Shaping the FUTURE

The next phase of M&S' transformation

STRONGER TEAM, STRONGER BUSINESS, STRONGER BALANCE SHEET

Marks and Spencer Group plc
Annual Report & Financial Statements 2022

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

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

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

FOOD
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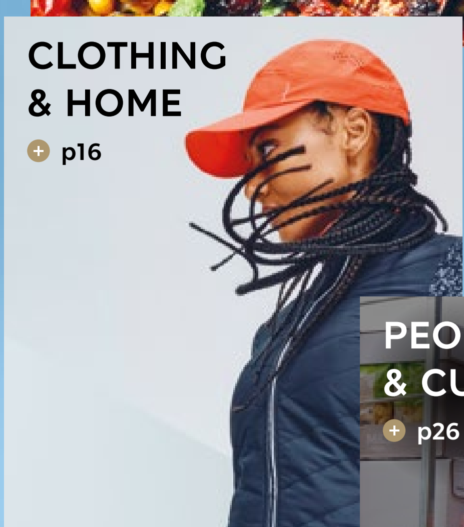

CLOTHING & HOME
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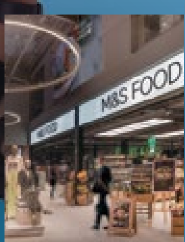
Cover



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

Group overview

Group revenue

£10.9bn (19/20: +6.9%)

Group profit before tax

£391.7m (19/20: +482.9%)

Percentage of UK Clothing & Home sales online

34% (19/20: 23%)

Basic earnings per share

15.7p (19/20: 1.3p)

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

£522.9m (19/20: +29.7%)

Group: Net promoter score[1]

+29 (new metric)

No dividend paid for 21/22

APM **Net debt excluding lease liabilities**

£420m (19/20: -71.2%)

Digital: Net promoter score[1]

+5 (new metric)

APM **Adjusted earnings per share**

21.7p (19/20: +29.9%)

Stores: Net promoter score[1]

+81 (20/21: 81)

APM

Alternative performance measures

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

Year-on-year comparison

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

Net promoter score

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

Strategic report

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

Governance

Financial statements

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

CHAIRMAN'S LETTER

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

Archie Norman, Chairman

Dear shareholder,

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

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

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

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

Look Behind the Label

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

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

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

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

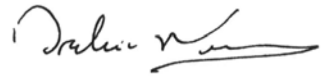
So, our approach to the likely consumer recession will be unwavering. Our ambition is to become a growth business. M&S was founded in 1884 and we are striving to build a great business for the next 100 years. We expect to increase our investment in digital, technology and the store estate in the year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

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

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

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

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



Archie Norman Chairman

Forward THINKING

Boosting our digital & data skills

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

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

1,000+

Number of colleagues upskilled through our data academies

COMPLETION OF THE FIRST PHASE OF TRANSFORMATION

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

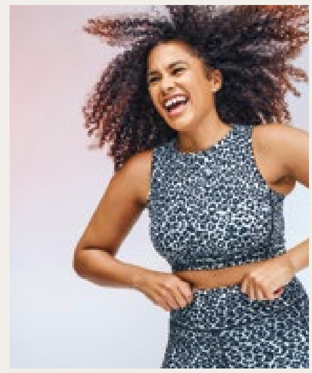
Fixing the basics

Food

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

Brand appeal

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



Simplified our clothing range by

c.20%

Clothing & Home

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

Taking M&S Food online

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

Growing M&S.com

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

Faster online fulfilment

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

Trusted value

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

Digital-first loyalty

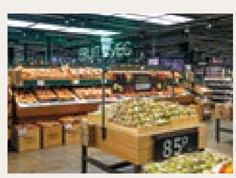
In 2020 Sparks relaunched as a digital-first loyalty scheme – and has doubled customer numbers in less than two years to over 15 million members.

Tackling our legacy store estate

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

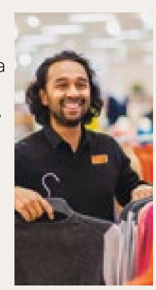
Store renewals

40



A family of accountable businesses

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



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

#1

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

#2

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

#3

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

CHIEF EXECUTIVE'S STATEMENT

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

STRONG PERFORMANCE DELIVERED BY A MORE RESILIENT M&S

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

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

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

Ocado Retail transitioning to strong capacity growth post pandemic reversion

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

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

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

Ukraine response: Thank you to our customers and colleagues

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

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

CHIEF EXECUTIVE'S STATEMENT
CONTINUED

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

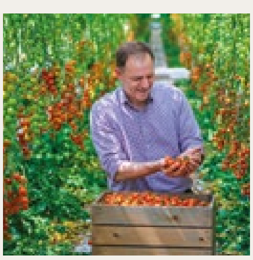
International absorbing Brexit-related costs, but emerging global strategy encouraging
The International business, together with our partners, generated 4% retail sales growth. This included a solid performance in the Middle East and online retail sales more than doubling to over £250m through growth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

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

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

Steve Rowe Chief Executive

Read about our strategic priorities in the following chapters



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

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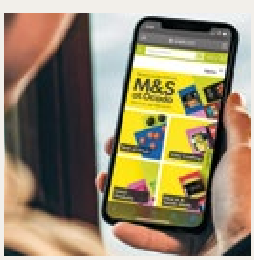

OCADO transitioning to strong capacity growth post pandemic reversion

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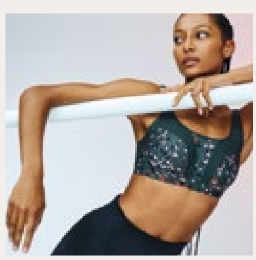

CLOTHING & HOME on track for a more profitable model capable of growth

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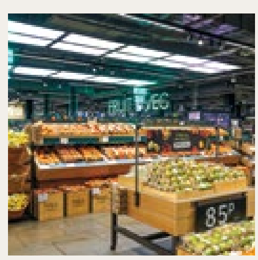

Building **STORE ROTATION** pipeline, driving exit from legacy stores

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INTERNATIONAL absorbing Brexit related costs, but embryonic global strategy encouraging

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THE NEXT PHASE OF TRANSFORMATION

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

MACROECONOMIC HEADWINDS IMPACT ON PERFORMANCE AND EXPECTATIONS

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

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

LATEST UPDATE AND GUIDANCE FOR 2022/23

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

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

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

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

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

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

INCREASING THE PACE OF CHANGE AND INVESTING IN GROWTH

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

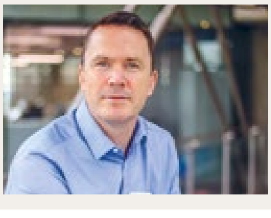
- Technology investment to drive the digital transformation of M&S and systems improvement to support more responsive trading.
- Supply chain investment to create a quicker, more efficient operation and pave the way to a modern, automated network.
- Multiple opportunities for growth in the store estate,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

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

Financial Review

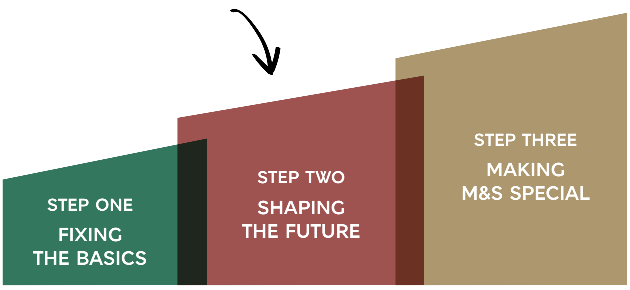
"Despite the near-term challenges, the business is better set up both financially and operationally to invest for the future."

Read our full Financial Review on p36 →



THE NEXT PHASE OF TRANSFORMATION
CONTINUED

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



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

Joined the Board on 25 May 2022

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

Stuart Machin Chief Executive Officer

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

Katie Bickerstaffe Co-Chief Executive Officer

BUSINESS MODEL

OUR CUSTOMERS

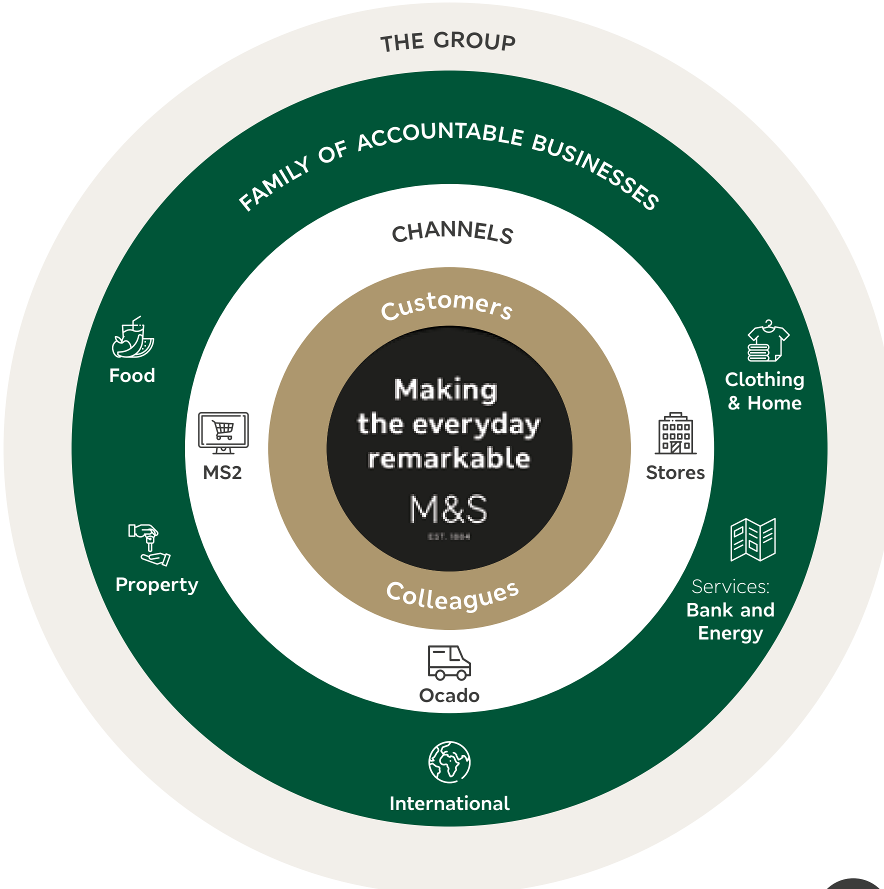
M&S serves nearly 30 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services to make us more relevant, more often, to our customers and beyond, who we reach through a channel network of 1,487 stores and online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

Number of customers served in 21/22

30 million

OUR COLLEAGUES

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



A FAMILY OF ACCOUNTABLE BUSINESSES

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

Food

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

Clothing & Home

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

International

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

Services

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

Property

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

OCADO

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

MS2

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

FOOD

BIGGER, BETTER, FRESHER

Financial highlights

UK Food revenue

£6.6bn (19/20: +10.1%)

Operating profit before adjusting items

£277.8m (19/20: +17.4%)

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

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

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

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

PERFORMANCE UNDERPINNED BY IMPROVEMENT IN QUALITY AND VALUE

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

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

Understanding our customers

MARKET CONTEXT

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

What customers bought

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

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

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

Where customers shopped

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

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

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

FOOD
CONTINUED

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

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

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

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

MORE TO DO ON SUPPLY CHAIN, WASTE AND AVAILABILITY

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

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

Can I App it? Yes you can!

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

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

Rewards you'll

LOVE

M&S Food Renewal

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

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

40

Stores renewed

Fit for the FUTURE

Strategic KPIs

Value for money perception[1]

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

LEVEL (20/21: +3ppt)

Quality perception[1]

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

LEVEL (20/21: +3ppt)

Availability

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

95% (20/21: 95.5%)

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

FOOD
CONTINUED

British Select Farmers

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

New PARTNERSHIPS

Costa Coffee

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

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

OCADO

TRANSITIONING TO STRONG CAPACITY GROWTH POST PANDEMIC REVERSION

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

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

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

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

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

TARGETING GROWTH IN ACTIVE CUSTOMERS AS PANDEMIC CONDITIONS NORMALISE

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

NEAR-TERM MARGINS REFLECTING A HIGHER PERCENTAGE OF IMMATURE CAPACITY

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

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

SUBSTANTIAL FURTHER POTENTIAL FOR THE JOINT VENTURE

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

M&S Food online

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

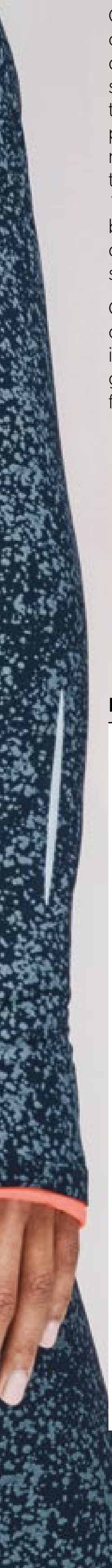
Number one full-price activewear range

GOODMOVE

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

CLOTHING & HOME

Everyday style and value



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

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

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

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

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

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

UK Clothing & Home revenue

£3.3bn (19/20: +3.8%)

Operating profit before adjusting items

£330.7m (19/20: +47.7%)

Understanding our customers

MARKET CONTEXT

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

What customers bought

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

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

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

Where customers shopped

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

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

CLOTHING & HOME
CONTINUED

STRONG PERFORMANCE IN CORE CATEGORIES AND IMPROVING STYLE PERCEPTION

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

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

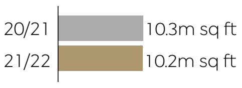
Nothing Neutral About It

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

Strategic KPIs

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

-1.0%



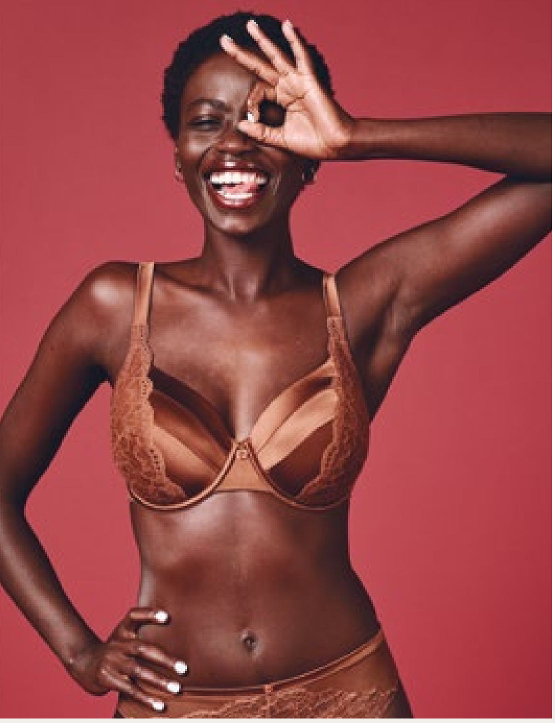
Value for money perception[1]
The percentage point increase in customers rating M&S Clothing & Home products highly on value for money (Source: YouGov). Our successful shift to trusted value and everyday low prices and the replacement of widespread promotions with clear pricing of our products, has improved our score by a further percentage point and means we remain the market leader on value for money perception by customers.

