	–	–	(8.4)	(202.7)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	–	–	102.2
Liabilities from financing activities	(4,492.9)	630.0	86.0	(204.1)	(217.7)	(4,198.7)
Less: Cashflows related to interest and derivative instruments	62.6	(215.1)	(86.0)	–	236.2	(2.3)
Net debt	(3,981.5)	216.0	–	(204.1)	19.0	(3,950.6)
	At 29 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ² £m	At 3 April 2021 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 20) ¹	(15.5)	10.8	–	–	–	(4.7)
	(15.5)	10.8	–	–	–	(4.7)
Cash and cash equivalents (see note 18) ¹	254.2	423.5	–	–	(3.3)	674.4
Net cash per statement of cash flows	238.7	434.3	–	–	(3.3)	669.7
Current other financial assets (see note 16)	11.7	6.7	–	–	–	18.4
Medium Term Notes (see note 20)	(1,536.2)	(87.9)	–	–	(58.0)	(1,682.1)
Lease liabilities (see note 20)	(2,562.0)	316.7	–	(48.3)	(112.3)	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(202.7)	23.6	–	–	(6.4)	(185.5)
Derivatives held to hedge Medium Term Notes	102.2	(14.0)	(96.3)	–	–	(8.1)
Liabilities from financing activities	(4,198.7)	238.4	(96.3)	(48.3)	(176.7)	(4,281.6)
Less: Cashflows related to interest and derivative instruments	(2.3)	(212.6)	96.3	–	196.2	77.6
Net debt	(3,950.6)	466.8	–	(48.3)	16.2	(3,515.9)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2021 £m	2020 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18) ¹	674.4	254.2
Current other financial assets (see note 16)	18.4	11.7
Bank loans and overdrafts (see note 20) ¹	(4.7)	(15.5)
Medium Term Notes – net of foreign exchange revaluation (see note 20)	(1,657.9)	(1,471.4)
Lease liabilities (see note 20)	(2,405.9)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	(193.5)	(207.4)
	(3,569.2)	(3,990.4)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	53.3	39.8
Total net debt	(3,515.9)	(3,950.6)

1. See note 1 for details on a change in accounting policy and the resulting restatement.

2. Exchange and other non-cash movements includes interest charge on Medium Term Notes of £86.4m (last year: £78.2), interest charge on lease liabilities of £130.4m (last year: £139.3) and interest charge relating to Partnership liability to the Marks & Spencer UK Pension Scheme of £4.9m (last year: £6.9m).

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

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

B. Joint ventures and associates

A shareholder loan facility with Ocado Retail Limited was established in the prior year, with Ocado Retail Limited having the ability to draw down up to £30m from each shareholder. The facility was not utilised by Ocado Retail Limited during the year ended 3 April 2021 (last year: not utilised).

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited. The revolving credit facility was undrawn at 3 April 2021 (last year: undrawn).

The following transactions were carried out with Ocado Retail Limited, an associate of the Group.

Sales and purchases of goods and services:

	2021 £m	2020 £m
Sales of goods and services	28.5	–
Purchases of goods and services	–	–

Included within trade and other receivables is a balance of £2.3m (last year: £nil) owed by Ocado Retail Limited.

C. Marks & Spencer UK Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

D. Key management compensation

The Group has determined that the key management personnel constitute the Board and the members of the Executive Committee.

	2021 £m	2020 £m
Salaries and short-term benefits	8.6	5.9
Share-based payments	3.2	1.7
Total	11.8	7.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group holds a 50% interest in Ocado Retail Limited, a company incorporated in the UK. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited is an online grocery retailer, operating through the ocado.com and ocadozoom.com websites.

Ocado Retail Limited is considered an associate of the Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition in August 2019, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as the Group will have an option to obtain more power over Ocado Retail Limited if certain conditions are met. If the Group is deemed to have obtained control, Ocado Retail Limited will then be consolidated as a subsidiary of the Group. Through Board representation and shareholder voting rights, the Group is currently considered to have significant influence, therefore the investment in Ocado Retail Limited is treated as an associate and applies the equity method of accounting.

Ocado Retail Limited has a financial year end date of 29 November 2020, aligning with its parent company, Ocado Group Plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in these financial statements from 2 March 2020 to 28 February 2021. There were no significant events or transactions in the period from 28 February 2021 to 3 April 2021.

The carrying amount of the Group's interest in Ocado Retail Limited is £819.0m (last year: £754.8m). The Group's share of Ocado Retail Limited profits of £64.2m (last year: £14.2m loss) includes the Group's share of underlying profits of £78.4m, which includes £25.2m of exceptional income before tax related to insurance receipts (share of profit last year: £2.6m) and adjusting item charges of £14.2m (last year: £16.8m) (see note 5).

Summarised financial information in respect of Ocado Retail Limited (the Group's only material associate) is set out below and represents amounts in the Ocado Retail Limited financial statements prepared in accordance with IFRS, adjusted by the Group for equity accounting purposes.

	As at 28 Feb 2021 £m	As at 1 Mar 2020 £m
Ocado Retail Limited		
Current assets	353.9	484.9
Non-current assets	336.8	206.6
Current liabilities	(245.7)	(489.7)
Non-current liabilities	(264.6)	(178.2)
Net assets	180.4	23.6
	2 Mar 2020 to 28 Feb 2021 £m	5 Aug 2019 to 1 Mar 2020 £m
Revenue	2,353.2	979.7
Profit for the period	156.8	5.1
Other comprehensive income	–	–
Total comprehensive income	156.8	5.1

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ocado Retail Limited recognised in the consolidated financial statements:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

	As at 3 Apr 2021 £m	As at 28 Mar 2020 £m
Ocado Retail Limited		
Net assets	180.4	23.6
Proportion of the Group's ownership interest	90.2	11.8
Goodwill	449.1	449.1
Brand	249.2	255.7
Customer relationships	88.3	98.9
Other adjustments to align accounting policies	(63.5)	(66.4)
Acquisition costs	5.7	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	819.0	754.8

In addition, the Group holds immaterial investments in joint ventures totalling £6.8m (last year: £5.6m). The Group's share of losses totalled £1.3m (last year: £0.9m loss).

30 GOVERNMENT SUPPORT

During the year, the Group has received support from governments in connection with its response to the Covid-19 pandemic. This support included furlough and job retention scheme reliefs, tax payment deferral schemes and business rates relief.

The Group has recognised government grant income of £131.5m in relation to furlough programmes, such as the Coronavirus Job Retention Scheme (CJRS) in the UK, and its equivalents in other countries. The salary expense relating to those colleagues on furlough during the period was £181.8m.

The Group also benefited from the business rates holiday for the retail, hospitality and leisure sector of £174.6m.

There are no unfulfilled conditions or contingencies attached to these grants.

31 SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions). No material changes in key estimates and judgements have been identified as adjusting post balance sheet events. There have been no material non-adjusting events since 3 April 2021.

COMPANY STATEMENT OF FINANCIAL POSITION

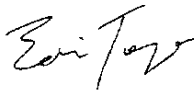
	Notes	As at 3 April 2021 £m	As at 28 March 2020 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	9,730.8	8,763.2
Total assets		9,730.8	8,763.2
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		2,541.8	2,543.4
Total liabilities		2,541.8	2,543.4
Net assets		7,189.0	6,219.8
Equity			
Ordinary share capital	C7	489.2	487.6
Share premium account	C7	910.4	910.4
Capital redemption reserve		2,210.5	2,210.5
Merger reserve	C7	1,262.0	311.0
Retained earnings		2,316.9	2,300.3
Total equity		7,189.0	6,219.8

The Company's profit for the year was £951.0m (last year: loss of £892.5m).

The financial statements were approved by the Board and authorised for issue on 25 May 2021. The financial statements also comprise the notes C1 to C7.



Steve Rowe, Chief Executive Officer



Eoin Tonge, Chief Financial Officer

Registered number: 04256886

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 31 March 2019	406.3	416.9	2,210.5	1,397.3	2,290.0	6,721.0
Loss for the year	–	–	–	–	(892.5)	(892.5)
Dividends	–	–	–	–	(191.1)	(191.1)
Capital contribution for share-based payments	–	–	–	–	7.6	7.6
Shares issued on rights issue	81.3	493.4	–	–	–	574.7
Shares issued on exercise of employee share options	–	0.1	–	–	–	0.1
Realisation of merger reserve	–	–	–	(1,086.3)	1,086.3	–
At 28 March 2020	487.6	910.4	2,210.5	311.0	2,300.3	6,219.8
At 29 March 2020	487.6	910.4	2,210.5	311.0	2,300.3	6,219.8
Profit for the year	–	–	–	–	951.0	951.0
Capital contribution for share-based payments	–	–	–	–	16.6	16.6
Shares issued on exercise of employee share options	1.6	–	–	–	–	1.6
Reclassification to merger reserve	–	–	–	951.0	(951.0)	–
At 3 April 2021	489.2	910.4	2,210.5	1,262.0	2,316.9	7,189.0

COMPANY STATEMENT OF CASH FLOWS

	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 £m
Cash flow from investing activities		
Dividends received	–	193.8
Additional investment in subsidiary	–	(572.4)
Net cash (used in)/generated from investing activities	–	(378.6)
Cash flows from financing activities		
Shares issued on exercise of employee share options	1.6	0.1
Repayment of intercompany loan	(1.6)	(5.1)
Proceeds from rights issue net of costs	–	574.7
Equity dividends paid	–	(191.1)
Net cash generated from/(used in) financing activities	–	378.6
Net cash inflow	–	–
Cash and cash equivalents at beginning and end of year	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Company and the nature of the Company's operations is as a holding entity.

These financial statements are presented in sterling, which is the Company's functional currency, and are rounded to the nearest hundred thousand.

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

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

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

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

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment or impairment reversal on an annual basis. The recoverable amount is determined based on value in use which requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flows over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. While performance during 2020/21 has exceeded the estimates made at last year end, there is still significant uncertainty regarding the impact of Covid-19 on the Group's operations and on the global economy. See note C6 for further details on the assumptions and associated sensitivities.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,093,458 (last year: £1,081,875). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 DIVIDENDS

	2021 per share	2020 per share	2021 £m	2020 £m
Dividends on equity ordinary shares				
Paid final dividend	–	6.8p	–	115.1
Paid interim dividend	–	3.9p	–	76.0
	–	10.7p	–	191.1

The Board of Directors has not proposed a final dividend for 2020/21. The Board of Directors will continue to defer consideration of further dividends until visibility of the pace and scale of market recovery has improved.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has not received any dividends from Marks and Spencer plc (last year: £193.8m) and decreased its loan from Marks and Spencer plc by £1.6m (last year: £5.1m). The outstanding balance was £2,541.8m (last year: £2,543.4m) and is non-interest bearing. There were no other related party transactions.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2021 £m	2020 £m
Beginning of the year	8,763.2	9,269.5
Contributions to subsidiary undertakings relating to share-based payments	16.6	7.6
Additions	–	572.4
Impairment reversal/(charge)	951.0	(1,086.3)
End of year	9,730.8	8,763.2

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc and Marks and Spencer Holdings Limited.

During the previous year, the Company purchased additional shares in Marks and Spencer Holdings Limited (£572.4m) to fund the investment in Ocado Retail Limited.

Impairment of investments in subsidiary undertakings

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment or impairment reversal. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 3 April 2021, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc of £8,207.4m, indicating a potential impairment. However, performance of the Group during 2020/21 has been more favourable than the estimates assumed in the Covid-19 scenario in 2019/20, indicating a potential impairment reversal.

The recoverable amount of the investment in Marks and Spencer plc is determined based on a value in use calculation. The Company has updated its assumptions as at 3 April 2021, reflecting the latest budget and forecast cash flows covering a three-year period.

The pre-tax discount rate of 8.9% (last year: 8.6%) was derived from the Group's weighted average cost of capital, the inputs of which included a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The long-term growth rate of 1.75% (last year: 2.00%) was based on inflation forecasts by recognised bodies and with reference to rates used within the retail industry.

The Company has determined that the recoverable amount of its investment in Marks and Spencer plc is £9,158.4m and as a result has recognised an impairment reversal of £951.0m. This reversal primarily relates to improved trading expectations, reflecting the Group's strategy and current three-year plan which reflects the latest view of trading and recovery from the pandemic as well as the year-on-year reduction in net debt. Refer to the strategic report for details of the key drivers of the strategic plans which cash flow projections are based on for the purpose of determining value in use.

Sensitivity analysis

As disclosed in the accounting policies note C1, the cash flows used within the value in use model, the long-term growth rate and the discount rate are sources of estimation uncertainty. Management has performed a sensitivity analysis on the key assumptions and using reasonably possible changes would result in the following impacts:

- A 25-basis point decrease in the long-term growth rate would reduce the impairment reversal by £306.6m;
- A 5% reduction in cash flows from the three-year plan would reduce the impairment reversal by £506.6m;
- A 50-basis point increase in the discount rate would reduce the impairment reversal by £655.7m.

In the event that all three were to occur simultaneously, an impairment charge of £431.5m would be recorded.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 3 April 2021 is disclosed below.

Subsidiary and other related undertakings registered in the UK⁽ⁱ⁾

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 ordinary	–	100
Founders Factory Retail Limited	£0.0001 ordinary	–	0.004
Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 preferred	–	100
Hedge End Park Limited	£1 ordinary B	–	50
Registered Office: 33 Holborn, London, EC1N 2HT			
M&S Limited	£1 ordinary	–	100
Manford (Textiles) Limited	£1 ordinary	–	100
Marks and Spencer Company Archive (CIC)⁽ⁱⁱ⁾	N/A	–	–
Marks and Sparks Limited	£1 ordinary	–	100
Marks and Spencer (Northern Ireland) Limited	£1 ordinary	–	100
Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR			
Marks and Spencer France Limited	€114 ordinary	–	100
Marks and Spencer Guernsey Investments LLP	Partnership interest	–	100

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Marks and Spencer Pension Trust Limited⁽ⁱⁱⁱ⁾	£1 ordinary A	100	–
	£1 ordinary B	–	–
	£1 ordinary C	–	–
Marks and Spencer plc	£0.25 ordinary	100	–
Marks and Spencer Property Developments Limited	£1 ordinary	–	100
Marks and Spencer Scottish Limited Partnership^(iv)	Partnership interest	–	100
Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU			
Ocado Retail Limited	£0.01 ordinary	–	50
Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX			
St. Michael (Textiles) Limited	£1 ordinary	–	100
St. Michael Finance plc	£1 ordinary	–	100

UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 3 April 2021. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Amethyst Leasing (Properties) Limited	–	100	4246934
Busyexport Limited	–	100	4411320
Marks & Spencer Outlet Limited	–	100	4039568
Marks & Spencer Simply Foods Limited	–	100	4739922
Marks and Spencer (Bradford) Limited	–	100	10011863
Marks and Spencer (Initial LP) Limited	100	–	SC315365
Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA			
Marks and Spencer (Jaeger) Limited	–	100	13098074
Marks and Spencer (Property Investments) Limited	–	100	5502582
Marks and Spencer (Property Ventures) Limited	–	100	5502513
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	5502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	5502519
Marks and Spencer 2005 (Chester Store) Limited	–	100	5502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	5502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	5502546
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	5502538
Marks and Spencer 2005 (Kensington Store) Limited	–	100	5502478

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	5502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	5502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	5502588
Marks and Spencer 2005 (Pudsey Store) Limited	–	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	5502502
Marks and Spencer 2005 Chester Limited	–	100	5174129
Marks and Spencer Holdings Limited	100	–	11845975
Marks and Spencer Hungary Limited	–	100	8540784
Marks and Spencer International Holdings Limited	–	100	2615081
Marks and Spencer Investments	–	100	4903061
Marks and Spencer Property Holdings Limited	–	100	2100781
Minterton Services Limited	–	100	4763836
Ruby Properties (Cumbernauld) Limited	–	100	4922798
Ruby Properties (Hardwick) Limited	–	100	4716018
Ruby Properties (Long Eaton) Limited	–	100	4716031
Properties (Thorncliffe) Limited	–	100	4716110
Ruby Properties (Tunbridge) Limited	–	100	4716032
Simply Food (Property Investments)	–	100	5502543
Simply Food (Property Ventures) Limited	–	100	2239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £38.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.

(ii) No share capital, as the company is limited by guarantee. Marks and Spencer plc is the sole member.

(iii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C ordinary shares are both directors of that company.

(iv) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners, Marks and Spencer plc is the General Partner.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

International subsidiary undertakings⁽ⁱ⁾

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)	Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100	Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1 21 Ordinary	100	Marks and Spencer Pensions Trust (Ireland) Company Limited By Guarantee	24-27 Mary Street, Dublin 1, Ireland	Ireland	N/A ⁽ⁱⁱ⁾	-
Marks & Spencer Inc.	Brunswick Square, 1 Cernmain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100	Marks and Spencer (Israel) Limited (in liquidation)	31 Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100	Per Una Italia SRL (in liquidation)	Via Giotto 25 – 59100 Prato, Italy	Italy	€1 Ordinary	100
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100	Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
			CZK 100,000 Ordinary	100	M & S Mode International B.V.	Prins Bernhardplein 200, 1097JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
			CZK 1,000,000 Ordinary	100	Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	Registered Capital	100	Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80	Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks & Spencer (Portugal) Lda. (in liquidation)	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	No Par Value Ordinary	100
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, CY1 4JH, Guernsey	Guernsey	Partnership Interest	100	M&S (Spain) S.L. (in liquidation)	Calle Fuencarral No 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100	Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Miltenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100	Marks and Spencer Clothing Textile Trading J.S.C	Havalani Karsisi Istanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy Istanbul Turkey	Turkey	TRL 25.00 Ordinary	100
Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A (14.619% of total capital)	51	Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No 26Z Timisoara Boulevard, 3rd floor, premises no 3B-1, 6th District, Bucharest, Romania	Romania	RON18.30 Ordinary	100
			INR 10 Class B (43.544% of total capital)	100					
			INR 5 Class C ⁽ⁱⁱⁱ⁾ (41.837% of total capital)	0					
Aprell Limited	24/29 Mary Street, Dublin 1, Ireland	Ireland	€1 25 Ordinary	100					

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc)

(ii) INR 5 Class C shares 100% owned by JV partner.

(iii) No share capital as the company is limited by guarantee

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.3m. Transaction costs of £26.6m were incurred resulting in £493.4m being recognised in share premium.

6,453,783 (last year: 49,610) ordinary shares having a nominal value of £1.6m (last year: £0.0m) were allotted during the year under the terms of the Company's share schemes which are described in note 13 of the Group financial statements. The aggregate consideration received was £0.0m (last year: £0.1m).

Merger reserve

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. Last year, an amount equal to the impairment charge of £1,086.3m was transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17. Following the reversal of impairment recognised in the current year, an amount equal to the reversal of £951.0m has been transferred from retained earnings to the merger reserve, in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2021 53 weeks £m	2020 52 weeks (Restated) £m	2019 52 weeks (Restated) £m	2018 52 weeks £m	2017 52 weeks £m
Income statement					
Revenue¹					
UK Clothing & Home	2,239.0	3,209.1	3,499.8		
UK Food	6,138.5	6,028.2	5,903.4		
Total UK	8,377.5	9,237.3	9,403.2	9,611.0	9,441.7
International	789.4	944.6	974.1	1,087.2	1,180.3
Revenue before adjusting items	9,166.9	10,181.9	10,377.3	10,698.2	10,622.0
Adjusting items included in revenue	(11.2)	–	–	–	–
Revenue	9,155.7	10,181.9	10,377.3	10,698.2	10,622.0
Operating profit/(loss)¹					
UK Clothing & Home	(130.8)	223.9	355.2		
UK Food	228.6	236.7	212.9		
Ocado	78.4	2.6	–		
Other	1.9	16.8	27.0		
Total UK	178.1	480.0	595.1	535.4	626.2
International	44.1	110.7	130.5	135.2	64.4
Total operating profit before adjusting items	222.2	590.7	725.6	670.6	690.6
Adjusting items included in operating profit	(252.9)	(335.9)	(427.5)	(514.1)	(437.4)
Total operating profit	(30.7)	254.8	298.1	156.5	253.2
Net interest payable	(219.1)	(211.2)	(239.7)	(107.4)	(106.1)
Pension finance income	47.2	23.6	25.8	17.7	29.3
Net finance costs before adjusting items	(171.9)	(187.6)	(213.9)	(89.7)	(76.8)
Adjusting items included in net finance costs	(6.8)	–	–	–	–
Net finance costs	(178.7)	(187.6)	(213.9)	(89.7)	(76.8)
Profit before tax and adjusting items	50.3	403.1	511.7	580.9	613.8
(Loss)/profit on ordinary activities before taxation	(209.4)	67.2	84.2	66.8	176.4
Income tax credit/(expense)	8.2	(39.8)	(38.9)	(37.7)	(60.7)
(Loss)/profit after taxation	(201.2)	27.4	45.3	29.1	115.7

GROUP FINANCIAL RECORD CONTINUED

		2021 52 weeks	2020 52 weeks	2019 52 weeks	2018 52 weeks	2017 52 weeks
Basic earnings per share ¹	Basic earnings/ Weighted average ordinary shares in issue	(10.1)p	1.3p	2.5p	1.6p	7.2p
Adjusted basic earnings per share ¹	Adjusted basic earnings/ Weighted average ordinary shares in issue	1.4p	16.7p	23.7p	27.8p	30.4p
Dividend per share declared in respect of the year		-	3.9p	13.3p	18.7p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	-	4.3x	1.8x	1.5x	1.6x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	2.0x	3.4x	3.6x	3.8x	3.4x
Statement of financial position						
Net assets (£m)		2,285.8	3,708.5	2,469.2	2,954.2	3,150.4
Net debt ^{2,3} (£m)		3,515.9	3,950.6	3,981.5	1,827.5	1,934.7
Capital expenditure (£m)		146.9	332.0	294.5	300.5	331.2
Stores and space						
UK stores		1,037	1,038	1,043	1,035	979
UK selling space (m sq ft)		16.8	16.8	17.2	17.6	17.4
International stores		472	483	445	429	455
International selling space (m sq ft)		5.1	5.0	4.9	5.2	5.9
Staffing (full-time equivalent)						
UK		44,423	49,094	50,578	53,273	53,562
International		4,754	4,894	4,862	5,655	6,202

The above results are prepared under IFRS for each reporting period on a consistent basis, with the exception of the adoption of IFRS 9 and IFRS 15 in 2019 for which comparative periods have not been restated and the adoption of IFRS 16 in 2020 for which the comparative period of 2019 has been restated.