+1 (20/21: +3)

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

LEVEL (20/21: +1)

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



Nobody's Child

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

Bringing back strong brands

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

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

JAEGER

CLOTHING & HOME
CONTINUED

MS2 DRIVING OMNI-CHANNEL GROWTH

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

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

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

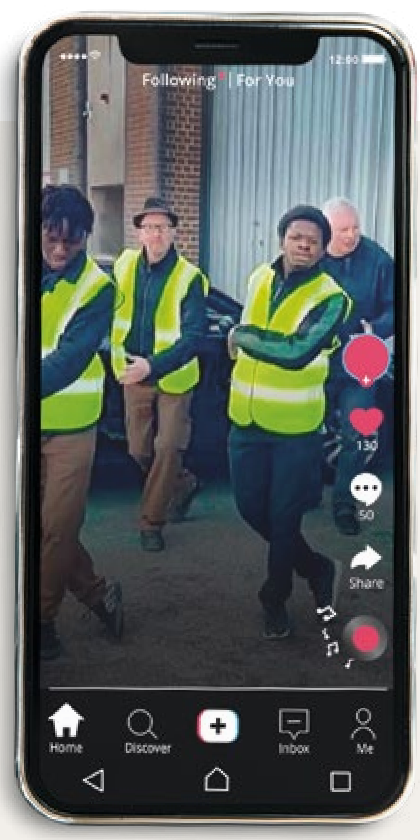
The relaunched Sparks programme has grown to over 15m members, of which close to 9m are active, and we are working on the next generation of improvements to the offer. We have grown app users to over 4m and expect to launch Sparks Pay, offering customers an integrated payment and credit proposition including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

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

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

NASCENT PLATFORM OF BRANDS ESTABLISHED

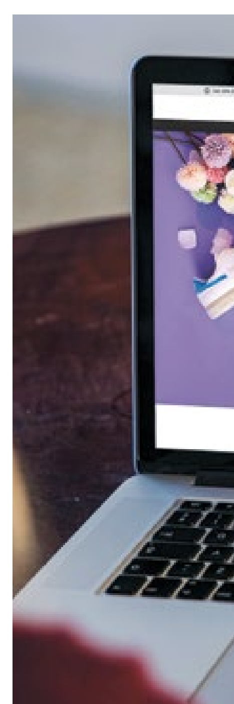
M&S has a strong and trusted brand which attracts customers to our platforms as the second largest UK online clothing retailer (Source: Kantar 52 weeks ending 3 April) with the largest omni-channel footprint. This, combined with our 15m Sparks card holders, credit card and customer data engine, creates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



A very social experiment

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

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



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

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

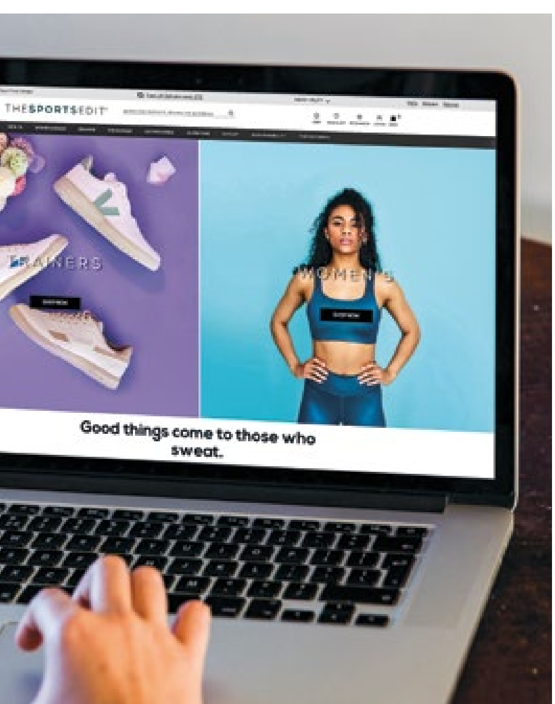
IMPROVING PERFORMANCE THROUGH ADDRESSING LEGACY ISSUES

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

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

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

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



The Sports Edit

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

Digital net promoter score

+5

Traffic (visits per week)

13.3m (20/21: 13.5m)

Percentage of UK Clothing & Home sales online

34% (19/20: 23%)

STORES & PROPERTY
ACCELERATED ROTATION OF THE ESTATE

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

DEVELOPING PROFITABLE ROTATION PIPELINE FOR FULL-LINE AND FOOD STORES

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

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

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

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

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

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

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

ENCOURAGING RESULTS FROM RECENT OPENINGS

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

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

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

Strategic KPIs

Transactions (average per week)

9.7m (20/21: +39%)

Footfall (average per week)

14.1m (20/21: +45%)

Stores net promoter score

+81 (20/21: 81)

Clothing renewals

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

Changing the way we connect with customers

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

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

INTERNATIONAL

BUILDING OUR GLOBAL REACH THROUGH STRONG PARTNERSHIPS AND ONLINE GROWTH

International Revenue

£937.2m (19/20: -0.8%)

Operating profit before adjusting items

£73.6m (19/20: -33.5%)

Net promoter score

86 (20/21: 85)

International websites

98 (20/21: 98* restated)

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

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

SOLID GROWTH IN THE MIDDLE EAST, INDIA AND GLOBAL ONLINE

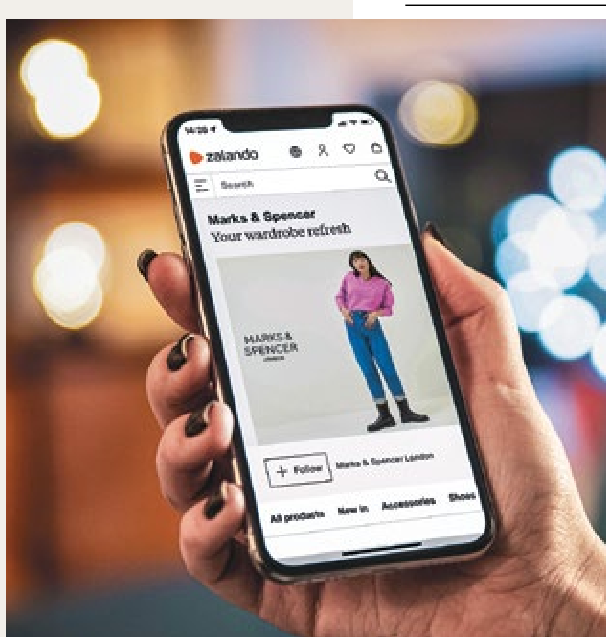
Together with our partners, we generated 4% growth in retail sales in 2021/22. This included a particularly good performance in the Middle East region, with growth in domestic demand. In Asia, we saw a substantial bounce back in India following lockdown in Q1, which was partly offset by continuing restrictions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

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

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

Building a great service for our international partners

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



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

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

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

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

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

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

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

New openings

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

PEOPLE & CULTURE

Our People Plan has six key aims:

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

#2 Becoming a data enabled and digitally focused business.

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

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

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

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

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

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

#1

Transforming our organisational design to drive ownership, pace and commerciality

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

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

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

#2

Becoming a data enabled and digitally focused business

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

Skills & Capabilities

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

The right systems & technologies

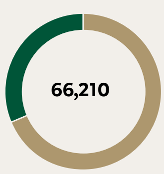
The first phase of MyHR – the cloud-based digital people system – was launched in September, focused on performance management and talent management across the colleague lifecycle. While there were bumps in the road and we continue to respond to colleague feedback, it was a relatively smooth process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

Colleague representation measurements[1]

Total employees[1]

● Female
45,484

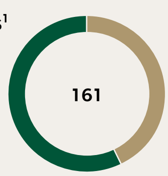
● Male
20,726



Total senior managers[1]

● Female
69 (20/21: 57)

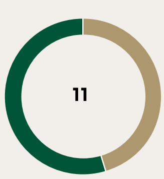
● Male
92 (20/21: 79)



Total Board[1,2]

● Female
5 (20/21: 4)

● Male
6 (20/21: 6)



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

Senior managers from ethnic minorities

6.8% (20/21: 8%)

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

Engagement

62%

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

Gender pay gap

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

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

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

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

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

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

Digital-first culture

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

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

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

#3

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

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

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

#4

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

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

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

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

#5

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

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

Competitive reward

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

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

#6

Building an involving, engaging culture where everyone can get on

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

A place where everyone can get on

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

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

Building an involving, engaging culture

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

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

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

MOVING FROM FIXING THE BASICS TO THE NEXT PHASE OF TRANSFORMATION

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

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

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

New technology

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

SUSTAINABILITY

EXTENDING AND EXPRESSING OUR SUSTAINABILITY LEAD

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

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

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

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

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

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

Sustainability Report

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

ESG committee report

Read our ESG committee report on p70 →

OUR PARTNERSHIP *with dotte*

Supporting the circular economy

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

NON-FINANCIAL INFORMATION STATEMENT

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

PEOPLE

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

Read more on our commitment to people in our:

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

COMMUNITIES AND ENVIRONMENT

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

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

- Our Communities
- Plan A: Our Planet

Read more on our activities in these areas this year:

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

HUMAN RIGHTS

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

Read more on our commitment to human rights in our:

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

ANTI-BRIBERY AND ANTI-CORRUPTION

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

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

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

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

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

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

ENGAGEMENT & DECISION-MAKING

SECTION 172(1) STATEMENT

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

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

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

Read more:

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

STAKEHOLDER ENGAGEMENT & CONSIDERATIONS

SHAREHOLDERS

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

CUSTOMERS

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

COLLEAGUES

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

COMMUNITIES

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

SUPPLIERS

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

PARTNERS

Why they matter

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

Key priorities

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

How the Board engages

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

How M&S engages

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

Governance considerations

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

STAKEHOLDER CONSIDERATIONS

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

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

THREE-YEAR PLAN AND STRATEGIC FINANCIAL MANAGEMENT

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

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

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

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

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

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

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

Outcome

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

FRANCHISE PARTNERSHIPS IN UKRAINE AND RUSSIA

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

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

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

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

Outcome

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

TALENT AND SUCCESSION REVIEWS

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

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

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

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

Outcome

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

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

52 APM

£10.9bn +6.9%

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

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

52 APM

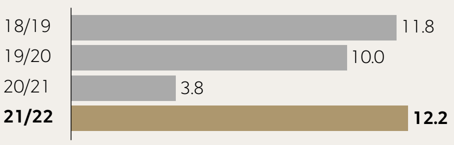
£522.9m +29.7%

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

RETURN ON CAPITAL EMPLOYED (ROCE)

53 APM

12.2% +2.2ppt



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

ADJUSTED EARNINGS PER SHARE (EPS)

52 APM

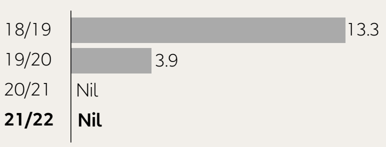
21.7p +29.9%

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

DIVIDEND PER SHARE

APM

Nil (20/21: nil)

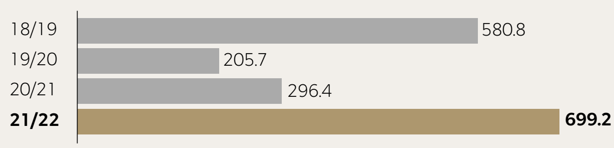


We did not pay a dividend for 2020/21, and the Board has decided not to pay a dividend this year. This is consistent with the announcement at the half-year results that payment of a dividend this financial year would be unlikely as we focus on restoring sustainable profitability and recovering balance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

FREE CASH FLOW (PRE-SHAREHOLDER RETURNS)

53 APM

£699.2m +239.9%



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

APM Alternative performance measures as outlined on the inside cover.

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

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

FINANCIAL REVIEW

"DESPITE THE NEAR-TERM CHALLENGES, THE BUSINESS IS BETTER SET UP BOTH FINANCIALLY AND OPERATIONALLY TO INVEST FOR THE FUTURE."

Eoin Tonge, Chief Financial Officer

FINANCIAL SUMMARY

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

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

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

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

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

GROUP RESULTS

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

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

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

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

UK: FOOD

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

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

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

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

1. Includes M&S.com.

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

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

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

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

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

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

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

FINANCIAL REVIEW
CONTINUED

OCADO RETAIL LTD

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

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

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

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

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

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

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

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

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

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

UK: CLOTHING & HOME

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

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

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

Online

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

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

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

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

Stores

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

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

Total Clothing & Home

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

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

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

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

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

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

INTERNATIONAL

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

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

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

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

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

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

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

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

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

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

M&S BANK AND SERVICES

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

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

NET FINANCE COST

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

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

GROUP PROFIT BEFORE TAX AND ADJUSTING ITEMS

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

GROUP PROFIT BEFORE TAX

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

ADJUSTING ITEMS

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

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

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

UK store estate

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

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

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

Other adjusting items

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

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

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

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

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

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

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

FINANCIAL REVIEW
CONTINUED

TAXATION

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

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

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

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

EARNINGS/LOSS PER SHARE

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

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

CASH FLOW

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

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

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

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

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

For capex and disposals, refer to the section below.

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

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

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

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

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

WORKING CAPITAL

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

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

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

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

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

CAPITAL EXPENDITURE

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

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

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

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

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

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

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

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

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

NET DEBT

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

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

FINANCIAL REVIEW
CONTINUED

The composition of Group net debt is as follows:

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

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

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

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

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

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

LIQUIDITY

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

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

DIVIDEND

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

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

PENSION

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

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

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

STATEMENT OF FINANCIAL POSITION

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

Eoin Tonge, Chief Financial Officer

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

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

RISK MANAGEMENT

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

APPROACH TO RISK MANAGEMENT

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

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

The key activities forming a part of this process include:

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

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

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

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

RISK MANAGEMENT
CONTINUED

Risk management process and governance overview

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

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

Internal reporting

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

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

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

Parties involved

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

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

External reporting

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

Maintaining an effective risk framework

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

OVERVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES

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

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

THE CONTINUED CONSEQUENCES OF COVID-19

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

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

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

THE RUSSIAN INVASION OF UKRAINE

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

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

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

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

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

OVERVIEW OF PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

THE COST OF LIVING CRISIS

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

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

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

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

KEY CHANGES TO OUR RISK PROFILE

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

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

MONITORING OUR EMERGING RISKS

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

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

LINKING PRINCIPAL RISKS WITH OUR STRATEGIC PRIORITIES

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

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

RISK	DESCRIPTION

1

An uncertain trading environment

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

Context

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

Operational oversight by **Executive Committee**

Mitigations

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

RISK MOVEMENT

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK | DESCRIPTION

2 Business transformation

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

Context

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

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

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

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

Mitigations

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

3 Ocado Retail

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

Context

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

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

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

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

Mitigations

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

RISK MOVEMENT

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

RISK	DESCRIPTION

4

Talent and capability

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

Context

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

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

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

Operational oversight by **Executive Committee**

Mitigations

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

5

EU border challenges

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

Context

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

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

Operational oversight by **Executive Committee**

Mitigations

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK | DESCRIPTION

6

Business continuity and resilience

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

Context

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

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

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

Mitigations

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

7

Product safety and integrity

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

Context

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

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

Mitigations

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

RISK MOVEMENT

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

RISK | DESCRIPTION

8 Information security

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

Context

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

Operational oversight by **Executive Committee**

Mitigations

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

9 Corporate compliance and responsibility

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

Context

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

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

Mitigations

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

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION

10 (New/evolving risk)

Climate change and environmental responsibility

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

Context

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

Operational oversight by **ESG Committee**

Mitigations

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

11 (Reduced net risk exposure)

Liquidity and funding

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

Context

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

Operational oversight by **Executive Committee**

Mitigations

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

RISK MOVEMENT

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

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

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

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

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

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

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

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

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

The severe but plausible downside scenario includes the following assumptions:

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

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

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

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

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

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

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

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

Steve Rowe, Chief Executive

24 May 2022

CHAIRMAN'S GOVERNANCE OVERVIEW

> "THE BOARD'S ROLE HAS BEEN TO GUIDE THE BUSINESS THROUGH CHALLENGING HEADWINDS."
>
> *Archie Norman, Chairman*

As outlined in my Chairman's letter on pages 2 to 3, macro events have had a significant impact on the business this year. My role, and that of the Board, has been to guide our way through these varied and challenging headwinds; ensuring our overarching strategy stays the course. Simultaneously, your Board has remained ready to respond and to adjust for external factors threatening to derail us.

In keeping with the demands made on the Board in these recent, turbulent years, circumstances have made it vital we remain highly engaged. We have been flexible with our time to support and challenge senior leadership, to ensure the continued acceleration of our transformation programmes, and not only to react to events, but have our eyes firmly fixed on the horizon into 2022 and beyond. Naturally, we continue to fulfil our other core duties to oversee M&S' governance, culture, 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**.

NAVIGATING HEADWINDS

The Board has had to remain vigilant alongside management this year and to stay abreast of current events impacting the business. We continue to deal with uncertainty in our European supply chain, as we enter the fourth Brexit extension period before complete customs checks are implemented. Meanwhile, we experienced a positive trading response when Covid-19 restrictions were lifted at the start of 2022, but trading in the fourth quarter then slowed, with consumers conscious of cost of living increases amidst inflationary pressures.

The Board has proactively discussed with management how best to trade through these macro impacts, resulting in detailed stakeholder discussions in line with Section 172(1) of the Companies Act 2006 ("s.172(1)"). There has been no "one size fits all" answer across the business, and inevitably trade-offs between our stakeholders have been made. These have been allied with our strategic objectives and have included measures such as price and margin protections, supplier support and buying process improvements.

The invasion of Ukraine has materially impacted the business, as we have franchise agreements in both Ukraine and Russia. While we felt it was important to support colleagues and continue to trade in Ukraine for as long as possible, events have made that impossible. The Board and I are nonetheless heartened by the response from our customers and colleagues who have donated significantly to the aid effort. You can read more on our response on page 5.

Meanwhile, we have suspended shipments to our Russian franchise partner and directed them to cease trading. The result of this decision is that, following legal negotiations with our franchise partner, we have reached a settlement to exit fully our Russian franchise. While our franchise agreement was not captured under the sanctions regime, we strongly believe it is right and just to ensure we are not trading, even indirectly, in that jurisdiction while the war in Ukraine is ongoing.

NEW LEADERSHIP

Shareholders will have noted our recent announcement of a new leadership team structure. Before I outline this, I first want to express my and the business' thanks to Steve Rowe, our outgoing Chief Executive Officer. Steve has been a magnificent servant of M&S, dedicating 40 years to the Company, coming from the shop floor to lead the business. His career is testament to the opportunities M&S can provide for great people to succeed. The M&S he took over was in parlous shape and throughout my tenure as Chairman, he has been fearless in facing into the challenges and has delivered massive progress.

To replace Steve, we have chosen to promote our internal talent. With effect from 25 May 2022, Stuart Machin has become Chief Executive Officer, taking responsibility for day-to-day leadership of the business and the Executive Committee. He continues to have oversight of his current portfolio of responsibilities, including leadership of the Food business, Operations, Property, Store Development and Technology, and will also take responsibility for HR and Corporate Communications. Katie Bickerstaffe has become Co-Chief Executive Officer, with a particular focus on driving the future of Digital & Data, and of our global omni-channel business. She retains her existing portfolio of responsibility for Clothing & Home, MS2, International and Financial Services. Eoin Tonge has become Group CFO & Chief Strategy Officer. In addition to his current responsibilities, he will play an enhanced role in leading the future development of the business and will also take on oversight of Plan A.

M&S is now embarking on the second phase of its transformation programme "Shaping the Future". The Board's view is that, under the leadership of Stuart, Katie and Eoin, the business has made remarkable progress and that continuity of strategy and leadership is the best approach for the Company. Bringing together these three outstanding leaders will provide the stability, pace and bandwidth required to accelerate the pace of change.

I would also like to note the contribution Andy Halford has made to the Board. Noting that his tenure has now reached nine years, he will be stepping down as Chair of the Audit Committee, with Evelyn Bourke replacing him as Chair. Having reviewed and confirmed that Andy remains independent, the Nomination Committee agrees that his role as Senior Independent Director ("SID") is an important constant while new Board members settle into their roles. He will therefore remain as SID and a member of the Audit Committee for a transitionary period, and will leave the Board by the end of 2022.

Board and Executive Committee biographies can be found on pages 60 to 62. Full details of these Board and executive changes, our assessment of the balance of leadership skills and experience, and our talent and succession processes, can be found in the Nomination Committee Report on pages 66 to 69.

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 steering through macro-induced headwinds. In our meetings, we have continued our approach of considering "strategic deep dives" presented by all areas of the business, which we have then 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 s.172(1).

An overview of the range of matters that the Board discussed and debated at its meetings during the year can be found on pages 63 to 64.

The Company's s.172(1) statement is available on pages 32 to 34.

EMBEDDING ESG

As explained in last year's Annual Report, 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 2021/22 is available on pages 70 to 77.

In demonstration of our commitment to embedding ESG across the organisation, sustainability is now one of the five strategic pillars comprising our corporate purpose. Furthermore, the business negotiated and entered a sustainability linked financing agreement for the first time. While we have strides to take on our Plan A agenda still, the Board, with the support of the ESG Committee, are focused on delivering tangible progress in the year ahead.

FUTURE SHAPING GOVERNANCE

The Company has made a number of strategic investments during the course of the year, following the acquisitions of 50% of Ocado Retail Limited in 2019 and of the Jaeger brand in 2020. In partnership with True Capital, we became the cornerstone investor in a Direct-to-Customer ("D2C") focused fund. We have also acquired a minority stake in Nobody's Child Limited, an exciting eco-conscious, affordable fashion brand, and have become the majority owner (with a route to 100% ownership) of The Sports Edit Limited, an activewear platform with proven capability in brand curation and emerging brand identification.

Each of these investments is unique and, as such, the governance arrangements supporting them are bespoke for the nature of the investment and lifecycle of the businesses. This has required the Board to ensure we have the appropriate controls in place, not only to mitigate risk, but also to be a supportive and productive strategic investor.

DIVIDEND

While the balance sheet is strengthening, the Board and I believe on balance, and in line with our approach last year, that non-payment of a dividend is appropriate for the 2021/22 financial year. This continues to be one of the proactive steps we are taking to ensure the business is set up for success in the future.

AGM: STAYING DIGITAL

The Annual General Meeting ("AGM") provides investors with a valuable opportunity to communicate with the Board. We have learnt in recent years that digital meetings are more engaging, more democratic, and allow us to communicate and hear from more of our shareholders, with participation levels trebled at last year's meeting compared with the last physical meeting. In recognition, we will be conducting this year's AGM digitally once again. We strongly believe digitally-enabled meetings should become the default across the FTSE and I encourage other companies to follow our example.

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 Stuart, Katie, Eoin and me, ask questions and vote on our resolutions.

We will be joined by Anita Anand 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 dialling in and asking your question live on the day, or 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 208 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 2021/22.

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 online at **marksandspencer.com/thecompany**.

LEADERSHIP AND OVERSIGHT

Our governance framework facilitates responsive and effective decision-making, ensuring that the Board and its Committees, the Executive Committee and senior management are able to collaborate proactively, consider issues and respond.

BOARD COMMITTEES

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

Audit Committee See p78-84

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

Remuneration Committee See p85-107

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

Nomination Committee See p66-69

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

ESG Committee See p70-77

Responsible for ensuring the Company's ESG strategy remains fit for purpose, and plans are in place and reported on. Advises the Audit Committee on ESG-related risks, including climate-related issues.

Disclosure Committee

Responsible for determining the disclosure treatment of material information and identifying confidential and inside information for the purpose of maintaining project lists compliant with the UK Market Abuse Regulations.

BOARD

The Board is responsible for establishing the purpose, values and strategy for the M&S Group, ensuring our culture is aligned, overseeing our conduct and affairs, and for promoting the success of M&S for the benefit of our members and stakeholders. The Board 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/thecompany**.