1. Based on continuing operations

2. Excludes accrued interest

3. See note 1 for details on a change in accounting policy and the resulting restatement in 2020 and 2019

GLOSSARY

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

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

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial information relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable with similarly-titled measures reported by other companies due to differences in the way they are calculated.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																	
Income statement measures																																				
Like-for-like revenue growth	Movement in revenue per the income statement	Sales from non like-for-like stores	The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.																																	
			<table><tr><td></td><td>2020/21 £m</td><td>2019/20 £m</td></tr><tr><td colspan="3">UK Food</td></tr><tr><td>Like-for-like</td><td>5,831.1</td><td>5,754.4</td></tr><tr><td>Net new spaceⁱ</td><td>163.7</td><td>273.8</td></tr><tr><td>Week 53</td><td>143.7</td><td>–</td></tr><tr><td>Total UK Food revenue</td><td>6,138.5</td><td>6,028.2</td></tr><tr><td colspan="3">UK Clothing & Home</td></tr><tr><td>Like-for-like</td><td>2,164.5</td><td>3,084.5</td></tr><tr><td>Net new space</td><td>34.1</td><td>124.6</td></tr><tr><td>Week 53</td><td>40.4</td><td>–</td></tr><tr><td>Total UK Clothing & Home revenue</td><td>2,239.0</td><td>3,209.1</td></tr></table>		2020/21 £m	2019/20 £m	UK Food			Like-for-like	5,831.1	5,754.4	Net new space ⁱ	163.7	273.8	Week 53	143.7	–	Total UK Food revenue	6,138.5	6,028.2	UK Clothing & Home			Like-for-like	2,164.5	3,084.5	Net new space	34.1	124.6	Week 53	40.4	–	Total UK Clothing & Home revenue	2,239.0	3,209.1
	2020/21 £m	2019/20 £m																																		
UK Food																																				
Like-for-like	5,831.1	5,754.4																																		
Net new space ⁱ	163.7	273.8																																		
Week 53	143.7	–																																		
Total UK Food revenue	6,138.5	6,028.2																																		
UK Clothing & Home																																				
Like-for-like	2,164.5	3,084.5																																		
Net new space	34.1	124.6																																		
Week 53	40.4	–																																		
Total UK Clothing & Home revenue	2,239.0	3,209.1																																		
			1 UK Food net new space includes sales to Ocado Retail Limited.																																	
Food LFL ex hospitality and franchise	Movement in revenue per the Income Statement	Sales from non like-for-like stores and hospitality and franchise categories	The period-on-period change in Food excluding the hospitality and franchise categories' revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for least 52 weeks and online sales. The LFL measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change. The hospitality category includes cafés, counters and marketplace. This measure has been introduced as both hospitality and franchise were closed for a majority of the year.																																	
			<table><tr><td></td><td>2020/21 £m</td><td>2019/20 £m</td><td>%</td></tr><tr><td colspan="4">UK Food</td></tr><tr><td>Like-for-like</td><td>5,831.1</td><td>5,754.4</td><td>1.3</td></tr><tr><td>Hospitality</td><td>(52.0)</td><td>(249.4)</td><td>(79.1)</td></tr><tr><td>Franchise</td><td>(420.2)</td><td>(491.0)</td><td>(14.4)</td></tr><tr><td>Like-for-like ex hospitality and franchise</td><td>5,358.9</td><td>5,014.0</td><td>6.9</td></tr></table>		2020/21 £m	2019/20 £m	%	UK Food				Like-for-like	5,831.1	5,754.4	1.3	Hospitality	(52.0)	(249.4)	(79.1)	Franchise	(420.2)	(491.0)	(14.4)	Like-for-like ex hospitality and franchise	5,358.9	5,014.0	6.9									
	2020/21 £m	2019/20 £m	%																																	
UK Food																																				
Like-for-like	5,831.1	5,754.4	1.3																																	
Hospitality	(52.0)	(249.4)	(79.1)																																	
Franchise	(420.2)	(491.0)	(14.4)																																	
Like-for-like ex hospitality and franchise	5,358.9	5,014.0	6.9																																	

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																												
Income Statement Measures continued																															
Clothing & Home stores/Clothing & Home online	None	Not applicable	<p>Clothing & Home revenue through stores and through the Clothing & Home online platforms. These revenues are reported within the UK Clothing & Home segment results. Store revenue excludes revenue from 'shop your way' and click & collect, which are included in online revenue. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels. This measure has been introduced given the Group's focus on online sales.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>UK Clothing & Home</td><td></td><td></td><td></td></tr> <tr> <td>Stores</td><td>1,088.9</td><td>2,487.8</td><td>(56.2)</td></tr> <tr> <td>Online</td><td>1,109.7</td><td>721.3</td><td>53.9</td></tr> <tr> <td>Total UK Clothing & Home revenue – 52-week basis</td><td>2,198.6</td><td>3,209.1</td><td>(31.5)</td></tr> <tr> <td>Week 53</td><td>40.4</td><td>–</td><td>–</td></tr> <tr> <td>Total UK Clothing & Home revenue</td><td>2,239.0</td><td>3,209.1</td><td>(30.2)</td></tr> </table>		2020/21 £m	2019/20 £m	%	UK Clothing & Home				Stores	1,088.9	2,487.8	(56.2)	Online	1,109.7	721.3	53.9	Total UK Clothing & Home revenue – 52-week basis	2,198.6	3,209.1	(31.5)	Week 53	40.4	–	–	Total UK Clothing & Home revenue	2,239.0	3,209.1	(30.2)
	2020/21 £m	2019/20 £m	%																												
UK Clothing & Home																															
Stores	1,088.9	2,487.8	(56.2)																												
Online	1,109.7	721.3	53.9																												
Total UK Clothing & Home revenue – 52-week basis	2,198.6	3,209.1	(31.5)																												
Week 53	40.4	–	–																												
Total UK Clothing & Home revenue	2,239.0	3,209.1	(30.2)																												
M&S.com revenue/Online revenue	None	Not applicable	<p>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</p>																												
International online	None	Not applicable	<p>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel. This measure has been introduced given the Group's focus on online sales.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>International revenue</td><td></td><td></td><td></td></tr> <tr> <td>Stores</td><td>613.6</td><td>867.4</td><td>(29.3)</td></tr> <tr> <td>Online</td><td>165.7</td><td>77.2</td><td>114.6</td></tr> <tr> <td>Week 53</td><td>10.1</td><td>–</td><td>–</td></tr> <tr> <td>At reported currency</td><td>789.4</td><td>944.6</td><td>(16.4)</td></tr> </table>		2020/21 £m	2019/20 £m	%	International revenue				Stores	613.6	867.4	(29.3)	Online	165.7	77.2	114.6	Week 53	10.1	–	–	At reported currency	789.4	944.6	(16.4)				
	2020/21 £m	2019/20 £m	%																												
International revenue																															
Stores	613.6	867.4	(29.3)																												
Online	165.7	77.2	114.6																												
Week 53	10.1	–	–																												
At reported currency	789.4	944.6	(16.4)																												
Revenue growth at constant currency	None	Not applicable	<p>The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>2019/20 £m</th><th>%</th></tr> <tr> <td>International revenue</td><td></td><td></td><td></td></tr> <tr> <td>At constant currency</td><td>779.3</td><td>942.7</td><td>(17.3)</td></tr> <tr> <td>Impact of FX retranslation</td><td>–</td><td>1.9</td><td>–</td></tr> <tr> <td>International revenue – 52-week basis</td><td>779.3</td><td>944.6</td><td>(17.5)</td></tr> <tr> <td>Week 53</td><td>10.1</td><td>–</td><td>–</td></tr> <tr> <td>At reported currency</td><td>789.4</td><td>944.6</td><td>(16.4)</td></tr> </table>		2020/21 £m	2019/20 £m	%	International revenue				At constant currency	779.3	942.7	(17.3)	Impact of FX retranslation	–	1.9	–	International revenue – 52-week basis	779.3	944.6	(17.5)	Week 53	10.1	–	–	At reported currency	789.4	944.6	(16.4)
	2020/21 £m	2019/20 £m	%																												
International revenue																															
At constant currency	779.3	942.7	(17.3)																												
Impact of FX retranslation	–	1.9	–																												
International revenue – 52-week basis	779.3	944.6	(17.5)																												
Week 53	10.1	–	–																												
At reported currency	789.4	944.6	(16.4)																												
Adjusting items	None	Not applicable	<p>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.</p>																												

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
Revenue before adjusting items	Revenue	Adjusting items (See note 5)	Revenue before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This measure has been introduced as certain adjustments have been made to revenue for the first time in accordance with the Group's policy for adjusting items.
Operating profit before adjusting items	Operating profit	Adjusting items (See note 5)	Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance income before adjusting items	Finance income	Adjusting items (See note 5)	Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 5)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Interest on leases	Finance income/costs	Finance income/costs (See note 6)	The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 6)	Calculated as net finance costs, excluding interest on leases and adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
EBIT before adjusting items	EBIT ¹	Adjusting items (See note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT ¹	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																												
Income Statement Measures continued																																																															
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	<p>The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 53 weeks ended 3 April 2021 with the comparative financial year being for the 52 weeks ended 28 March 2020. In order to provide comparability with the prior year results, adjustments have been made to the 2020/21 53-week income statement to remove sales, operating costs and other items relating to the last trading week of the 2020/21 financial year. In determining the week 53 adjustment, revenue and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53.</p> <table> <tr> <th></th><th>2020/21 £m</th><th>Exclude week 53 £m</th><th>2020/21 52-week basis</th></tr> <tr> <td colspan="4">Revenue</td></tr> <tr> <td>UK Food</td><td>6,138.5</td><td>(143.7)</td><td>5,994.8</td></tr> <tr> <td>UK Clothing & Home</td><td>2,239.0</td><td>(40.4)</td><td>2,198.6</td></tr> <tr> <td><i>Total UK Retail</i></td><td><i>8,377.5</i></td><td><i>(184.1)</i></td><td><i>8,193.4</i></td></tr> <tr> <td>International</td><td>789.4</td><td>(10.1)</td><td>779.3</td></tr> <tr> <td><i>Total Group</i></td><td><i>9,166.9</i></td><td><i>(194.2)</i></td><td><i>8,972.7</i></td></tr> <tr> <td colspan="4">Operating profit/(loss) before adjusting items</td></tr> <tr> <td>UK Food</td><td>228.6</td><td>(15.0)</td><td>213.6</td></tr> <tr> <td>UK Clothing & Home</td><td>(130.8)</td><td>1.4</td><td>(129.4)</td></tr> <tr> <td>International</td><td>44.1</td><td>1.0</td><td>45.1</td></tr> <tr> <td colspan="4">Adjusted profit before tax</td></tr> <tr> <td><i>Total Group</i></td><td><i>50.3</i></td><td><i>(8.7)</i></td><td><i>41.6</i></td></tr> <tr> <td colspan="4">Loss before tax</td></tr> <tr> <td><i>Total Group</i></td><td><i>(209.4)</i></td><td><i>8.2</i></td><td><i>(201.2)</i></td></tr> </table>		2020/21 £m	Exclude week 53 £m	2020/21 52-week basis	Revenue				UK Food	6,138.5	(143.7)	5,994.8	UK Clothing & Home	2,239.0	(40.4)	2,198.6	<i>Total UK Retail</i>	<i>8,377.5</i>	<i>(184.1)</i>	<i>8,193.4</i>	International	789.4	(10.1)	779.3	<i>Total Group</i>	<i>9,166.9</i>	<i>(194.2)</i>	<i>8,972.7</i>	Operating profit/(loss) before adjusting items				UK Food	228.6	(15.0)	213.6	UK Clothing & Home	(130.8)	1.4	(129.4)	International	44.1	1.0	45.1	Adjusted profit before tax				<i>Total Group</i>	<i>50.3</i>	<i>(8.7)</i>	<i>41.6</i>	Loss before tax				<i>Total Group</i>	<i>(209.4)</i>	<i>8.2</i>	<i>(201.2)</i>
	2020/21 £m	Exclude week 53 £m	2020/21 52-week basis																																																												
Revenue																																																															
UK Food	6,138.5	(143.7)	5,994.8																																																												
UK Clothing & Home	2,239.0	(40.4)	2,198.6																																																												
<i>Total UK Retail</i>	<i>8,377.5</i>	<i>(184.1)</i>	<i>8,193.4</i>																																																												
International	789.4	(10.1)	779.3																																																												
<i>Total Group</i>	<i>9,166.9</i>	<i>(194.2)</i>	<i>8,972.7</i>																																																												
Operating profit/(loss) before adjusting items																																																															
UK Food	228.6	(15.0)	213.6																																																												
UK Clothing & Home	(130.8)	1.4	(129.4)																																																												
International	44.1	1.0	45.1																																																												
Adjusted profit before tax																																																															
<i>Total Group</i>	<i>50.3</i>	<i>(8.7)</i>	<i>41.6</i>																																																												
Loss before tax																																																															
<i>Total Group</i>	<i>(209.4)</i>	<i>8.2</i>	<i>(201.2)</i>																																																												
Balance sheet measures																																																															
Net debt	None	Reconciliation of net debt (see note 27)	<p>Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date.</p> <p>This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 27) Lease liabilities (see note 20)	<p>Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Cash flow measures																																																															
Free cash flow	Net cash inflow from operating activities	See Financial Review	<p>The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid.</p> <p>This measure shows the cash retained by the Group in the year.</p>																																																												
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	<p>Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback).</p> <p>This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.</p>																																																												