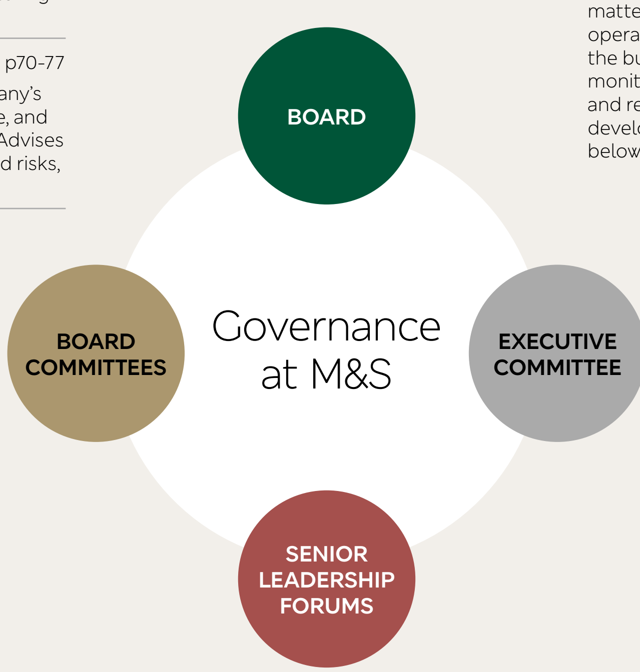
Execution of the M&S strategy and day-to-day management is delegated to the Executive Committee, and subsequently to senior leadership forums where relevant, with the Board retaining responsibility for overseeing, guiding and holding management to account.

EXECUTIVE COMMITTEE

The Executive Committee ("ExCo") is our leadership team responsible for executing strategy. It manages, monitors and provides the executive input underlying M&S' strategic and operational decisions, ensuring strong executive alignment on business priorities, investments and actions.

During the year, the ExCo consisted of the CEO, CFO, Chief Operating Officers, and the Managing Directors of each business unit. Authority is conferred on the ExCo by the Group Delegation of Authority, as approved by the Board.

The ExCo reviews strategic opportunities and initiatives from the Group's key businesses and centralised functions, ensuring these contribute to and elevate the Board's overarching strategy. 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.



SENIOR LEADERSHIP FORUMS

Underlying this governance feedback loop between the Board, its sub-committees and the ExCo, there are forums comprising senior management supporting each of these governing bodies.

Primarily, each of the Group's key business units have "Operating Review" meetings with streamlined memberships. Their main remit is 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 support on specific projects, business needs, or strategic priorities, 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.

People Forum
For driving the people and culture agenda across the Group.

Fraud and Loss Committee
For pulling together all fraud related governance activities, reporting directly into the Audit Committee.

Compliance Monitoring Committee
Oversight of credit broking activities within the Group, as regulated by the Financial Conduct Authority.

Plan A (Net Zero) Steering Group
For mobilising action across the business on our net zero roadmap, updating the ESG Committee on progress.

BOARD COMPOSITION AND MEETING ATTENDANCE

BOARD MEETING ATTENDANCE AND DIRECTOR RESPONSIBILITIES IN 2021/22

During the year, the Board held 12 scheduled meetings for which individual attendance is set out below.

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 p63-64.

CHAIRMAN	Attended	Maximum possible	Independent	Responsibility in 2021/22	Linked to remuneration
Archie Norman*	12	12		Board governance and performance. Shareholder engagement.	

* Considered independent on appointment.

EXECUTIVE DIRECTORS	Attended	Maximum possible	Independent	Responsibility in 2021/22	Linked to remuneration
Chief Executive Steve Rowe	12	12		Group performance and management. Executive Committee leadership.	✓
Chief Financial Officer Eoin Tonge	12	12		Group financial performance, risk management and investor relations. Strategy and transformation planning.	✓

NON-EXECUTIVE DIRECTORS	Attended	Maximum possible	Independent
Full Year			
Evelyn Bourke	12	12	✓
Andrew Fisher	12	12	✓
Andy Halford	12	12	✓
Tamara Ingram	11*	12	✓
Justin King	12	12	✓
Sapna Sood	11**	12	✓
Appointed in 2021/22			
Fiona Dawson	11***	10	✓

Role at Board meetings

Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board.

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.

* Unable to attend one meeting due to participation in residential course on behalf of M&S.
** Unable to attend one meeting due to external board commitments.
*** Attended 24 May meeting as an observer prior to appointment.

STANDING ATTENDEES	Attended	Maximum possible	Responsibility
Nick Folland – General Counsel & Company Secretary	12	12	Advising the Board on all legal and corporate governance issues, including sustainability and Plan A.

EXECUTIVE COMMITTEE – ATTENDED BY INVITATION	Attended
Sacha Berendji	4
Katie Bickerstaffe	11
Paul Friston	5
Stuart Machin	10
Richard Price	5

Role at Board meetings

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.

Direct reports to ExCo members also attend Board meetings by invitation as and when input is required on their specific areas of expertise.

Note: The tables above provide details of scheduled meetings held in the 2021/22 financial year.

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 the exception of our longest-serving non-executive director, Andy Halford. While Andy's tenure has now reached nine years, the Nomination Committee has reviewed and agreed he remains independent, and his role as SID is an important constant while new executive Board members settle into their roles.

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 p60-62. For more information on **director tenure** see p67.

OUR BOARD

This is our Board as it operated during the year. To see changes for the new financial year please see page 62.

1. **Archie Norman** Chairman

N R

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 Lead Director at the Department for Business, Energy & Industrial Strategy from 2016-2020. Archie is also the Chairman of Signal AI, Non-Executive Vice Chairman of the Global Counsel and Senior Independent Director of Bridgepoint Group plc.

2. **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 stepped down from the Board on 25 May 2022 and, with heartfelt thanks for his many years of dedication to the Company, will formally leave M&S at the AGM on 5 July 2022.

3. **Eoin Tonge** Group CFO & Chief Strategy 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. Eoin became Group CFO & Chief Strategy Officer on 25 May 2022, taking on oversight of Plan A and playing an enhanced role in leading the future development of the business.

Committee Chairs

4. **Andy Halford** Senior Independent Non-Executive Director

A N

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.

5. **Andrew Fisher OBE** Independent Non-Executive Director

R N

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, and brings over 20 years' experience leading and growing numerous technology-focused enterprises. He is Non-Executive Chair of both Rightmove plc and Epidemic Sound, and is also a member of the UK Advisory Board for Spencer Stuart.

6. **Tamara Ingram OBE** Independent Non-Executive Director

E N R

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 and as Non-Executive Chair of Wunderman Thompson. Prior to this, she worked at Saatchi and 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 also a non-executive director of Marsh MacLennan and Intertek Group.

Committees key

Ⓐ Audit Ⓝ Nomination Ⓔ ESG Ⓡ Remuneration ● Committee Chair

7. Evelyn Bourke
Independent Non-Executive Director
Ⓐ Ⓝ

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 near 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 the Bank of Ireland, Standard Life and Friends Provident. Evelyn joined Admiral PLC as a non-executive director on 30 April 2021 and AJ Bell PLC on 1 July. She is also a Trustee of the Ireland Fund of Great Britain.

8. Fiona Dawson CBE
Independent Non-Executive Director
Ⓝ

Appointed: May 2021

Career and external appointments:
Fiona left her position as part of the Leadership Team of Mars Inc. in July 2021 after more than three decades at the business. Fiona has a strong track record in sustainability, health and wellbeing, particularly women's entrepreneurship and human rights and has always been a strong advocate for equality and diversity in the workplace. In May 2021, Fiona was awarded a CBE for services to women and the economy. Fiona is also a non-executive director of LEGO and joined Kerry Group plc as a non-executive director in January 2022. She is a Trustee of The Social Mobility Foundation and Chair of the Women's Business Council.

9. Justin King CBE
Independent Non-Executive Director
Ⓐ Ⓝ

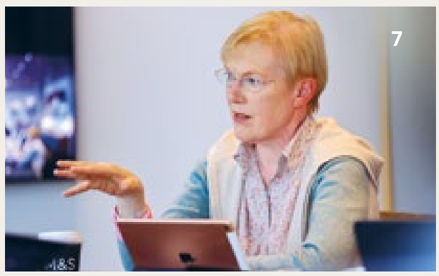
Appointed: January 2019

Career and external appointments:
Justin has over 30 years of experience in large retail operations and transformations, and now acts as an adviser to a range of growing businesses. Between 2004 and 2014, he was the CEO of Sainsbury's, leading the business through a major turnaround. He has also previously held senior positions at M&S, as Head of Food, as well as at Asda, Haagen-Dazs, PepsiCo and Mars.

10. Sapna Sood
Independent Non-Executive Director
Ⓔ Ⓝ

Appointed: June 2020

Career and external appointments:
Sapna recently joined The Adecco Group as a Senior Vice President and Chief of Staff to the Group CEO. She has in-depth knowledge of running complex supply chains, including in food and clothing, as well as experience of leading large transformation programmes and is passionate about sustainability. She has also 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. More recently, Sapna was a senior executive at Compass Group and a non-executive director at Kering SA and is currently an Advisory Board member of Imperial College Business School.



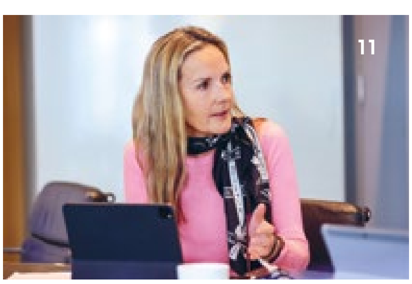
Joined the Board on 25 May 2022

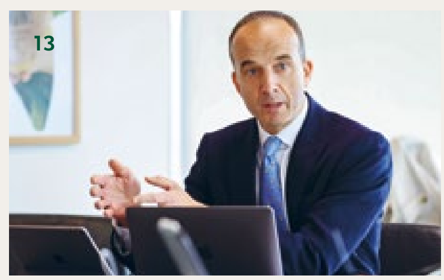
11. Katie Bickerstaffe
Co-Chief Executive Officer

Career summary: Katie has held a number of roles at M&S including Non-Executive Director, Chief Strategy and Transformation Director and most recently, joint Chief Operating Officer. On 25 May 2022, she re-joined the Board as Co-Chief Executive Officer. Katie is currently a non-executive director of Barratt Developments PLC and the England and Wales Cricket Board, and was previously Executive Chair of SSE Energy Services and Chief Executive, UK and Ireland of Dixons Carphone plc, with extensive experience of digital retail and operations and leading consumer-focused businesses.

12. Stuart Machin
Chief Executive Officer

Career summary: Stuart took over as Chief Executive Officer on 25 May 2022. Having joined M&S as Food Managing Director in April 2018 with nearly 30 years' experience in the food, fashion and home retail sectors, Stuart was appointed joint Chief Operating Officer in May last year. In his new CEO role, Stuart will continue to serve as a Director of Ocado Retail Ltd. Prior to joining M&S, Stuart was CEO at Steinhoff UK and spent 10 years in Australia working at Wesfarmers as COO and CEO of Coles and Target respectively. Stuart has also held senior operational and commercial positions in UK retailers Sainsbury's, Tesco and ASDA.





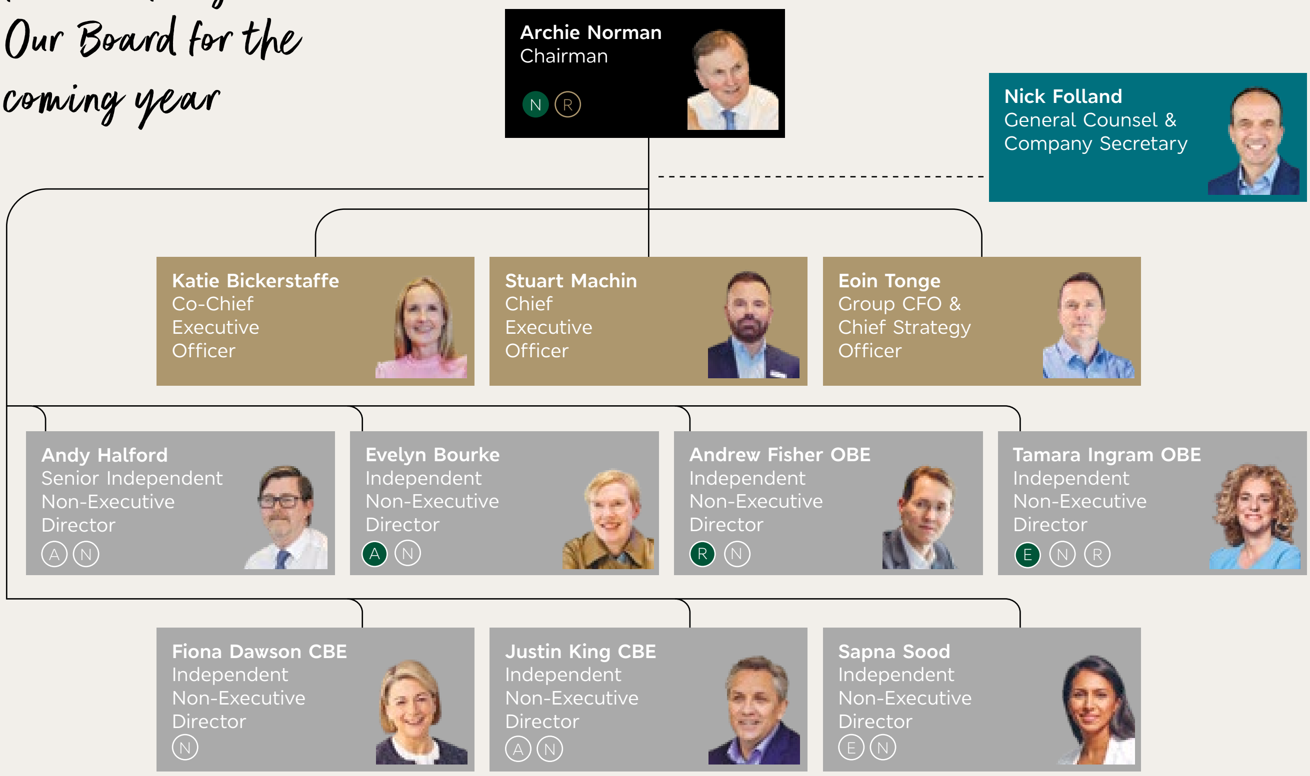
13. Nick Folland
General Counsel and Company Secretary

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. 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. Nick is the Senior Independent Member of the Natural Environment Research Council – the UK's leading public funder of environmental science. He joined HMPPS as a non-executive member of its Audit and Risk Assurance Committee in May 2021.

OUR BOARD CONTINUED

Recent changes: Our Board for the coming year

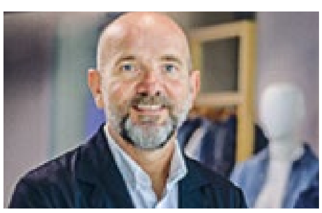


Committees key Ⓐ Audit Ⓝ Nomination Ⓔ ESG Ⓡ Remuneration ● Committee Chair

Our Executive Committee

The Executive Committee is established and led by the CEO, and is responsible for executing strategy and the day-to-day management of the business.

Richard, Paul and Sacha were members during the year, alongside the CEO, CFO and Chief Operating Officers. They will continue serving as members into 2022/23 with the executive directors.

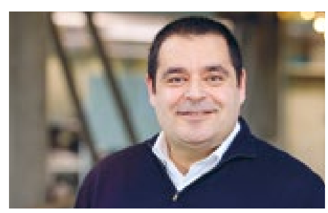


Richard Price
Clothing & Home Managing Director

Career summary: Richard joined M&S on 7 July 2020 as Clothing & Home Managing Director. Richard spent three years as MD of BHS before becoming CEO of F&F Clothing at Tesco PLC in 2015. Prior to this Richard was at M&S from 2005 to 2012, first as Head of Merchandise and then as Menswear Trading Director. Earlier in his career he worked for Next in a range of merchandising roles across womenswear and menswear from 1989 to 2005. Richard's career spanning some of the UK's top clothing brands demonstrates his proven track record of delivering growth through stylish, great value product.

Paul Friston
Managing Director of International

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 Executive Committee sponsor for Inclusion & Diversity in April 2018.



Sacha Berendji
Group Property, Store Development and IT Director

Career summary: Sacha joined M&S in 1994 through the Graduate training 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 current position in November 2012.

BOARD ACTIVITIES

The following pages outline the key topics reviewed, monitored, considered and debated by the Board in 2021/22.

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 two or three detailed "deep dives".

All items for discussion are guided by, and mapped against, the Company's strategic priorities which are highlighted in the key below.

The Board recognises the importance of understanding and considering the views and interests of all the Company's stakeholders, and this forms a crucial component of directors' discussion and decision-making.

The icons below highlight the stakeholders considered and impacted in each key area of activity, together with an example demonstrating the discharge of duties under Section 172(1) of the Companies Act 2006 ("s.172").

For more information, see p32-34 for our Section 172(1) statement.

Stakeholder groups: M&S Shareholders · Colleagues · Suppliers · Customers · Communities · Partners

Strategic priorities:

1 **M&S Food** high-performing business and market share growth

2 **Ocado** transitioning to strong capacity growth post pandemic reversion

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

4 Building **store rotation** pipeline, driving exit from legacy stores

5 **International** absorbing Brexit related costs, but embryonic global strategy encouraging

GROUP PURPOSE UPDATE 1 2 3 4 5

- As the business moved into the next phase of transformation, the Board discussed a "North Star" under which all the Group's activities could be collectively focused, guided and galvanised. This took the shape of an updated Group purpose which was relaunched internally in October. This reinvigorated articulation of how and why we serve our stakeholders has been the overarching backdrop against which all subsequent Board discussion and decision-making took place during the year.
- In shaping the Group purpose, the Board agreed this should be aspirational, exciting and engaging, particularly for colleagues. The Board emphasised the need to balance this with language and concepts which colleagues would find relatable, and also to ensure the integration of sustainability as a key strategic pillar.
- Crucially, directors considered shareholder returns and agreed the updated purpose should remain grounded in commercial reality.
- During discussions, the Board and Executive Committee ("ExCo") explored M&S' rich heritage and our place in the communities we serve with the help of our M&S Archive.
- Feedback was sought from leaders across the business and a wider "Talk Straight Survey" invited the views of all employees. The results identified clear communication as an area for improvement, and as a result, alignment with our wider "People Plan" and colleague communication strategy were key focus areas in the relaunch.

STRATEGY AND TRANSFORMATION

MS2 3 5

The Board has monitored progress of MS2, the Company's digital and online change programme, which was launched last year with the ambition to bring M&S.com front and centre of our business proposition.

Decisions and s.172 considerations

- In reviewing regular updates on MS2's progress, the Board monitored and encouraged advancement of growth plans, including appropriate investment in talent.

End-to-end supply chain 1 3 5

The Board reviewed regular updates on modernising supply chains across Food, Clothing & Home and International.

Decisions and s.172 considerations

- Guidance was offered on the roll-out of Vanguarde and consideration given to the impact of labour shortages and global delays on our partners, store colleagues, agency workers and shareholders.

Rotating the store estate 4

Ensuring the store estate is fit for the future continued to be a key priority during the year.

Decisions and s.172 considerations

- In addition to reviewing developments and visiting stores, the Board considered how changes in the community post-Covid-19 had impacted plans for store locations and encouraged management to focus on store geography during budget planning.

Strategic investments 3

CEO and CFO updates included reports on proposed and in-flight strategic investments and acquisitions, including on Nobody's Child, The Sports Edit and True Capital III Fund.

Decisions and s.172 considerations

- As part of the Brands strategy, the Board challenged management on integration with M&S colleagues and culture, long-term returns for investors, and adding value to the customer proposition.

Digital & Data 1 2 3 4 5

The "Digital First" agenda has remained a focal point in the transformation. The Board has monitored progress of programmes to enhance M&S' utilisation of data including Sparks, Personalisation at Scale and BEAM Academy.

Decisions and s.172 considerations

- The Board supported investment in the True Capital III Fund to enrich M&S' understanding of changing customer priorities, such as sustainability and convenience, through access to emerging technology.
- Reviewed and challenged the personalisation plans in relation to more focused customer engagement.

Plan A 1 2 3 4 5

While Plan A metrics are primarily evaluated by the ESG Committee, the Board reviewed progress against key objectives and considered Plan A factors throughout Board discussions.

Decisions and s.172 considerations

- The Board considered and approved the addition of sustainability metrics in a renewed revolving credit facility.
- A newly overhauled and strengthened governance process on charity partnerships and donations was agreed.

EXECUTIVE UPDATES

Budget and financial performance
1 2 3 4 5

Financial performance was monitored by the Board at every meeting, with deep dives on financial results announcements, in-year budget and the three-year plan.

Decisions and s.172 considerations

- The Board debated management re-forecasts were robustly scrutinised by the Board, leading to two market announcements increasing profit outlook guidance.
- The Board debated the Company's cost base, particularly in light of macroeconomic factors such as inflation. Discussing the impact on customers and partners in terms of pricing and supply strategy, it was agreed an emphasis on internal efficiency would remain vital.

Balance sheet management
1 2 3 4 5

As the business recovered from Covid, balance sheet management remained a critical component in sustainability of the Company's performance.

Decisions and s.172 considerations

- The Board considered broad stakeholder support in agreeing the new £850m revolving credit facility, which was linked to net zero sustainability metrics.
- The declaration of a dividend was debated by the Board, concluding prioritisation of balance sheet and debt management during 2021/22 remained in the best interest of shareholders and their long-term returns.

Invasion of Ukraine 5

Following the invasion of Ukraine by Russia, the Board rapidly engaged in crisis discussions and closely monitored the unfolding situation.

Decisions and s.172 considerations

- The Board unanimously agreed that colleague welfare was the Company's main priority and encouraged management's plans to support the humanitarian crisis.
- Detailed discussions took place on the challenges involved in suspending shipments to the Turkish franchisee's Russian business, and continuing to supply franchise stores in Ukraine. The Board continue to receive regular updates on how the conflict is impacting our franchise partner, suppliers, colleagues, charity partners and investors.

Brexit and Covid-19 1 2 3 4 5

Despite the easing of restrictions, the challenges and opportunities arising from Covid-19, and the ongoing impact and management of Brexit, remained regular topics in the boardroom during 2021/22.

Decisions and s.172 considerations

- Deep dive discussions on the markets most heavily impacted by Brexit, mindful of the diversity of customer perceptions. The Board agreed ways to best meet customer and community needs, instructing that partners with strong local knowledge should be sought and local sourcing should be engaged wherever possible.
- Regular updates on Covid-19 cases, restrictions and trading patterns were monitored across all markets and sourcing locations. The Board considered colleague welfare and continuity risks, instructing a renewal of contingency plans for the Castle Donington distribution centre.

Third-party brands 3 5

The Board reviewed brand proposals and received progress reports on third-party brand performance against a balanced scorecard, discussing potential structuring models, with both short-term and long-term objectives, and how they would support the M&S "ecosystem".

Decisions and s.172 considerations

- The Board considered how customer and brand partner propositions should be balanced. In doing so, directors reviewed the results of Customer Pulse Surveys and agreed the need to take a simplified and well-articulated position to improve customer understanding. Agreeing also that a clear stance would also support brand partners to curate their own offering.

CULTURE AND ORGANISATION

Risk appetite 1 2 3 4 5

Group-wide risk appetite is set by the Board through a series of assessments at individual business unit level, followed by collective Board debate. See pages 45 to 46 for further information.

Decisions and s.172 considerations

- Data-related risk was debated, with the Board concluding to separate risks associated with customer data versus utilising technology to drive the digital and data agenda more broadly. It was agreed there would be no risk appetite in the former category.
- The Board agreed that the global context of the Clothing & Home supply chain necessitated a separate risk appetite from that of the Food business.

Business Involvement Group ("BIG")
1 2 3 4 5

The Chair of National BIG was invited to several Board meetings throughout the year, with two "deep dive" discussions dedicated to colleague engagement and feedback.

Decisions and s.172 considerations

- Colleague feedback was considered in relation to pay reviews, the holiday buy programme and the Save As You Earn share scheme.
- The Board encouraged the plans to modernise the BIG network and supported agility in communications between colleagues and management.
- In an additional session dedicated to the Colleague Engagement Survey, the Board debated the themes behind the results, supported the delivery of consequent action plans, and agreed to focus on driving momentum from an inclusion and diversity perspective.

Talent 1 2 3 4 5

Following discussion at the Remuneration Committee, the Board considered an update on talent acquisition, development and retention.

Decisions and s.172 considerations

- The Board supported the "internal first" approach to growing talent and improving diversity in the workforce.
- Changes in both current and potential colleague's priorities were considered, including wellbeing and flexibility.

MyHR 1 2 3 4 5

In September 2021, M&S launched a new system designed to put digital at the heart of people activities.

Decisions and s.172 considerations

- The Board reviewed regular updates leading to the launch of MyHR and considered feedback from listening groups of c.300 colleagues to simplify and embed the system.

LEGAL AND GOVERNANCE

Board evaluation

Last year's external evaluator held regular sessions with the Board, including an all-Board deep dive, to monitor and review Board effectiveness, as well as progress with last year's Board action plan. See page 65 for further information.

Decisions and s.172 considerations

- Consideration was given to the Colleague Engagement Survey results, in line with the Board's action to ensure that people and culture are at the heart of the Company's transformation. With the Board agreeing it should focus on development of other senior leadership in addition to ExCo.

Board committees

The principal Committee meetings are aligned to the cadence of the Board calendar, with the Chair of each Committee providing the Board with their latest updates and recommendations for approval.

Decisions and s.172 considerations

- The Board debated the Remuneration Committee recommendation on an inflationary pay rise across the Group, considering cost of living pressures.

Year-end controls and approvals

After a series of briefings on planning, and following review and recommendation from the principal Committees, the Board considered the year-end approval matrix.

Decisions and s.172 considerations

- Detailed sessions on the Full Year Results and the Annual Report included rigorous debate and scrutiny on principal risks, investor returns, more customer-centric messaging, and communicating colleague recognition.

Shareholder analysis and engagement

The Board reviewed regular updates on analysis of the M&S share register and reports on the priorities of institutional investors and proxy voting agencies.

Decisions and s.172 considerations

- Consideration was given to investors' increased focus on ESG activities and the Company's record on plastic was agreed as a focus area for management.

AGM

Updates on planning for both the practical and legal aspects of the AGM were reviewed by the Board, followed by post-meeting feedback.

Decisions and s.172 considerations

- The Board reviewed plans to reduce the nominal value of the Company's shares and amend its Articles of Association, and supported the evolution of the digital format as a method demonstrating improved shareholder engagement.

Conflicts of interest

Any potential or actual director conflicts of interest are monitored by the General Counsel and Company Secretary and reported to the Board.

Decisions and s.172 considerations

- A number of external appointments were considered by the Board, including Evelyn Bourke's appointment to Admiral Group, Fiona Dawson's Kerry Group directorship and Archie Norman's role at Bridgepoint. In all instances, it was agreed there was no evident conflict.