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																												
Other measures																																																															
Covid-19 scenario	None	Not applicable	<p>As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan.</p> <p>As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario.</p> <p>The downside scenario assumed the government guidelines at the period end continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation in the Group's 2020 Annual Report and Financial Statements.</p> <p>This downside scenario was approved by the directors and is defined as the Covid-19 scenario.</p>																																																												
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.																																																												
Ocado Retail Limited	None	Not applicable	References made to Ocado Retail Limited also include its two subsidiaries, Speciality Stores Limited (disposed on 31 January 2021) and Paws & Purrs Limited.																																																												
Return on capital employed	None	Not applicable	<p>Calculated as being EBIT¹ before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:</p> <table><tr><td></td><td>2020/21 £m</td><td>2019/20 £m</td></tr><tr><td>EBIT¹ before adjusting items</td><td>222.2</td><td>590.7</td></tr><tr><td>Net assets</td><td>2,285.8</td><td>3,708.5</td></tr><tr><td>Add back:</td><td></td><td></td></tr><tr><td>Partnership liability to the Marks & Spencer UK Pension Scheme</td><td>193.5</td><td>207.4</td></tr><tr><td>Deferred tax liabilities</td><td>42.3</td><td>332.4</td></tr><tr><td>Non-current borrowings and other financial liabilities</td><td>3,659.9</td><td>3,865.9</td></tr><tr><td>Retirement benefit deficit</td><td>7.8</td><td>12.4</td></tr><tr><td>Derivative financial instruments</td><td>73.6</td><td>–</td></tr><tr><td>Current tax liabilities</td><td>–</td><td>–</td></tr><tr><td>Less:</td><td></td><td></td></tr><tr><td>Investment property</td><td>(15.2)</td><td>(15.5)</td></tr><tr><td>Derivative financial instruments</td><td>–</td><td>(172.2)</td></tr><tr><td>Retirement benefit asset</td><td>(639.2)</td><td>(1,915.0)</td></tr><tr><td>Current tax assets</td><td>(35.4)</td><td>(19.3)</td></tr><tr><td>Net operating assets</td><td>5,573.1</td><td>6,004.6</td></tr><tr><td>Add back: Provisions related to adjusting items</td><td>100.8</td><td>71.1</td></tr><tr><td>Capital employed</td><td>5,673.9</td><td>6,075.7</td></tr><tr><td>Average capital employed</td><td>5,874.8</td><td>5,887.5</td></tr><tr><td>ROCE %</td><td>3.8%</td><td>10.0%</td></tr></table> <p>This measure is used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</p>		2020/21 £m	2019/20 £m	EBIT¹ before adjusting items	222.2	590.7	Net assets	2,285.8	3,708.5	Add back:			Partnership liability to the Marks & Spencer UK Pension Scheme	193.5	207.4	Deferred tax liabilities	42.3	332.4	Non-current borrowings and other financial liabilities	3,659.9	3,865.9	Retirement benefit deficit	7.8	12.4	Derivative financial instruments	73.6	–	Current tax liabilities	–	–	Less:			Investment property	(15.2)	(15.5)	Derivative financial instruments	–	(172.2)	Retirement benefit asset	(639.2)	(1,915.0)	Current tax assets	(35.4)	(19.3)	Net operating assets	5,573.1	6,004.6	Add back: Provisions related to adjusting items	100.8	71.1	Capital employed	5,673.9	6,075.7	Average capital employed	5,874.8	5,887.5	ROCE %	3.8%	10.0%
	2020/21 £m	2019/20 £m																																																													
EBIT¹ before adjusting items	222.2	590.7																																																													
Net assets	2,285.8	3,708.5																																																													
Add back:																																																															
Partnership liability to the Marks & Spencer UK Pension Scheme	193.5	207.4																																																													
Deferred tax liabilities	42.3	332.4																																																													
Non-current borrowings and other financial liabilities	3,659.9	3,865.9																																																													
Retirement benefit deficit	7.8	12.4																																																													
Derivative financial instruments	73.6	–																																																													
Current tax liabilities	–	–																																																													
Less:																																																															
Investment property	(15.2)	(15.5)																																																													
Derivative financial instruments	–	(172.2)																																																													
Retirement benefit asset	(639.2)	(1,915.0)																																																													
Current tax assets	(35.4)	(19.3)																																																													
Net operating assets	5,573.1	6,004.6																																																													
Add back: Provisions related to adjusting items	100.8	71.1																																																													
Capital employed	5,673.9	6,075.7																																																													
Average capital employed	5,874.8	5,887.5																																																													
ROCE %	3.8%	10.0%																																																													

¹ EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax

Important notice

NOTICE OF ANNUAL GENERAL MEETING 2021

Tuesday 6 July 2021 at 11am

Held at, and broadcast from, Waterside House
35 North Wharf Road, London, W2 1NW

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser. If you have sold or otherwise transferred all your shares in the Company, please forward this document and accompanying documents (except any personalised form of proxy, if applicable) to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

DEAR SHAREHOLDER

“

I am pleased to announce the 20th Annual General Meeting of Marks and Spencer Group plc will be held on 6 July 2021. ”

Nick Folland,
General Counsel and
Company Secretary

ANNUAL GENERAL MEETING (AGM)

As the Chairman has touched on in his message to shareholders contained in your Notice of Availability, last year's AGM was an unprecedented success. While Covid-19 restrictions prohibited public gatherings so that physical attendance was not permitted, our first fully digital meeting received higher levels of shareholder engagement than we've seen in recent years. Nearly three times as many of you took the time to watch the broadcast live, vote or submit questions to our Board, for which we were truly grateful.

To build on last year's success and ensure that we provide another accessible, engaging and democratic AGM, this year we will be hosting another fully digitally enabled meeting. I'm very pleased to say that we will also be joined by Kamal Ahmed who will be acting as a shareholder advocate, to help share your views and ensure that shareholder questions are put to the Board. Kamal will be known to many of you as he previously held roles as the Editorial Director, Economics Editor and Business Editor at the BBC.

The 2021 AGM will be broadcast from M&S's Waterside House Support Centre at 11am on 6 July 2021.

For statutory and regulatory purposes, the place of the meeting will be Waterside House, 35 North Wharf Road, London W2 1NW. Shareholders are invited to participate in the AGM electronically via a live webcast, which you can access by logging on to <https://web.lumiagm.com>. On this website, you can also submit questions and your voting instructions, both during the meeting and in advance. A step-by-step guide on how to join the meeting electronically and submit your votes and questions can be found on pages 207 to 209. We strongly encourage you to log on and submit any questions you might have in advance of the meeting, so that your views are heard even if you are unable to participate live.

As the meeting will be predominantly digital, Board members physically at the place of meeting will not be available for shareholder interaction in person, as they will be taking part in the meeting broadcast under studio conditions. Shareholders are advised not to travel to the venue on the day.

YOUR VOTE COUNTS

Your vote is important to us. You can:

- Register your proxy vote electronically by logging on to either the Lumi AGM platform, our Registrar's website, shareview.co.uk, or by using the service offered by Euroclear UK & Ireland Limited for members of CREST.
- Complete and return a paper proxy form (enclosed with this notice if you have elected for hard copy documents, or otherwise available from Equiniti on request).
- Join the AGM online and vote electronically. Please see page 208 of this Notice for further details.

VOTING BEFORE THE MEETING

Your vote counts and all shareholders are encouraged to vote either in advance or on the day. There are several ways to submit your voting instructions in advance of the meeting, which are available from the publication date of this Notice:

- (1) The Lumi website.
- (2) Equiniti's Shareview website.
- (3) The CREST or Proxymity electronic proxy appointment platforms.
- (4) By completing and returning a paper proxy form.

Paper proxy votes must be received by no later than 11am on Friday 2 July 2021. Paper proxy forms are available from Equiniti on request; you can call our shareholder helpline on 0345 609 0810, or use any of Equiniti's alternative contact details listed on page 210. Votes submitted electronically via the Lumi or Shareview websites, or via the CREST or Proxymity platforms, (options 1, 2 and 3 above) should be registered by no later than 11am on Friday 2 July 2021. After then, you will no longer be able to submit your proxy vote via Shareview, CREST or Proxymity. Voting via the Lumi website will also close at this time, but will reopen for voting on the day of the meeting.

You will be able to vote in one of three ways for each of the resolutions: "For", "Against" or "Vote Withheld". Please note that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of votes "For" and "Against" each resolution.

JOINING THE MEETING AND VOTING ON THE DAY

You can watch the broadcast live, vote and ask questions on the day of the meeting via the Lumi website. Please refer to pages 207 to 208 for instructions on how to join the meeting and submit your votes and questions on the day.

Voting on all resolutions on the day will be by way of a poll and the Lumi website will reopen at 9.30am on Tuesday 6 July for this purpose. Votes can be cast once the Chairman has declared the poll open.

QUESTIONS

On the day, your questions will be posed to the Board by Kamal Ahmed. Where we receive a number of questions covering the same topic, Kamal will group these to address as many of your queries as possible.

It is, of course, important to us that we have the opportunity to hear from you,

our shareholders, directly. If you would like to ask your question at the AGM in person, you can send us a video recording of yourself asking your question by email to ACMquestionsubmission@marks-and-spencer.com, to be received by no later than 5pm on Friday 2 July.

VOTING RESULTS

The results of the voting will be announced through a Regulatory Information Service and will be published on our website marksandspencer.com/thecompany on 6 July 2021, or as soon as reasonably practicable thereafter.

In 2020, all resolutions were passed at the meeting with votes ranging from 90.89% to 99.97% in favour.

EXPLANATORY NOTES

An explanation of each of the resolutions to be voted on at the AGM is set out below and on pages 202 to 204.

M&S WEBSITE

Our corporate website, marksandspencer.com/thecompany, is the principal means we use to communicate with our shareholders. There is a wealth of information online including:

- ☒ A copy of our full Annual Report, which includes our Strategic Report.
- ☒ All the latest M&S news, press releases and investor presentations.
- ☒ A detailed account of our approach to corporate governance at M&S.

EXPLANATORY NOTES TO THE RESOLUTIONS

TO RECEIVE THE REPORTS AND ACCOUNTS

1

The Board asks that shareholders receive the Annual Report and Financial Statements for the 53 weeks ended 3 April 2021.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

2

The Directors' Remuneration Report sets out the pay and benefits received by each of the directors for the year ended 3 April 2021. In line with legislation, this vote is advisory and the directors' entitlement to remuneration is not conditional on it.

ELECTION OF DIRECTORS

3-12

The directors believe that the Board continues to maintain an appropriate balance of knowledge and skills and that all the non-executive directors are independent in character and judgement. This follows a process of formal evaluation, which confirms that each director in office at the time of the evaluation makes an effective and valuable contribution to the Board and demonstrates commitment to the role (including making sufficient time available for Board and Committee meetings and other duties as required). Evelyn Bourke joined the Board on 1 February 2021. Evelyn has led transformative change and brings extensive experience in financial services, risk and capital management and mergers and acquisitions. Fiona Dawson also joined the Board on 25 May 2021. Fiona has an in-depth knowledge of the UK and global food retail industry and a strong track record in sustainability, health and wellbeing, particularly women's entrepreneurship and human rights.

In accordance with the UK Corporate Governance Code, all directors will stand for election or re-election, as relevant, at the AGM this year. Biographies are available on pages 62 and 63 of the Annual Report, with further details available on our website, marksandspencer.com/thecompany. It is the Board's view that the directors' biographies illustrate why each director's contribution is, and continues to be, important to the Company's long-term sustainable success.

APPOINTMENT AND REMUNERATION OF AUDITOR

13-14

On the recommendation of the Audit Committee, the Board proposes in resolution 13 that Deloitte LLP be reappointed as auditor of the Company.

Resolution 14 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

AUTHORITY TO SUB-DIVIDE THE ORDINARY SHARES

15

Resolutions 15, 16 and 22 relate to the nominal value of the Company's ordinary shares, having the effect of reducing the nominal value from £0.25 to £0.01.

At last year's AGM, shareholders approved resolutions to amend the Company's share plan rules, ensuring that they all permit the use of treasury or new issue shares to satisfy share awards. References to share plans means the Marks and Spencer Group Restricted Share Plan 2015, the Marks and Spencer Group Deferred Share Bonus Plan 2015, and the Marks and Spencer Group Performance Share Plan 2015, all as amended and all together the "Plans".

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

The move from purchasing shares in the market to issuing new shares for the purposes of satisfying share awards under the Plans has significantly lowered the Company's costs of awarding equity to colleagues, and, as a result, improved the efficiency with which the Board uses shareholder funds. However, it still costs the Company disproportionately more than its peers to issue equity for share awards because of the relatively high nominal value of the Company's ordinary shares. The Company funds the £0.25 nominal value when shares are awarded rather than pass this cost to colleagues, as the nominal value deduction could represent a significant proportion of a colleague's award. By reducing the nominal value of the Company's ordinary shares to a level more akin to market norms, and by transferring the nominal value burden to the award recipient, the administrative cost of issuing equity to satisfy share awards under the Plans will be largely eliminated. We believe that this administrative change produces a more favourable outcome for shareholders and ensures that the Company's resources are used in a way that minimises unnecessary costs. As detailed below, this change should not impact the Company's market share price.

Resolution 15 proposes that each existing ordinary share of £0.25 (each an "Existing Ordinary Share") in issue at the close of business on the date of the AGM will be subdivided into one ordinary share of £0.01 in the Company (each a "New Ordinary Share") and one deferred share of £0.24 in the Company (each a "Deferred Share") (the "Share Subdivision"). The purpose of the Deferred Shares is to ensure that the reduction in the nominal value of the ordinary shares does not result in a reduction in the capital of the Company. Each ordinary shareholder's proportionate interest in the Company's issued ordinary share capital will remain unchanged as a result of the Share Subdivision. Aside from the change in nominal value, the rights attaching to the New Ordinary Shares (including voting and dividend rights and rights on a return of capital) will be identical to those of the Existing Ordinary Shares. No new share certificates will be issued in respect of the New Ordinary Shares as existing share certificates will remain valid in respect of the same number of New Ordinary Shares arising from the Share Subdivision. The number of ordinary shares of the Company listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities will not change as a result of the Share Subdivision. The Share Subdivision will not affect the Company's net assets. Consequently, the market price for a New Ordinary Share immediately after the completion of the Share Subdivision should, theoretically, be the same as the market price of an Existing Ordinary Share immediately prior to the Share Subdivision. Resolution 15 is conditional on the passing of resolution 16.

APPROVING THE TERMS OF THE DEFERRED SHARES

Resolution 16 relates to the terms of the Deferred Shares to be issued as a result of the Share Subdivision proposed in resolution 15. The Deferred Shares created on the Share Subdivision becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Company, the Deferred Shares will have the right to receive the amount paid up on them only after ordinary shareholders have received, in aggregate, any amounts paid up on their ordinary shares plus £10 million per ordinary share. No share certificates will be issued in respect of the Deferred Shares, nor will CREST accounts of shareholders be credited in respect of any entitlement to Deferred Shares, nor will they be admitted to the Official List or to trading on the London Stock Exchange or any other investment exchange. The Deferred Shares will not be transferable at any time, other than with the prior written

consent of the Directors of the Company. The rights attaching to, and restrictions upon, the Deferred Shares are set out in resolution 16 and in accordance with Article 4 of the Articles of Association of the Company, if such resolution is approved, will apply to the Deferred Shares as if such rights and restrictions were set out in the Articles of Association of the Company.

The rights attaching to the Deferred Shares will also grant irrevocable authority to the Company to, inter alia:

- Transfer the Deferred Shares to a person nominated by the Directors for no consideration and without requiring the consent of any holder of Deferred Shares to be obtained.
- Purchase any or all of the Deferred Shares without any further approval from the holders of the Deferred Shares.
- Appoint any person on behalf of the holders of the Deferred Shares to execute a contract for the Company's purchase of the Deferred Shares for an aggregate consideration of £0.01.
- Cancel the Deferred Shares without payment to the holders.

Any buyback of the Deferred Shares would be effected by notice to the registered office of the Company addressed to a person nominated by the Directors to act on behalf of the holders of the Deferred Shares.

Resolution 16 is conditional on the passing of resolution 15.

RENEWAL OF THE POWERS OF THE BOARD TO ALLOT SHARES

17

Paragraph (A) of this resolution 17 would give the directors the authority to allot ordinary shares of the Company up to an aggregate nominal amount equal to (i) £163,043,966 (if resolution 15 is not passed) or (ii) £6,521,758.64 (if resolution 15 is passed). These amounts represent 652,175,864 ordinary shares, being approximately one-third (33.33%) in each case of the nominal value of (i) the Existing Ordinary Shares in issue as at 25 May 2021, the latest practicable date before the publication of this Notice, or (ii) the New Ordinary Shares calculated on the basis of the number of Existing Ordinary Shares in issue as at the same date (anticipating, for this purpose, that the share subdivision described in resolution 15 will be approved at the AGM).

In line with guidance issued by the Investment Association (IA), paragraph (B) of this resolution would give the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to (i) £326,087,932.25 (if resolution 15 is not passed) or (ii) £13,043,517.29 (if resolution 15 is passed), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. These amounts (before any reduction) represent 1,304,351,729 ordinary shares, being approximately two-thirds (66.66%) in each case of the nominal value of (i) the Existing Ordinary Shares in issue as at 25 May 2021, the latest practicable date before the publication of this Notice, or (ii) the New Ordinary Shares calculated on the basis of the number of Existing Ordinary Shares in issue as at the same date (anticipating, for this purpose, that the share subdivision described in resolution 15 will be approved at the AGM).

The authorities sought under paragraphs (A) and (B) of this resolution will expire at the conclusion of the AGM in 2022 or on 1 October 2022, whichever is sooner. The directors have no present intention to exercise either of the authorities sought under this resolution; however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources.

As at the date of this Notice, no shares are held by the Company in treasury.

**AUTHORITY TO MAKE
POLITICAL DONATIONS****18**

The Companies Act 2006 (the "2006 Act") prohibits companies from making political donations to UK political organisations or independent candidates, or incurring UK political expenditure, unless authorised by shareholders in advance.

The Company does not make, and does not intend to make, donations to political organisations or independent election candidates, nor does it incur or intend to incur any political expenditure.

However, the definitions of political donations, political organisations and political expenditure used in the 2006 Act are very wide. As a result, they can cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform.

Shareholder approval is being sought on a precautionary basis only, to allow the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, to continue to support the community and put forward its views to wider business and government interests, without running the risk of inadvertently breaching legislation.

The Board is therefore seeking authority to make political donations and to incur political expenditure not exceeding £50,000 in total. In line with best practice guidelines published by the IA, this resolution is put to shareholders annually rather than every four years as required by the 2006 Act.

**AUTHORITY TO DISAPPLY
PRE-EMPTION RIGHTS****19–20**

Resolutions 19 and 20 are proposed as special resolutions. If the directors wish to allot new shares or other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are first offered to shareholders in proportion to their existing holdings.

At last year's AGM, a special resolution was passed, in line with institutional shareholder guidelines, empowering the directors to allot equity securities for cash without first offering them to existing shareholders in proportion to their existing holdings. It is proposed, under resolution 19, that this authority be renewed. If approved, the resolution will authorise the directors to issue shares in connection with pre-emptive offers, or otherwise to issue shares for cash up to an aggregate nominal amount of (i) £24,456,595 (if resolution 15 is not passed) or (ii) £978,263.80 (if resolution 15 is passed) which includes the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. This aggregate nominal amount represents 97,826,380 ordinary shares, being approximately 5% in each case of the nominal value of (i) the Existing Ordinary Shares in issue as at 25 May 2021, the latest practicable date before the publication of this Notice, or (ii) the New Ordinary Shares calculated on the basis of the number of Existing Ordinary Shares in issue as at the same date (anticipating, for this purpose, that the share subdivision described in resolution 15 will be approved at the AGM).

The Pre-Emption Group's Statement of Principles also supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities and sales of treasury shares for cash where these represent no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares) and are used only in connection with an

acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines "specified capital investment" as meaning one or more specific capital investment related uses for the proceeds of an issue of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, the purpose of resolution 20 is to authorise the directors to allot new shares and other equity securities pursuant to the allotment authority given by resolution 17, or sell treasury shares for cash, without first being required to offer such securities to existing shareholders, up to a further nominal amount of (i) £24,456,595 (if resolution 15 is not passed) or (ii) £978,263.80 (if resolution 15 is passed). This aggregate nominal amount represents 97,826,380 ordinary shares, being approximately 5% in each case of the nominal value of (i) the Existing Ordinary Shares in issue as at 25 May 2021, the latest practicable date before the publication of this Notice, or (ii) the New Ordinary Shares calculated on the basis of the number of Existing Ordinary Shares in issue as at the same date (anticipating, for this purpose, that the share subdivision described in resolution 15 will be approved at the AGM). The authority granted by this resolution, if passed, will only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 20 is used, the Company will publish details of its use in its next Annual Report.

The authority granted by resolution 20 would be in addition to the general authority to disapply pre-emption rights under resolution 19. The maximum nominal value of equity securities that could be allotted if both authorities were used would be (i) £48,913,190 (if resolution 15 is not passed) or (ii) £1,956,527.59 (if resolution 15 is passed), which represents in each case approximately 10% of the nominal value of (i) the Existing Ordinary Shares in issue as at 25 May 2021, being the latest practicable date before the publication of this Notice, or (ii) the New Ordinary Shares calculated on the basis of the number of Existing Ordinary Shares in issue as at the same date (anticipating, for this purpose, that the share subdivision described in resolution 15 will be approved at the AGM).