BOARD REVIEW

BOARD EFFECTIVENESS REVIEW:

After two years of externally facilitated Board Effectiveness and Developmental Reviews, conducted by Gurnek Bains of Global Future Partners ("GFP"), it was determined this year's review would be conducted internally and led by the Chairman, Archie Norman, and supported by the General Counsel & Company Secretary, Nick Folland. Last year's externally facilitated Board Review was detailed in our 2020/21 Annual Report on page 70.

IMPACT OF THE 2021/22 BOARD ACTION PLAN:

The action plan resulting from last year's review has been a core foundation of the work conducted by the Board during this financial year. For example, the level, depth and frequency of engagement between the Board and senior executives significantly increased both formally and informally, including via the ExCo mentoring programme. This process clearly built the Board's trust and confidence in senior management, as it has culminated in the promotion of two members of the ExCo to the Board in an executive director capacity; the appointment of Stuart Machin as CEO and Katie Bickerstaffe as Co-CEO. Eoin Tonge also had his duties increased.

As evidenced in the ESG Committee's Report on pages 70 to 77, the Company has worked hard on building capability and focus across the organisation in relation to ESG. This has included the reset of Plan A, new net zero ambitions, and the inclusion of sustainability-related performance metrics built into the Company's £850m revolving credit facility.

Against the backdrop of Covid-19, our people responded admirably and the Board has remained focused on ensuring that the culture and people agenda is at the heart of the Company's transformation. This year there has been a greater focus on individual performance monitoring, the introduction of leadership and management trainings as well as wider investment in learning and development across the organisation. The Board is heartened that after five years, the Company's performance has produced a Group-wide bonus, half of which has been deferred for three years and will be awarded in equity – to further strengthen the alignment between colleagues and shareholders.

THE PROCESS

The Board and Committee review took the form of a series of structured interviews conducted internally and led by the Chairman, Archie Norman, and supported by the General Counsel & Company Secretary, Nick Folland, with each of the non-executive directors and ExCo members. These interviews were conducted in accordance with the principles of the UK Corporate Governance Code 2018 and the supporting Guidance on Board Effectiveness. These meetings also provided Board members with the opportunity to discuss further themes that had emerged from last year's Board action plan, as well as addressing topics emerging from sessions held this year.

BOARD REVIEW INSIGHTS

Following the interviews, a Board review report was finalised and circulated to members and became a discussion tool for the Board, helping them to devise the action plan for the year ahead. The main points highlighted are summarised below.

Board performance

- In general, members were very positive about the Board and how it functions, feeling that there had been noticeable improvement following the board review programme in the previous year. Members agreed that there is a good blend of expertise around the table and a high level of energy.
- The Board felt universally that dialogue is open and transparent, and that Steve Rowe and other ExCo members deserved credit for this.
- The executive Board members were considered to be working well with the Board, contributing openly and without defensiveness.
- Newer Board members had settled in well and all Board members had devoted time to understanding the business.

Discussing the critical issues and balancing the agenda

- Board members agreed that meeting agendas addressed the most important issues, with a good balance and range of issues discussed.
- However, there was a perceived need for improvement in the framing of issues for discussion, a desire for more strategic discussion, and a desire to close out returning issues.
- Given the high level of Board activity, Board members felt that keeping meeting schedules tight was a good discipline to force choices and to prioritise the agenda.

Getting the best out of Board members

- The Board agreed they all had good opportunities to contribute and that the expertise around the table is currently appropriate.
- There was a high level of respect for people around the table.
- Although discussions were sometimes considered to be robust, they were also respectful with a good level of debate. The level of challenge to management was viewed as constructive.
- Sometimes discussion felt time-constrained, with members expressing a need to balance more appropriately covering all issues against examining them in depth. It was felt there was a tendency amongst the executive team to present issues already set out in Board papers, causing some minor frustration.

Board papers and information

- The Board papers generally contained a comprehensive overview of business performance. The monthly management reports especially were open about the issues, providing real insight into what the executive were tackling and what their concerns are.
- However, members agreed that the framing of options could be improved, with some papers presenting a narrative on a subject and the steps being taken, without outlining the choices clearly. It was felt this sometimes led to less-focused discussion.

Chairman

- 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 Board agreed that the Chairman's style and approach had been appropriate and necessary to drive change during the critical first stage of transformation. Members also agreed that his style would inevitably evolve with the leadership changes and with the differing demands of the next stage of transformation.

Senior Independent Director ("SID")

- Andy Halford was praised for his role on the Board, with members commenting he has played an important role in articulating hard truths, and had been pivotal with new director onboarding.
- There was an awareness that when Andy leaves the Board and his role as SID by the end of 2022, he will be leaving a gap and he will be hard to replace.

2022/23 ACTION PLAN:

- Post-pandemic, and with the anticipation of a new executive leadership team in place, it has been agreed that it is time to revive the Board's informal engagement opportunities outside of formal Board meetings, with breakfasts and dinners. It was also agreed the Board Involvement Programme should be refreshed, with the Board expressing a desire to meet in stores, distribution centres and at Ocado, to increase the Board's visibility in the business and to engage fully with a wide range of colleagues.
- After an intense period of Board involvement and focus on operational issues, the Board's focus should be re-oriented on strategic issues, particularly in the long-term; with technology and M&A activity flagged as possible areas for discussion. The Board has agreed to consider future trends on two or three occasions during the coming year.
- A key focus for the Board will be ensuring that the customer is at the heart of all that M&S does, with heightened attention paid to the M&S brand and consumer behaviour.
- The Board's composition will continue to be reviewed, but with particular emphasis this year on the identification of a successor for Andy Halford as Senior Independent Director, and on the Audit Committee.

NOMINATION COMMITTEE REPORT

"THE COMMITTEE'S ACTIVITIES WERE FOCUSED ON EMBEDDING THE NEWLY BALANCED BOARD AND PREPARING FOR THE EXECUTIVE TRANSITION."

Archie Norman, Chair of the Nomination Committee

REVIEW OF THE YEAR

Following a period of non-executive director changes, the Committee's activities in 2021/22 were focused on embedding the newly balanced Board and preparing for executive succession.

Since the outbreak of Covid-19, the pace of our transformation has increased significantly. To support this escalation with the appropriate skills and experience, we have seen a number of non-executive director appointments over the last two years. As such, the Committee focused on oversight of a thorough induction for Fiona Dawson in the early part of this year.

As the year progressed, attention turned to the talent pipeline and in particular, executive succession planning. As announced on 10 March 2022, and as I've outlined in my Governance Overview on pages 56 to 57, this has culminated in the appointment of Stuart Machin as CEO and Katie Bickerstaffe as Co-CEO on 25 May 2022, following Steve Rowe standing down as CEO.

In addition to their current activities, Stuart will be responsible for the day-to-day leadership of the business and Executive Committee, also taking on responsibility for HR and Corporate Communications. Katie will have a particular focus on driving the global omni-channel, digital and data future for the business.

The Board's executive directors will continue to include Eoin Tonge, whose role has also expanded to Group CFO & Chief Strategy Officer. Eoin's new responsibilities involve an enhanced role in leading the future development of the business and oversight of Plan A.

In making these executive changes, the Committee appointed and worked with an independent executive search firm, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms. Together, we reviewed the Board and Executive Committee's balance of skills, experience and knowledge and considered the business' immediate and longer-term requirements. In recognition of the progress made under the current leadership team, as well as the recent period of boardroom changes, the Committee agreed that the continuity and stability provided by this new executive trio would be valuable during this next stage of our transformation, in "Shaping the Future".

These appointments also bring female representation in the Company's most senior executive to 33%, and to 45% overall at the Board, supporting the Committee's ambition to surpass internal and external diversity targets.

COMMITTEE ROLE AND MEMBERSHIP

The Nomination Committee is responsible for ensuring the composition and structure of the Board remains effective, balanced and optimally suited to the Company's strategic priorities. In practice this involves overseeing the nomination, induction, evaluation and orderly succession of directors. The Committee also ensures the Group's governance facilitates the appointment and development of effective management that can deliver shareholder value over the long 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 below table. More information on the skills and experience of all Committee members can be found on pages 60 to 61.

The Committee's performance was reviewed as part of the 2021/22 internal Board Review, which is covered on page 65.

The review established that the Committee functions well in terms of planning succession to Board roles and other senior positions.

MEETINGS HELD IN 2021/22

	Member since	Number of meetings attended	Maximum possible meetings
Archie Norman	1 Sep 2017	7	7
Evelyn Bourke	1 Feb 2021	7	7
Andrew Fisher	1 Dec 2015	7	7
Andy Halford	1 Jan 2013	7	7
Tamara Ingram	1 Jun 2020	7	7
Justin King	1 Jan 2019	6*	7
Sapna Sood	1 Jun 2020	7	7
Non-executive directors who served on the Committee for part of 2021/22			
Fiona Dawson	25 May 2021	4*	5

* Unable to join due to prior business commitments.

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

DIRECTOR TENURE

In January 2022, Andy Halford reached nine years of service on our Board. Last year, the Committee reported that Andy remained independent, and would provide a key point of stability during 2021/22. In light of the executive changes made at the start of 2022/23, the Committee has agreed Andy's skills and experience remain vital to the Board's composition during this period of transition. The Committee has also discussed his independence in depth and, in agreement with the internal Board Review (see page 65), we have established that Andy remains independent in both character and judgement. He has no other significant links to the Company and continues to make an effective and valuable contribution.

In line with our succession plans already in place, Andy steps down as Chair of the Audit Committee on 7 June, with Evelyn Bourke replacing him. Andy will remain a member of the Audit Committee and our Senior Independent Director until he leaves the Board by the end of 2022.

TALENT MANAGEMENT

Following the change from the Operating Committee into the Executive Committee ("ExCo") in 2020, each Nomination Committee member became a mentor to a member of the ExCo. This guidance has continued and developed during the year, with particular focus on broader HR and talent management.

Discussions around the contribution of talent management to the Company's transformation have principally taken place at the Board and Remuneration Committee. The Committee supports the stronger governance controls and improved succession planning which has been taking place.

Last year, our review processes focused on senior leaders. In 2021/22 the review and development of our most senior individuals progressed, in addition to new arrangements for the acquisition, assessment and nurture of talent throughout the entire organisation.

The Committee acknowledges the important role growing talent internally plays in M&S' diversity ambitions, aligning with the Board's own diversity policy, which encourages directors to contribute to the development of a diverse range of future leaders. Internally promoting talent in our CEO succession is, we believe, an important demonstration of our commitment to talent development.

CEO SUCCESSION PROCESS

In light of the Committee's most recent activities, we have taken the opportunity to provide an insight into our approach to succession and induction of our new CEO and Co-CEO. The process is designed to ensure the appointment of our executive directors is strategic, orderly and comprehensive. Since the new executives have been part of the business for a number of years, their inductions are primarily focused on providing a robust understanding of their new responsibilities as statutory directors of a premium listed company. However, both Katie and Stuart will undertake some deep dive introductions to areas of the business not previously under their remit.

Succession planning

The talent pipeline for all senior roles is prepared, identifying the emergency cover, medium-term (1-3 years) and longer-term (3-5 years) candidates who meet current business needs. This includes consideration of whether a role can be filled internally, or whether external search is required.

Identify and develop

The candidates in the pipeline are mentored by members of the Committee. In particular, those identified for medium- or longer-term plans are provided with training and support to aid the Company's ability to promote internal candidates, in line with the Board Diversity Policy.

Review

Review of the succession plans for the most senior roles takes place periodically. Immediately following notification of an incumbent director's upcoming departure, plans are considered and scrutinised in-depth by the Committee and an executive search firm, taking into account the prospective CEO's expertise, leadership style, and the current composition of the Board. This includes both an assessment of interpersonal dynamics and a skills matrix reflective of the one on page 68.

Appoint

Having considered the requirements of the business, it was agreed that both Stuart and Katie would be recommended for appointment to the Board as CEO and Co-CEO, with Eoin remaining in place to complete the executive leadership trio, and with the General Counsel & Company Secretary tasked with the formalities.

Induct

The final step is to provide the new directors with a comprehensive induction. Some of the activities included in Stuart and Katie's inductions have been:

- Board procedures and team dynamics
- Listed company matters and corporate governance
- Directors duties
- Corporate communications and media training
- Shareholder and investor relations analysis and briefing
- External Auditor introduction
- National BIG introduction
- Business area deep dives (Clothing & Home, Food, Stores & Property, Bank & Services, Digital & Data, Plan A)
- Store visits, including renewal stores
- Supply chain depot visit
- Customer services centre visit
- Castle Donington distribution centre visit

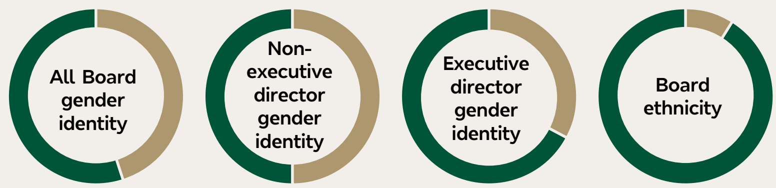
NOMINATION COMMITTEE REPORT
CONTINUED

Balanced leadership

BOARD

Evidencing effectiveness

Throughout 2020/21 and until the publication of last year's report, the Company took steps to ensure, in line with our Board Diversity Policy (the "Policy"), that Board appointments contributed to our Group-wide ambition of driving inclusion and diversity ("I&D"). Consolidating the improving trendline, 2021/22 then focused on embedding our newest non-executive directors and harnessing the value of an effective boardroom dynamic. As director diversity increased, so too did the frequency of the I&D agenda as a consideration across many topics at Board level. In addition, the Board Evaluation established the Board as continuing to demonstrate effective debate and decision-making; a key outcome the Policy seeks to produce.