The directors intend to adhere to the provisions in the Pre-emption Group's Statement of Principles and not to allot shares or other equity securities or sell treasury shares for cash on a non pre-emptive basis pursuant to the authority in resolution 19 in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company, excluding treasury shares, within a rolling three-year period, other than:

- (i) with prior consultation with shareholders; or
- (ii) in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The directors have no current intention to allot shares except in connection with employee share schemes. These authorities will expire at the conclusion of the AGM in 2022 or on 1 October 2022, whichever is sooner.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

21

Authority is sought for the Company to purchase up to 10% of its issued ordinary shares renewing the authority granted by the shareholders at previous AGMs.

The directors have no present intention of exercising the authority to purchase the Company's own ordinary shares; however, this authority would provide them with the flexibility to do so in the future, if the prevailing market conditions made such purchases in the best interests of shareholders generally.

Ordinary shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled. It remains the Company's intention to cancel any shares it buys back rather than hold them in treasury. The Company currently holds no shares in treasury. The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority, reflecting the requirements of the Listing Rules.

The Company has options outstanding over 115 million ordinary shares, representing 5.92% of the Company's issued ordinary share capital as at 25 May 2021, the latest practicable date before the publication of this Notice.

If the existing authority given at the 2020 AGM and the authority now being sought by this resolution were to be fully used, these options would represent 6.58% of the Company's ordinary share capital in issue at that date.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS DEFERRED SHARES

22

Authority is sought for the Company to make an off-market purchase of its Deferred Shares of £0.24 each in accordance with the terms of (i) the Deferred Shares (which shall have such rights and restrictions attached to them as detailed in resolution 16) and (ii) the share purchase agreement made available to shareholders pursuant to Section 696(2) of the 2006 Act; with such power to apply until 6 July 2026.

It is the Company's intention to complete the purchase of its Deferred Shares as soon as practicable after the Share Subdivision detailed in resolution 15, and subsequently to cancel the Deferred Shares.

Resolution 22 is conditional on the passing of resolutions 15 and 16.

NOTICE OF GENERAL MEETING

23

In accordance with the 2006 Act, the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

- (i) Has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and
- (ii) Offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 23 seeks such approval and, should this resolution be approved, it will remain valid until the end of the next AGM.

This is the same authority as was sought and granted at last year's AGM.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

24

The Board is proposing that the Company adopt new articles of association (the "New Articles"), the principal changes of which are set out below. The main objective of these changes is to improve our overall engagement with shareholders, and shareholders' experiences with managing their shareholding. These changes do not impact institutional or nominee shareholdings.

Of our circa 140,000 private shareholders owning equity in their own name, there are at least 10,000 shareholders based on our analysis who we have lost contact with or are unable to pay dividends to, because their personal details have changed or they have not provided us with their dividend bank mandate. For the protection of shareholders' personal information and in line with our Plan A, cost saving and operational efficiency objectives, the New Articles will allow us to act sooner to cease sending documents to addresses where we know a shareholder no longer lives, and also to forfeit shares and dividends where we have been unable to make contact with a shareholder for a period of six years.

In summary, the New Articles:

- (A) Clarify that shareholder bank mandates for dividends can also be used for "other money payable in cash relating to a share", ensuring that cheques are no longer used for any payments due to shareholders in relation to their shares.
- (B) Clarify the Company's definition of inactive or "gone away" shareholders, to ensure that we do not continue to send mail to shareholders after one instance of returned and unopened mail, and we do not continue to pay dividends by bank transfer after one instance of a failed dividend payment (in either case following reasonable enquiries to establish the shareholder's current correct details).
- (C) Reduce the period of time after which we are able to forfeit a dormant shareholder's dividends and shares, from 12 years to six years, following efforts to trace the shareholder.
- (D) Clarify that a shareholder can exercise their "right to speak" during a general meeting, when the chairman of the meeting is satisfied that arrangements are in place for shareholders to communicate any questions and opinions they may have on the business of the meeting.

The New Articles showing all the proposed changes to the Company's existing articles are available for inspection, as noted on page 205 of this document.

RECOMMENDATION

Your directors believe that the proposals described above are in the best interests of the Company and its shareholders as a whole, and recommend you give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

Yours faithfully,

**Nick Folland, General Counsel
and Company Secretary**

London, 25 May 2021

NOTICE OF MEETING

6 JULY 2021

Notice is given that the Annual General Meeting of Marks and Spencer Group plc (the "Company") will be held at and broadcast from Waterside House, 35 North Wharf Road, London, W2 1NW, in accordance with the information provided on page 207, on Tuesday 6 July 2021 at 11am (the "AGM") for the purposes set out below.

Resolutions 1 to 18 will be proposed as ordinary resolutions, and resolutions 19 to 24 will be proposed as special resolutions.

1. To receive the Annual Report and Financial Statements for the 53 weeks ended 3 April 2021.

2. To approve the Directors' Remuneration Report for the year ended 3 April 2021, as set out on pages 94 to 105 of the Annual Report.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

3. Archie Norman

4. Steve Rowe

5. Eoin Tonge

6. Andrew Fisher

7. Andy Halford

8. Tamara Ingram

9. Justin King

10. Sapna Sood

To elect the following directors appointed to the Board since the last Annual General Meeting:

11. Evelyn Bourke

12. Fiona Dawson

13. To resolve that Deloitte LLP be, and is hereby, reappointed as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

14. To resolve that the Audit Committee determine the remuneration of the auditor on behalf of the Board.

15. DIRECTORS' AUTHORITY TO SUBDIVIDE ORDINARY SHARES

To resolve that, subject to the passing of resolution 16, each of the ordinary shares of £0.25 in the capital of the Company in issue at the close of business on the date of this meeting (or such other time and date as the directors may determine) be subdivided into one ordinary share of £0.01 in the capital of the Company, having the same rights and being subject to the same restrictions in all respects as the existing ordinary shares of £0.25 each in the capital of the Company (save as to nominal value) and one deferred share of £0.24 in the capital of the Company, having the rights and being subject to the restrictions set out in resolution 16 below.

16. DEFERRED SHARES

To resolve that, subject to the passing of resolution 15, the deferred shares of £0.24 in the capital of the Company shall confer on the holder such rights, and shall be subject to the restrictions, as follows:

(A) A deferred share:

(i) Does not entitle its holder to receive any dividend or distribution declared, made or paid or any return of capital (save as provided in (A)(ii) below) and does not entitle its holder to any further or other right of participation in the assets of the Company.

(ii) Entitles its holder to participate on a return of assets on a winding up of the Company, such entitlement to be limited to the repayment of the amount paid up or credited as paid up on such share and shall be paid only after the holders of any and all ordinary shares then in issue have received (1) payment in respect of such amount as is paid up or credited as paid up on those ordinary shares held by them at that time, plus (2) the payment in cash or in specie of £10,000,000 on each such ordinary share.

(iii) Does not entitle its holder to receive a share certificate in respect of their shareholding, save as required by law.

(iv) Does not entitle its holder to receive notice of, nor attend, speak or vote at any general meeting of the Company.

(v) Shall not be transferrable at any time other than with the prior written consent of the directors of the Company.

(B) The Company may at its option and is irrevocably authorised at any time after the creation of the deferred shares to:

(i) Appoint any person to act on behalf of any or all holders of a deferred share, without obtaining the sanction of the holders, to transfer any or all of such deferred shares held by such holder(s) for nil consideration to any person appointed by the directors of the Company.

(ii) Without obtaining the sanction of the holder(s), but subject to the Companies Act 2006, purchase any or all of the deferred shares then in issue and to appoint any person to act on behalf of all holders of deferred shares to transfer and execute a contract of sale and a transfer of all the deferred shares to the Company for an aggregate consideration of £0.01.

(C) Any offer by the Company to purchase the deferred shares may be made by the directors of the Company depositing at the registered office of the Company a notice addressed to such person as the directors shall have nominated on behalf of the holders of the deferred shares.

(D) The Company shall have the irrevocable authority to authorise and instruct a single holder or any other person on behalf of all holders of deferred shares to exercise any vote to which holders of deferred shares may be entitled by law or in any other circumstances or for any other matter connected to the deferred shares.

To view our Board biographies go to the Investors section of our corporate website, marksandspencer.com/thecompany

- (E) The rights attached to the deferred shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or *pari passu* with or subsequent to such shares, any amendment or variation of the rights of any other class of shares of the Company, the Company reducing its share capital or share premium account or the surrender, cancellation, redemption or purchase of any share, whether a deferred share or otherwise.
- (F) The Company shall have the irrevocable authority to cancel any deferred share without making any payment to the holder and such cancellation shall not be deemed to be a variation or abrogation of the rights attaching to such deferred share.

Such rights and restrictions in (A) - (F) above attaching to the deferred shares shall apply to the deferred shares as if they were set out in the Company's Articles of Association.

17. DIRECTORS' AUTHORITY TO ALLOT SHARES

To resolve that the directors be and are authorised generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

- (A) Up to a nominal amount of £163,043,966 (if resolution 15 is not passed) or £6,521,758.64 (if resolution 15 is passed) (and in either case such amount to be reduced by any allotments or grants made under paragraph (B) below in excess of such sum); and
- (B) Comprising equity securities (as defined in Section 560(1) of the Companies Act 2006) up to a nominal amount of £326,087,932.25 (if resolution 15 is not passed) or £13,043,517.29 (if resolution 15 is passed) (and in either case such amount to be reduced by any allotments made under paragraph (A) above) in connection with an offer by way of a rights issue:
- (i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary;

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The authorities conferred on the directors to allot securities under paragraphs (A) and (B) will expire at the conclusion of the AGM of the Company to be held in 2022 or on 1 October 2022, whichever is sooner, unless previously revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

18. POLITICAL DONATIONS

To resolve that, in accordance with Section 366 of the Companies Act 2006, the Company, and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, be and are authorised to:

- (A) make political donations to political parties or independent election candidates, not exceeding £50,000 in total;
- (B) make political donations to political organisations other than political parties, not exceeding £50,000 in total; and
- (C) incur political expenditure not exceeding £50,000 in total;

provided that the aggregate amount of any such donations and expenditure shall not exceed £50,000, during the period beginning with the date of the passing of this resolution and ending at the conclusion of the AGM to be held in 2022 or on 1 October 2022, whichever is sooner.

For the purpose of this resolution, the terms "political donations", "political parties", "independent election candidates", "political organisations" and "political expenditure" have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

19. GENERAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of resolution 17, the directors be empowered to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution (set out in this Notice of Meeting), and/or to sell ordinary shares held by the Company as treasury shares for cash, as if Section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be limited:

- (A) to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (B) of resolution 17, by way of a rights issue only):
- (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary;

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- (B) in the case of the authority granted under paragraph (A) of resolution 17 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) above) up to a nominal amount of £24,456,595 (if resolution 15 is not passed) or £978,263.80 (if resolution 15 is passed);

and shall expire at the conclusion of the AGM to be held in 2022 or on 1 October 2022, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

20. ADDITIONAL DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of resolution 17, the directors be empowered in addition to any authority granted under resolution 19 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution 17 (set out in this Notice of Meeting) and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be:

- (A) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £24,456,595 (if resolution 15 is not passed) or £978,263.80 (if resolution 15 is passed); and
- (B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice of Meeting;

and shall expire at the conclusion of the AGM to be held in 2022 or on 1 October 2022, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

21. COMPANY'S AUTHORITY TO PURCHASE ITS OWN SHARES

To resolve as a special resolution that the Company is authorised for the purposes of Section 701 of the Companies Act 2006 to make one or more market purchases (as defined in Section 693(4) of the Companies Act 2006) of its ordinary shares of £0.25 each (if resolution 15 is not passed) or of its ordinary shares of £0.01 each (if resolution 15 is passed), such power to be limited:

- (A) to a maximum number of 195,652,759 ordinary shares;
- (B) by the condition that the minimum price which may be paid for an ordinary share is £0.25 (if resolution 15 is not passed) or £0.01 (if resolution 15 is passed) and the maximum price which may be paid for an ordinary share is the highest of:
 - (i) an amount equal to 105% of the average market value of an ordinary share for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
 - (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out;

in each case, exclusive of expenses, such power to apply until the end of the AGM to be held in 2022 or until 1 October 2022, whichever is sooner, but in each case so that the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase ordinary shares pursuant to any such contract as if the power had not ended.