- All Board gender identity: Female (45%), Male (55%)
- Non-executive director gender identity: Female (50%), Male (50%)
- Executive director gender identity: Female (33%), Male (67%)
- Board ethnicity: Ethnic minority (9%), White (91%)

Figures as at publication date.

Shaping the future

It is our belief, supported by external evidence, that a Board which is diverse in gender, ethnic and social background correlates with a wealth and diversity of skill, experience and perspective shared in the boardroom. The Board skills and experience matrix below demonstrates this belief. The matrix is regularly reviewed to ensure it meets current business needs and was an essential tool in the CEO succession process. The ongoing consideration of the competencies highlighted in the matrix and, crucially, its alignment with our strategic priorities, has also ensured the Board is fully equipped to drive the next stage of the transformation.

Skills and experience	Retail and consumer (1, 3, 4, 5)	Food and beverage (1, 2)	Supply chains (1, 3, 5)	Marketing and media (1, 2, 3, 5)	Data and digital (1, 2, 3, 4, 5)	Transformation and strategy (1, 2, 3, 4, 5)	Finance (1, 2, 3, 4, 5)	Risk management (1, 2, 3, 4, 5)	Property and real estate (1, 3, 4, 5)	Organisational design and corporate culture (1, 2, 3, 4, 5)	Sustainability (1, 2, 3, 4, 5)	Corporate transactions, legal and regulatory (1, 2, 3, 4, 5)
Archie Norman	●	●		●	●	●	●		●	●		●
Steve Rowe	◌	◌	◌		◌	◌		◌	◌	◌	◌	◌
Eoin Tonge		●	●			●	●	●		●	●	●
Andy Halford	●					●	●	●		●		●
Andrew Fisher	●			●	●	●	●		●			
Tamara Ingram	●			●	●	●					●	
Evelyn Bourke						●	●	●		●		●
Fiona Dawson	●	●	●	●		●				●	●	
Justin King	●	●	●			●						
Sapna Sood	●		●			●				●	●	
Stuart Machin	○	○	○	○	○	○			○	○	○	
Katie Bickerstaffe	○	○		○	○	○			○	○	○	
Nick Folland	◍					◍		◍		◍	◍	◍

○ Newly appointed ◌ Outgoing ◍ General Counsel & Company Secretary

Strategic priorities:

1 **M&S Food** high-performing business and market share growth

2 **Ocado** transitioning to strong capacity growth post pandemic reversion

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

4 Building **store rotation** pipeline, driving exit from legacy stores

5 **International** absorbing Brexit related costs, but embryonic global strategy encouraging

Expanding goals

In 2020, we met both our internal target set out in the Policy and the external target laid out in the FTSE Women Leaders Review (formerly the Hampton-Alexander Review), ensuring a 33% female Board. Towards the end of last year, we surpassed these goals with the appointments of Evelyn Bourke and Fiona Dawson. Since then, we have expanded scope and, in recognition of the different roles of non-executive and executive directors, we have also achieved a 33% female executive population. In addition, we are fully compliant with the Parker Review's target to appoint at least one Board member from an ethnic minority background. However, the Board recognises the importance of all forms of diversity and remains committed to striving for further progress in this space.

FTSE Women Leaders Review

Target: 33% female Board

Parker Review

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

EXECUTIVE COMMITTEE

Wider leadership

As reported above, the improved gender diversity of our executive directors has been a positive outcome of the CEO succession. Separately, the balance of individuals reporting into ExCo members who identify as female has also seen improvement this year. In recognition of the importance of the talent pipeline, we have also outlined the ethnic diversity of senior leadership below ExCo level for the first time. We are pleased to report that our senior leadership is representative of the wider organisation, of which 12% are from ethnic minority backgrounds. However, we remain committed to enhancing the quality of the talent pipeline while driving change.

More detail on diversity in the wider organisation can be found on page 27.

- Female (14%)
- Male (86%)

- Female (46%)
- Male (54%)

- Ethnic minority (14%)
- White (86%)

- Ethnic minority (14%)
- White (86%)

Skills and experience

	Retail and consumer (1, 3, 4, 5)	Food and beverage (1, 2)	Supply chains (1, 3, 5)	Marketing and media (1, 2, 3, 5)	Data and digital (1, 2, 3, 4, 5)	Transformation and strategy (1, 2, 3, 4, 5)	Finance (1, 2, 3, 4, 5)	Risk management (1, 2, 3, 4, 5)	Property and real estate (1, 3, 4, 5)	Organisational design and corporate culture (1, 2, 3, 4, 5)	Sustainability (1, 2, 3, 4, 5)	Corporate transactions, legal and regulatory (1, 2, 3, 4, 5)
Steve Rowe	○	○	○		○	○		○	○	○	○	○
Eoin Tonge		●	●			●	●	●		●	●	●
Stuart Machin	●	●	●	●	●	●			●	●	●	
Katie Bickerstaffe	●	●		●	●	●			●	●	●	
Richard Price	●		●	●		●				●		
Paul Friston	●		●		●	●	●		●			
Sacha Berendji	●		●		●	●	●	●	●	●		

○ Newly appointed ○ Outgoing

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:

- A reset, including budget allocation, for the seven employee-led networks on gender, ethnicity, 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. This year, opportunity to join was extended to all under-represented groups.
- The Marks & Start programme, which continues to support young people, the homeless, lone parents and those with disabilities in finding work at M&S.
- The Kickstart Scheme, through which M&S provides six-month employment contracts and helps to develop skills in 16-24-year-olds on Universal Credit who are at risk of long-term unemployment.
- 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.
- 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.
- Continued to drive and improve mandatory I&D training across the business, with a particular focus on line managers.

Read more in our Sustainability Report

ESG COMMITTEE REPORT

"OUR PRIORITY HAS BEEN ENSURING SUSTAINABILITY REMAINS AT THE HEART OF M&S' CUSTOMER PROPOSITION."

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

INTRODUCTION

Last year, we established our Environmental, Social & Governance ("ESG") Committee to provide the business with rigour, support and challenge on ESG matters. Throughout the course of 2021/22, our priority has been the reinvigoration of Plan A – our multi-year sustainability programme – ensuring our leadership position is upheld and sustainability remains at the very heart of M&S' customer proposition. This report outlines our activities in support of this aim, and how we have discharged the responsibilities delegated to the Committee by the Board.

Doing the right thing by our planet, people and the places we serve, is a value that has been core to M&S' culture since its inception. In recognition of this, the Committee and I would like to thank Steve Rowe for his consistent leadership in this regard. He has ensured this year, as a standing attendee, that this was forefront of the Committee's minds, and in turn confirmed sustainability, in particular climate change, as a key strategic pillar in the Company's purpose as it moves through the next stage of its transformation.

In line with the intention we set last year, the Committee has reviewed the sustainability strategies of each of the Group's accountable businesses, challenging management to ensure they are relevant to all stakeholders. This culminated in our reset of Plan A with a singular focus; to cut our carbon footprint by one-third by 2025 and to become a net zero business by 2040. We have developed a multi-stakeholder plan spanning customers, colleagues and suppliers to deliver on this target.

Important progress has been made with our Plan A reset, which included the return of our iconic "Look behind the Label" campaign to engage customers in the stories behind our responsibly sourced, everyday products, from coffee to cotton. We have also introduced new propositions including our partnership with Hirestreet (the clothing hiring business), and our Sparking Change Challenge encouraging customers to live more sustainably by reducing food waste and exploring more plant-based protein. Bringing customers along on our sustainability journey is and will increasingly become vital; to ensure, alongside our own sustainability efforts, we are positively influencing the sustainability of our wider community. This approach will be necessary for us to achieve our Scope 3 net zero emissions targets.

The Committee has been conscious this year that unless we hold ourselves accountable against our actions plans and targets, our efforts to reset Plan A will ultimately become futile. Embedding sustainability throughout the business, ensuring all decisions are aligned to Plan A, strengthening our governance to manage climate-related risks and opportunities, and monitoring progress with our net zero target, have all therefore been key areas of focus for the Committee.

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. In addition, the Committee advises the Audit Committee on ESG-related risks, including climate-related issues.

The full Terms of Reference for the Committee can be found at **marksandspencer.com/thecompany**.

The Committee comprises Tamara Ingram as Chair and Sapna Sood, with Archie Norman, Steve Rowe, Eoin Tonge and Nick Folland standing attendees at Committee meetings. Individual meeting attendance is displayed in the table below. More information on the skills and experience of Committee members can be found on pages 60 to 61.

MEETINGS HELD IN 2021/22

	Member since	Number of meetings attended	Maximum possible meetings
Tamara Ingram	16 Dec 2020	6	6
Sapna Sood	16 Dec 2020	6	6
By standing invite			
Archie Norman	N/A	6	6
Steve Rowe	N/A	6	6
Eoin Tonge	N/A	6	6
Nick Folland	N/A	6	6

We recognise we must never be complacent. The world is unpredictable, complex and changing fast. As a consequence, the Committee will continue to challenge the business proactively to tackle relevant sustainability topics, climate-related risks and opportunities, respond to stakeholder expectations, and ensure the business has appropriate controls in place to meet our Plan A targets.

WHAT WAS ON THE COMMITTEE'S AGENDA 2021/22

The Committee's time during the year was devoted to the following interlocking key areas of focus:

- Strategy
- Embedding
- Controls

Strategy

The Committee received updates from the Executive Committee ("ExCo") on the sustainability strategies for the Food, Clothing & Home and International businesses, as well as the common themes across the Group on climate change, community, human rights and ethical trading. ExCo and senior leadership were challenged to develop these strategies with a focus on key customer concerns, our market position on sustainability and upcoming regulatory issues. These reviews concluded with the reset of Plan A, under a unifying Group commitment to be a net zero business (including Scope 3) by 2040. As an interim but meaningful step, we have also made a public commitment to cut our carbon footprint by one-third by 2025 and the teams across the business have been tasked with developing operational plans to deliver against this.

The Committee was also presented with "deep dives" on the following areas, to aid its thinking and development of sustainability objectives:

- Customer insights on sustainability concerns and perception of M&S' sustainability performance.
- M&S' market position on sustainability.
- Climate change.
- Animal welfare.
- Plastics.
- Community investment.

Embedding

The Committee has emphasised during the year the importance of creating and embedding a sustainability culture within the business, to ensure all decision-making is aligned with Plan A objectives.

As such, and to promote the alignment of Plan A with investment and financing decisions, the Committee reviewed, advised on and supported the proposal to link a new £850m revolving credit facility to the delivery of net zero targets. Further detail can be found on page 74.

The Committee also considered aligning colleague mindset with Plan A by incorporating sustainability objectives in performance-related pay, recommending that the Remuneration Committee investigate this further. More information is given on page 76.

Controls

In addition to reviewing and advising the Audit Committee on ESG risks and opportunities (further detail on page 76), the Committee has challenged the business to improve its controls on ESG-related reporting and Plan A progress. At the Committee's direction to enhance accountability, the business now compiles and tracks progress with metrics spanning all ESG activities. Progress with the net zero roadmap is also overseen via a new Plan A (Net Zero) Steering Group, providing the Committee with assurance that progress is consistently monitored.

Outside In – Rolling programme

The Committee has been keen to hear from as many significant voices in the sustainability world as possible. As such, it has heard from a host of external speakers and will continue this practice in the coming year:

- CEO of a leading consumer goods business, on embedding sustainability through controls and culture, and the market's response.
- Chief Sustainability Officer of a global fashion company, on the importance of innovation, supplier relationships, transparency through global supply chains, and changing consumer sentiment.
- A scientific adviser on animal welfare, farming subsidies, agricultural automation, and labour shortages.

ESG COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed as part of the 2021/22 internal Board Evaluation, which is covered on page 65. The Committee also proactively discussed its own effectiveness and progress against objectives in its first full year of operation.

The review found that the Committee was considered to be operating well. The frequency of meetings, while more often than the Board's other sub-committees, was not considered overly onerous given the need to maintain momentum with the Committee's objectives. It is felt that having the Committee meet frequently and providing leadership is having a positive and galvanising effect on the business while we are trying to embed sustainability more deeply.

The level of challenge provided by the Committee to management was deemed appropriate, and Committee members also felt the quality of input from external guest speakers was valuable. The Committee agreed that a key focus for next year would be enhancing customer communication of our Plan A practices.

2022/23 action plan:

- Demonstrate visible change to customers and colleagues aligned to our Plan A objectives, on customer focus points such as carrier bags, hangers and plastic packaging.
- Agree strategies for sustainability focus areas, including on Community, Circular Fashion and Low Impact Farming.
- Review our existing strategies on Human Rights, Health and Animal Welfare.
- Monitor delivery against our net zero targets, ensuring accountable businesses have targets integrated into their three-year plans.
- Strengthen ESG skills and talent across the business.

ESG COMMITTEE REPORT
CONTINUED

Task Force on Climate-related Financial Disclosures report

INTRODUCTION

This report sets out our climate-related financial disclosures, which M&S believes demonstrate our alignment to the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. For ease, an index table of page references for our TCFD-aligned disclosures can be found on page 77.