22. COMPANY'S AUTHORITY TO PURCHASE DEFERRED SHARES

To resolve as a special resolution, subject to and conditional upon the passing of resolutions 15 and 16, that:

- (A) the share purchase agreement made available to shareholders pursuant to Section 696(2) of the Companies Act 2006 (the "Off-market Share Purchase Contract") is authorised; and
- (B) the Company is authorised for the purposes of Section 694 of the Companies Act 2006 to make an off-market purchase (as defined in Section 693(2) of the Companies Act 2006) of its deferred shares of £0.24 each in accordance with the terms of:
 - (i) the Deferred Shares as detailed in resolution 16 above; and
 - (ii) the Off-market Share Purchase Contract;

with such authorisation to apply until 6 July 2026.

23. CALLING OF GENERAL MEETINGS ON 14 DAYS' NOTICE

To resolve as a special resolution that a general meeting other than an Annual General Meeting may be called on no fewer than 14 clear days' notice.

24. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

To resolve as a special resolution that, with effect from the end of the AGM, the articles of association produced to the meeting and signed by the Chairman for the purpose of identification, are adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Company's existing articles of association.

By order of the Board

**Nick Folland, General Counsel
and Company Secretary**

London, 25 May 2021

Registered office Waterside House,
35 North Wharf Road, London W2 1NW.

Registered in England and Wales
No. 4256886.

NOTES

1. Biographies of the directors seeking election (or re-election) are given in the Annual Report on pages 62 and 63, including their membership of the principal Committees. The terms of the current directors' service contracts are such that all executive director appointments may be terminated by the Company giving 12 months' notice and by the individual giving six months' notice; non-executive directors have agreements for service which can be terminated on three months' notice by either party; the Chairman has an agreement for service which requires six months' notice by either party.

2. Registered Shareholders: Members are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the AGM. Members may appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. To request one or more paper proxy forms (to appoint more than one proxy), please contact our shareholder helpline on 0345 609 0810. Please indicate the number of shares in relation to which each proxy is authorised to act in the box below the proxy holder's name. Please also indicate if the instruction is one of multiple instructions being given, and if a proxy is being appointed for less than your full entitlement, please enter the number of shares in relation to which each such proxy is entitled to act in the box below the relevant proxy holder's name. The proxy form assumes you wish to vote on all your shares in the same way. To vote only part of your holding or to vote some shares one way and some another, please contact the shareholder helpline. All proxy forms must be signed and should be returned together.

3. If you would like to submit your vote electronically in advance of the AGM, you can do so by accessing the Lumi website, <https://web.lumiagm.com>. Instructions are available on page 208 of this Notice. Alternatively, you can submit your instruction by visiting shareview.co.uk (see page 209 for further instructions). You are advised to read the terms and conditions of use. All advance proxy votes regardless of how they are cast are to be returned by 11am on Friday 2 July 2021. If you return paper and electronic instructions, those received last by the Registrar before 11am on Friday 2 July 2021 will take precedence. Electronic communication facilities are available to all shareholders and those that use them will not be disadvantaged.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

5. Votes submitted in advance of the meeting using the Lumi website will constitute an instruction to appoint the Chairman of the meeting as proxy. The shares covered by the instruction will be voted as directed by the shareholder in respect of the resolutions referred to in this Notice of Meeting at the meeting and at any adjournment of it.

6. To be valid, any proxy form or other instrument appointing a proxy must be received by post (during normal business hours only) or by hand at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA no later than 11am on Friday 2 July 2021.

7. The return of a completed paper proxy form, other such instrument or any CREST proxy instruction (as described in paragraph 15 on the following page) will not prevent a shareholder voting later if they wish to do so.

8. Indirect shareholders: Any person to whom this Notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

9. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 to 7 does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

10. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

11. To be entitled to join the meeting, submit questions and vote (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be entered on the Register of Members of the Company by 6.30pm on Friday 2 July 2021 (or, in the event of any adjournment, 6.30pm on the date which is two working days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to join, submit questions and vote at the meeting.

12. The following documents are available for inspection at an agreed time at the Company's registered office: Waterside House, 35 North Wharf Road, London W2 1NW. Email company.secretary@marks-and-spencer.com during normal business hours on any weekday (excluding public holidays).

- (i) Copies of the executive directors' service contracts.
- (ii) Copies of the non-executive directors' letters of appointment.
- (iii) Copies of the directors' Deeds of Indemnity.
- (iv) A copy of the current Articles of Association of the Company, marked to show the changes proposed by resolution 24, together with a copy of the proposed new Articles of Association of the Company.
- (v) The draft share purchase agreement in relation to the Company's off-market purchase of the Deferred Shares which is proposed to be executed by the Company and a person nominated by the Company to act on behalf of the Company's shareholders (in accordance with the terms of the Deferred Shares in resolution 16 and the Company's authority to purchase the Deferred Shares in resolution 22, each such resolution as proposed to shareholders).

Copies of these documents will also be available at the AGM upon request, from 9.30am on the morning of the AGM until the meeting's conclusion.

13. Shareholders are advised that, unless otherwise specified, the telephone numbers, website and email addresses set out in this Notice or proxy forms are not to be used for the purpose of serving information or documents on the Company, including the service of documents or information relating to proceedings at the Company's AGM.

NOTES CONTINUED

14. As at 25 May 2021 (the latest practicable date before the publication of this Notice), the Company's issued share capital consists of 1,956,527,593 ordinary shares carrying one vote each. No shares are held in treasury. Therefore, the total voting rights in the Company as at 25 May 2021 are 1,956,527,593.

15. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST-sponsored members, and those CREST members who have appointed a service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

16. For a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST manual (available via euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by 11am on Friday 2 July 2021. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

17. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

18. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

19. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11am on Friday 2 July 2021 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

20. Any corporation that is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

21. Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

- (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
- (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business that may be dealt with at the AGM includes any statement that the Company has been required to publish on a website under Section 527 of the Companies Act 2006.

22. Any member joining the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:

- (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- (ii) the answer has already been given on a website in the form of an answer to a question; or
- (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

23. A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found at marksandspencer.com/thecompany

24. Please see the letter dated 25 May 2021 from the General Counsel and Company Secretary on pages 197 to 201 for further explanatory notes

INFORMATION FOR THE DAY

TIMINGS



- Date: Wednesday 2 June 2021**
9.00am Registration opens for vote casting and question submission in advance of the meeting.
- Date: Friday 2 July 2021**
11.00am Opportunity to submit votes and questions in advance of the meeting closes.
- Date: Tuesday 6 July 2021**
9.30am Online meeting opens and question submission reopens.
- 11.00am** AGM begins and you will be able to vote once the Chairman declares the poll open.
- 1.00pm approx.** AGM closes. The results of the poll will be released to the London Stock Exchange once collated.

PHYSICAL ATTENDANCE



Following the success of last year's AGM, this year's meeting will once again be fully digitally enabled. Shareholders are advised not to travel to the venue on the day. Please refer to the following information and the user guides provided on pages 208 and 209 for details of how to join and participate in the meeting electronically.

ELECTRONIC PARTICIPATION



Shareholders are encouraged to view and participate in the 2021 AGM electronically. This can be done by accessing the AGM website: <https://web.lumiagm.com>

ACCESSING THE AGM WEBSITE



Lumi AGM can be accessed online using most well-known internet browsers such as Internet Explorer (version 11), Chrome, Firefox and Safari on a PC, laptop or internet-enabled device such as a tablet or smartphone. If you wish to access the AGM using this method, please go to <https://web.lumiagm.com> on the day.

LOGGING IN



On accessing the AGM website you will be asked to enter a 'Meeting ID', which is **151-557-065**. You will then be prompted to enter your Shareholder Reference Number and PIN. These can be found printed on your Notice of Availability or Voting Card sent to you by post. Access to the AGM website to vote and submit questions **in advance** will be available from 9am on 2 June 2021 until 11am on 2 July 2021. Access to the AGM website will reopen to participate **on the day** from 9.30am on 6 July 2021.

QUESTIONS



You are able to submit questions live during the meeting on the Lumi website by clicking on the message feature. You can also submit questions in advance via Lumi and Shareview – step-by-step guides to voting and question submission is on pages 208 and 209.

As noted in the Company Secretary's letter on pages 197 to 198 of this Notice, Kamal Ahmed will be posing your questions to the Board during the meeting. If you would like to ask your question in person though, you can submit your recorded video question by email to AGMquestionsubmission@marks-and-spencer.com, to be received by no later than 5pm on Friday 2 July 2021. Please ensure that your question recording lasts no longer than one minute, so that we can hear from as many shareholders as possible. By submitting a video question, you consent to your video being played during the AGM broadcast; please note that the AGM recording will be made publicly available on our corporate website after the meeting.

Shareholder questions and answers will be published on the corporate website as soon as practicable after the meeting. As with the AGM live broadcast, where we receive a number of questions covering the same topic, we will publish summarised questions and answers addressing as many questions received as possible.

VOTING



If you're voting live during the meeting, the voting options will appear on the screen after the resolutions have been proposed. Press or click the option that corresponds with the way in which you wish to vote: "For", "Against" or "Withheld". Once you have selected your choice, you will see a message on your screen confirming that your vote has been received for each of the resolutions. There is no final submit button. If you make a mistake or wish to change your voting instruction, simply press or click the correct choice for that resolution until the poll is closed. If you wish to cancel your "live" vote, press "Cancel".

Please note that an active internet connection is required in order to successfully cast your vote when the Chairman commences polling on the resolutions. It is your responsibility to ensure connectivity for the duration of the meeting.

Advance voting is also available from 2 June 2021, and details on the different methods for voting in advance are set out in the Company Secretary's letter on pages 197 to 198 of this Notice.

Step-by-step guides to voting in advance via the Lumi and Shareview websites, as well as live on the day, are on pages 208 to 209.

PROXIES & CORPORATE REPRESENTATIVES



If you are a duly appointed proxy or corporate representative, please contact the Company's registrar, Equiniti, before 11am on Monday 5 July 2021 on 0345 609 0810, or +44 121 415 7071 if you are calling from outside the UK, for your unique username and password to join the meeting. Please ensure a valid proxy appointment has been made by no later than the voting deadline detailed on page 197.

Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England & Wales).

ONLINE USER GUIDE TO THE ELECTRONIC 2021 ANNUAL GENERAL MEETING

LUMI AGM PLATFORM GUIDE: BEFORE THE AGM

1

Go to <https://web.lumiagm.com> where you will be prompted to enter the Meeting ID **151-557-065**

2

After entering the Meeting ID, you will be prompted to enter your Shareholder Reference Number and PIN, both of which can be found in your Notice of Availability

3

When successfully authenticated, shareholders will be taken to the Information Page. To cast a proxy vote, select the voting icon at the top of the screen. The resolutions and voting choices will be displayed.

4

To vote, select your voting direction from the options shown on screen. To change your mind, simply select a different option

Note: Proxy voting will close at 11am on Friday 2 July 2021

5

A confirmation message will appear to show your vote has been received after each motion
There is no final submit button

6

During the proxy voting period, shareholders can submit a question by typing it into the message feature

LUMI AGM PLATFORM GUIDE: ON THE DAY

7

The AGM will commence at 11am on Tuesday 6 July 2021. It can be accessed through the same platform: <https://web.lumiagm.com>. You will be prompted to re-enter the Meeting ID (**151-557-065**), followed by your Shareholder Reference Number and PIN. All of these details can be found in your Notice of Availability.

8

The meeting presentation will begin at the start of the AGM, when the Broadcast Panel will automatically appear at the side of the screen. You can expand and minimise the screen by pressing the Broadcast arrow at the top of the page.

9

When the Chairman declares the poll open, a list of all resolutions and voting choices will appear on your device. Scroll through the list to view all resolutions

10

For each resolution, press the choice corresponding with the way in which you wish to vote. When selected, a confirmation message will appear

11

To change your mind, simply press the correct choice which will override your previous selection. To cancel your vote, press Cancel

12

If you would like to ask a question, select the messaging icon. Type your message within the chat box at the bottom of the messaging screen. Click the send button to submit.

SHAREVIEW AGM GUIDE

REGISTERING FOR SHAREVIEW

1

Navigate to the following URL:
<https://www.shareview.co.uk>

You will be presented with the above home screen. Please select the **"Register"** button in the top right hand corner.

Then select the **"Open Portfolio Account"** button.

2

You will then be presented with the above screen

Please complete all fields, then select **"Set Up Your Account"**. Your shareholder reference number will be included on your Notice of Availability.

3

To continue with your account set-up, please complete all fields including the security questions.

4

You have now successfully registered for a Shareview portfolio. To activate your account, enter the activation code sent on the Notice of Availability and select the **"Activate"** button.

VOTING AND SUBMITTING A QUESTION

Note: Votes can only be submitted in advance. You will not be able to vote live on the day via Shareview.

5

Once you have activated your account, you will be directed to the **"Welcome Page"**. You can select the option to submit a proxy vote, under the **"Vote Online"** section

Proxy voting and the option to submit questions via Shareview will close at 11am on Friday 2 July 2021. Voting via Shareview will not be available on the day of the meeting.

6

You can also select the option to **"Vote online"** from the **"My Investments"** page.

7

Once you have selected the option to **"Vote Online"**, you will then be presented with the following voting page.

To submit a question, click the link at the top of the page before submitting your vote. When submitting a question, please include your full name details in the subject line.

In order to submit your vote for each resolution, press the choice corresponding with the way in which you wish to vote. Once you have completed this section, please select **"Go"**

You have now successfully submitted your vote.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 3 April 2021, the Company had 145,209 registered holders of ordinary shares. Their shareholdings are analysed below. It should be noted that many of our private investors hold their shares through nominee companies; therefore the actual number of shares held privately will be higher than indicated below.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1–500	76,000	52.34	14,082,267	0.72
501–1,000	26,905	18.53	20,073,834	1.03
1,001–2,000	21,422	14.75	30,584,827	1.56
2,001–5,000	14,816	10.20	45,224,700	2.31
5,001–10,000	3,879	2.67	26,611,056	1.36
10,001–100,000	1,746	1.20	38,645,166	1.97
100,001–1,000,000	269	0.19	105,190,412	5.38
1,000,001–Highest	172	0.12	1,676,101,329	85.67
Total	145,209	100	1,956,513,591	100

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	141,744	97.62	161,043,698	8.23
Institutional and corporate	3,465	2.38	1,795,469,893	91.77
Total	145,209	100	1,956,513,591	100

USEFUL CONTACTS

Marks and Spencer Group plc Registered Office

Waterside House
35 North Wharf Road
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

General queries

Customer queries: 0333 014 8555
Shareholder queries: 0345 609 0810

Or email:

chairman@marks-and-spencer.com

Registrar/shareholder queries

Equiniti Limited, Aspect House,
Spencer Road, Lancing, West Sussex
BN99 6DA, United Kingdom
Telephone 0345 609 0810 and outside
the UK +44 (0)121 415 7071

Online: help.shareview.co.uk
(from here, you will be able to securely
email Equiniti with your enquiry).

Students

Please note, students are advised to
source information from our website.

Additional documents

An interactive version of our
Annual Report is available online at
[marksandspencer.com/
annualreport2021](https://marksandspencer.com/annualreport2021)

Additionally, the Annual Report
(which contains the Strategic Report)
is available for download in pdf format
at [marksandspencer.com/
annualreport2021](https://marksandspencer.com/annualreport2021)

General Counsel and Company Secretary

Nick Folland

2020/21 FINANCIAL CALENDAR AND KEY DATES

6 July 2021	Annual General Meeting (11am)
10 November 2021*	Results, Half Year [†]
13 January 2022*	Results, Quarter 3 Trading Update [†]

[†] Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available

* Provisional dates

SHAREHOLDER INFORMATION CONTINUED

SHAREHOLDER QUERIES

The Company's share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed on page 210. For more general queries, shareholders should consult the Investors section of our corporate website.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, a secure online platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- Sign up for electronic shareholder communications.
- Receive trading updates and other electronic-only broadcasts by the Company via email.
- View all of their shareholdings in one place.
- Update their records following a change of address.
- Have dividends paid into their bank account.
- Vote in advance of Company general meetings.

M&S encourages shareholders to sign up for electronic communications ("e-comms") as the Company has found this creates a more engaged shareholder base. For example, following the move from paper to e-comms as a method of soliciting Shareholder Panel member interest, we have received 217 enquiries from those registered for digital communication compared to 26 paper-based enquiries. This is just one of the most recent examples that supports our approach of encouraging shareholders to manage their shares and engage with the Company digitally. The reduction in printing costs and paper usage also makes a valuable contribution to our Plan A commitments.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

DIVIDENDS

Further to the announcements made by the Company on 20 March 2020 and again on 28 April 2020, the Board will not be making a final dividend payment for the 2020/21 financial year.

DUPLICATE DOCUMENTS

Many shareholders have more than one account on the Share Register and receive duplicate documentation from us as a result. If you fall into this group, please contact Equiniti to combine your accounts.

SHAREGIFT

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported "brokers" who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a "boiler room". The callers obtain your details from publicly available sources of information, including the Company's Share Register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. **Remember, if it sounds too good to be true, it probably is!**

More detailed information and guidance is available on our corporate website. We also encourage shareholders to read the FCA's guidance on how to avoid scams at fca.org.uk/consumers/protect-yourself-scams. An overview of current common scams is available on the Action Fraud website actionfraud.police.uk.

AGM

This year's AGM will be held and broadcast from Waterside House on 6 July 2021. The meeting will start at 11am.

Following the success of the 2020 digital AGM, the 2021 AGM will again be broadcast online from Waterside House. We strongly encourage shareholders to participate in the meeting electronically by accessing the AGM website, <https://web.lumiagm.com>. Further details can be found on page 207 of the Notice of Meeting and in the user guides on pages 208 and 209.

The meeting will also be available to view online after the event at marksandspencer.com/thecompany.

M&S reserves the right to retain and use footage or stills for any purpose, including Annual Reports, marketing materials and other publications.

INDEX

A	Page	E	Page	N	Page
Accounting policies	129	Earnings per share	147	Nomination Committee	71
Adjusting items	141	Employees	148	P	
Appointment and retirement of directors	62, 106	Employees with disabilities	109	Plan A	30
Audit Committee Report	77-83	Equal opportunities	109	Principal risks and uncertainties	48
Auditor	82	F		Profit and dividends	107
Auditor's remuneration	140	Finance income/costs	145	Power to issue shares	107
Auditor's report	111-122	Finance leases	163	Political donations	109
Annual General Meeting	196-209	Financial assets	161	R	
B		Financial instruments	134, 164	Risk management	47
Board	62-63	Financial liabilities	163	Remuneration policy	90
Borrowing facilities	163	Financial review	38	Remuneration Committee	84
Business model	09	Fixed charge cover	190	Remuneration Report	94
C		G		S	
Capital commitments	177	Glossary of alternative performance measures	191	Segmental information	138
Capital expenditure	44	Going concern	129	Shareholder information	210
Colleague involvement	108	Goodwill	156	Share capital	177, 188
Conflicts of interest	107	Groceries Supply Code of Practice	109	Share schemes	153
Corporate governance	58	H		Significant agreements	108
Cost of sales	139	Hedging reserve	127	Statement of cash flows	128
Critical accounting judgements	136	I		Statement of comprehensive income	124
D		Income statement	123	Statement of financial position	125
Deadlines for exercising voting rights	108	Intangible assets	156	Strategic priorities	07
Deferred tax	176	Interests in voting rights	107	Subsidiary undertakings	186
Depreciation	133, 158	International Financial Reporting Standards	129	T	
Derivatives	164	Inventories	133, 137	Taxation	145
Diluted earnings per share	147, 148	Investment property	125	Total shareholder return	101
Directors' indemnities	107	K		Trade and other payables	162
Directors' interests	100	Key performance indicators	11, 18, 21, 37	Trade and other receivables	161
Directors' responsibilities	110			Transfer of securities	107
Directors' single figure of remuneration	102			V	
Disclosure of information to auditor	110			Variation of rights	107
Dividend cover	190			Viability statement	57
Dividend per share	37				
FINANCIAL STATEMENTS					
Consolidated income statement	123	7 Income tax expense	145	21 Financial instruments	164
Consolidated statement of comprehensive income	124	8 Earnings per share	147	22 Provisions	175
Consolidated statement of financial position	125	9 Dividends	148	23 Deferred tax	176
Consolidated statement of changes in equity	126	10 Employees	148	24 Ordinary share capital	177
Consolidated cash flow statement	128	11 Retirement benefits	149	25 Contingencies and commitments	177
Note		12 Marks and Spencer Scottish Limited Partnership	153	26 Analysis of cash flows given in the statement of cash flows	177
1 Accounting policies	129	13 Share-based payments	153	27 Analysis of net debt	178
2 Segmental information	138	14 Intangible assets	156	28 Related party transactions	179
3 Expense analysis	139	15 Property, plant and equipment	158	29 Investments in joint ventures and associates	180
4 Profit before taxation	140	16 Other financial assets	161	30 Government support	181
5 Adjusting items	141	17 Trade and other receivables	161	31 Subsequent events	181
6 Finance income/costs	145	18 Cash and cash equivalents	162		
		19 Trade and other payables	162	Company financial statements	182
		20 Borrowings and other financial liabilities	163	Notes to the company financial statements	184
				Group financial record	189

This report is printed on Revive 100 offset, a 100% recycled paper made from post-consumer waste. Revive is manufactured to the certified environmental management system ISO 14001.

Designed and produced by **Friend** www.friendstudio.com

Printed at Pureprint Group, ISO 14001

FSC® certified and CarbonNeutral®

This report was printed using vegetable oil based inks by Pureprint Group a CarbonNeutral® printer certified to ISO 14001 environmental management system and registered to EMAS the Eco Management Audit Scheme.

Both manufacturing mill and the printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council® (FSC®) chain of custody certified.

Back cover

One of M&S's Insiders, Sophie from Islington in our Polka Dot Angel Sleeve Midi Dress and Cotton Camo High Neck Utility Jacket