Marks and Spencer Group plc has complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures. Further detailed information can be found in our Sustainability Report, a supplement to our Annual Report which enables the Group to provide more detailed and comprehensive reporting of our climate strategy and progress against our Plan A metrics in alignment with the TCFD recommendations and recommended disclosures. The Sustainability Report was published on 7 June 2022 and is available at **corporate.marksandspencer.com/sustainabilityreport2022**.

In our report last year, we set out the actions required for us to disclose fully against all TCFD recommendations. Our progress against this plan is set out below:

2021/2022 Actions	Update	
Publish the delivery roadmap to underpin our new net zero ambition with clear targets across each of the three scopes.	In September we relaunched our Plan A sustainability programme, supported by a detailed roadmap which identifies the immediate priority areas that we must focus on now as we make our journey towards net zero.	✓
Continue to track our performance against the baseline.	Our Scope 1 and 2 greenhouse gas emissions continue to be tracked in line with the Greenhouse Gas Protocol and can be found on page 75. This year we have chosen to disclose our Scope 3 emissions, recognising that our ability to track Scope 3 emissions is still very limited due to the complexity of measurement. Improvement in Scope 3 emissions measurement has been identified as a clear enabler to delivering our strategy.	✓
Conduct scenario analysis.	We have undertaken scenario analysis on three key areas of our business – Protein, Cotton and Property – see page 74.	✓
Publish the climate-related risks and opportunities over the short, medium and long term.	This disclosure articulates how we have considered the climate-related risks and opportunities we face, over the short (<3 years), medium (3-10 years), and long term (>10 years).	✓

STRATEGY AND RISK MANAGEMENT

Since its launch in 2007 Plan A, our sustainability programme, has underpinned the resilience of our organisation's strategy, ensuring that we are managing the environmental and ethical risks and opportunities we face as a business, including climate-related issues. In September 2021, our Executive Committee and the Board's ESG Committee reset Plan A to focus exclusively on our new Group goal of being a net zero business by 2040, integrating this ambition into our core strategic planning processes, budgeting and commercial strategy. Led by the CEO, over the course of 2021 the Executive Committee reviewed and updated the sustainability strategies of the Group and accountable businesses. An independent expert review was commissioned to identify the most material sustainability issues for our business and assess our performance relative to competitors. This review highlighted the importance of climate change as an issue for multiple stakeholders and for the M&S business over the short, medium and long term, and led to the inclusion of climate change as a standalone emerging risk in last year's Annual Report. Our response to TCFD last year explored this emerging risk and identified the need to better understand the transitional and physical risks and opportunities we face as a business.

As we have further developed our understanding of our climate-related risks and opportunities, we have moved climate change from an emerging risk and have disclosed "Climate change and environmental responsibility" as an evolution of the previously disclosed "Social, ethical and environmental responsibility" principal risk to emphasise the importance of climate-related issues, and acknowledge our short term requirement to deliver rapid decarbonisation by 2025.

In line with the identification of this principal risk, each of our accountable businesses and key functional areas have considered risks relating to climate change, and more broadly the delivery of our net zero commitment, as part of the Group risk management process. This has allowed the businesses to consider how climate-related issues may impact their strategy both in the short term and beyond, and therefore to implement the required controls to manage these.

Further integration of climate change into our risk management process, as a principal risk, has increased the visibility of how the businesses are decarbonising their activities. This approach has also provided broader oversight through the risk reviews taking place at business leadership and executive team level, as well as to the Audit Committee through Group risk reporting. More information on our risk management process can be found on page 45, which includes the consideration of climate-related risks.

Climate risks and opportunities

The below table provides a high-level summary of the risks and opportunities we have identified over the short, medium and long term across the business, and the potential impacts these could have.

Policy and regulatory landscape S M L	Current and future policies and regulations could impact the financial performance of our business and affect our ability to trade. Governments, including the UK's, are expected to introduce carbon pricing mechanisms to cut emissions in line with targets set out in the Paris Agreement. Policies that control the production and use of raw materials could increase costs of key commodities in our supply chain.
Technological changes M L	To achieve the targets set out in the Paris Agreement, new technologies will be required to support a low-carbon future. A number of these technological changes could also be driven by regulation. For M&S, these could include the requirement to move away from internal combustion engine vehicles and to move to low-carbon refrigeration systems.
Changing consumer preferences S M	Our continued success as a business is reliant on our ability to adapt and meet the changing expectations and needs of our customers. As public awareness of climate change grows, consumers are seeking more sustainable product choices, embracing plant-based alternatives, and choosing reusable packaging options.
Impact of extreme weather on raw material supply chain L	We are reliant on raw materials as ingredients in our food and fibres in our clothing and home products. Extreme weather and the effects of changing temperature and precipitation can impact the growth of raw materials such as cotton and produce. Any impact in supply could increase the cost of raw materials.

Risk key S Short term M Medium term L Long term

Building on these risks and opportunities, we believe it is highly likely that factors such as the cost of carbon and sustainable consumer choice will become the norm. It is therefore imperative that we act now to be ahead of the curve and manage the impact of these risks and opportunities, so we can deliver long-term, sustainable, profitable growth for our investors, colleagues and wider communities, and avoid material financial risk in the future.

Our agreed Group goal, developed in response to the long term climate-related regulatory pressures we face, is to be a net zero business across our entire supply chain and products by 2040, 10 years ahead of the UK Government's strategy. To support this, we have set a medium-term target (2030), aligned to the Paris Agreement.

To be on track to meet this target, we know that rapid decarbonisation of our entire business is essential to ensure we mitigate medium-term risks such as carbon pricing in high emissions activities. In the short term, we have set ourselves an interim goal of reducing emissions by almost 2 million tonnes by 2025 and have set out a detailed roadmap outlining the immediate priorities we will focus on as we make our journey towards net zero.

OUR ROADMAP TOWARDS NET ZERO

Rapid carbon reduction

PLAN A *Because there is no Plan B*

TEN IMMEDIATE PRIORITY AREAS FOR TRANSFORMATION

Reduced waste and emissions

Zero emissions property
Deliver a more efficient store estate.

Reduce food waste
- 100% of edible surplus to be redistributed by 2025.
- Food waste reduced by 50% by 2030.

Reduce and recycle packaging
- 100% of packaging to be recyclable by 2025.
- 30% reduction in volume of plastic food packaging by 2027.

Zero emissions transport
Moving to low-carbon logistics with reduced dependency on diesel and increased use of new technologies and cleaner fuels. Contributing to cross-industry action through collaboration.

Change driven in collaboration with supplier partners, stakeholders and customers

Suppliers and business partners on net zero journey
Looking beyond our own operations to spark change and support decarbonising across our full value chain.

Zero deforestation
- 100% of soy to be sourced from verified deforestation and conversion-free regions by 2025/26.
- 100% segregated responsibly sourced palm oil by 2025/26.

Increasing the range of plant-based protein
Double the sales of vegan and vegetarian products by 2024.

Low-impact farming
We support our farmers to enable them to grow low carbon, responsible food, use fewer pesticides, enhance their soil, protect natural resources and drive innovation.

Circular economy
Enhancing our clothes recycling scheme with new incentives for Sparks members.

Sustainable sourcing
100% verified recycled polyester by 2025/26.

OUR BASELINE
5.7m tonnes
of carbon emitted in 2016/17

2025 TARGET
34% reduction
in carbon emissions versus our baseline

2030 TARGET
55% reduction
in carbon emissions versus our baseline

2035 TARGET
Net zero
across our own business

2040 TARGET
Net zero
across entire value chain

ESG COMMITTEE REPORT
CONTINUED

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT CONTINUED

The 10 workstreams identified in our roadmap towards net zero cover emissions reductions in our property estate and logistics network, as well as sourcing lower impact raw materials for our products and engaging suppliers and business partners to reduce emissions from their own operations. As an own brand retailer, we are uniquely positioned to influence upstream to effect change with our trusted supplier partners, and downstream to incentivise changes in customer behaviour thanks to the unique relationships we have.

To support our net zero ambition, we are resetting our investment approach to ensure Plan A sits at the very centre of investment decisions. We have begun to integrate the climate-related risks and opportunities into our three-year financial planning process by, for example, including the capital expenditure required to manage the impact of our climate-related risks in our operations and the profit impact from climate-linked products and services. As part of our broader financial strategy, we have also launched our first sustainability-linked loan facility.

£850m Sustainability-linked loan facility

In December, we agreed a new £850m Revolving Credit Facility, directly linked to the delivery of net zero targets. Under the terms of our new facility, which will run to June 2026, we will benefit from a lower interest rate for delivery against four metrics that deliberately focus on material emissions hotspots aligning to our roadmap towards net zero, and areas of customer concern. These cover zero deforestation, sustainable fibre sourcing, packaging reduction and reducing our property emissions. We have engaged Deloitte to undertake an ISAE 3000/3401 limited assurance engagement in respect of M&S' reported information aligned to the metrics associated with our Revolving Credit Facility. You can read more from our Group Treasurer on our corporate website: **corporate.marksandspencer.com/stories/blog/driving-net-zero-with-our-first-sustainability-linked-loan-facility**

Quantitative scenario analysis

We are clear on the importance of understanding climate risks and opportunities over the short, medium and long term. Recognising climate-related risks and opportunities is an emerging area but critical issue, we complimented our existing risk management process outlined on page 45 with a bespoke scenario analysis to assess potential implications of climate-related risks in the medium term.

2030 reflects a medium-term timeframe for climate risks and opportunities to emerge, whilst also allowing for the integration of risk management into our business planning cycles. We chose a narrow scope for our quantitative scenario analysis, focusing on animal protein, cotton and UK property. These areas were selected following a materiality assessment which considered both the potential climate-related impact and the impact on financial performance to M&S, whilst ensuring fair and balanced reporting across the accountable businesses.

Exposure was determined based on percentage of profit, percentage of total consumption and total emissions. Our analysis looked at the impact of two plausible future states – average global temperature increases of 1.5°C and 4°C due to climate change by 2100. The transition and physical risks identified are outlined in the table on page 75 (Impact in 2030).

For the purpose of this risk assessment and analysis, we have assumed that M&S' business activities remain static, that we do not innovate or mitigate the impacts or change our sourcing strategy; and increases in costs are absorbed by M&S. This is a worst-case scenario approach, focusing on the risk exposure in these areas. Our financial modelling has not included quantitative analysis of opportunities, however, these are considered qualitatively in our mitigating strategies.

What does a 1.5°C scenario look like?

A low-carbon transition scenario (known as transition risk) focuses on the rapid policy, regulatory, technological and market changes that will be required by 2030 to restrict emissions to a level which limits global warming to 1.5°C. Examples of the types of changes include the application of carbon pricing schemes in both advanced and emerging economies to reduce emissions across various sectors, and an increasing awareness within society on climate change resulting in a change in lifestyle choices and habits.

Based on the climate risks and opportunities outlined on page 73, we have identified the expected introduction of carbon pricing mechanisms to cut emissions in line with targets set out in the Paris Agreement as the greatest risk we face in the medium term. This is also a transition risk that is suitable for quantitative scenario analysis, as we have quantifiable data which is linked to detailed measures set out by the UK Climate Change Committee required to deliver UK emissions net zero by 2050. We have therefore focused our scenario analysis on the impact of a carbon tax on the three scope areas.

What does a 4°C scenario look like?

The physical climate impact scenario (known as physical risk) assumes limited policy or regulatory support for emission reduction, leading to a world with increasing physical climate change impacts. The scenario showcases a future world where there are gradual, chronic changes in temperature and precipitation patterns, as well as more frequent and intense extreme weather events.

We have undertaken our scenario analysis on the following risk areas, focusing on the most material risks for which climate data from credible sources is available:

– Chronic climate change – changes in temperature and precipitation.
– Extreme weather events – floods, droughts, heatwaves and cold waves.

Whilst it is clear that the impact of risks under a 1.5°C and 4°C scenario could happen simultaneously, for the purposes of our scenario analysis we have assumed them to be mutually exclusive. This year we have chosen to disclose our impact qualitatively. Moving forward, we want to expand our quantitative scenario analysis to other areas of the business, and consider longer-term horizons to help us continue to build a better picture of the climate-related risks and opportunities facing M&S.

As we expand our scenario analysis to develop a more detailed understanding of the financial risk on our business, we will share the quantitative impact.

To ensure the resilience of our organisational strategy across these different climate-related scenarios, our plans for mitigation highlighted in our quantitative scenario analysis are integrated within Plan A and delivered via our roadmap workstreams (see page 73). The outcomes of the scenario analysis were then embedded in the risk registers of our various businesses, via the risk owners. Our mitigating strategies outlined on the right-hand side of the table below are four of the 10 workstreams identified in the roadmap. More details of the ongoing progress within these workstreams can be found in our Sustainability Report under the relevant headings.

Impact in 2030

Business area	Scope	Transition risk (1.5°C scenario)	Physical risk (4°C scenario)*	Impact of climate risks on our organisation's financial performance	Net Zero Workstream mitigating strategies to ensure resilience
				In 2030, the highest financial risk arises from modelled transition risk, not modelled physical risk.*	
Protein	UK and Ireland sourced beef, lamb, pork, chicken and turkey products	Carbon tax on agricultural emissions (to the farm-gate)	Extreme weather events and chronic climate change impact on agricultural production	Beef has the largest cost impact due to the high carbon emissions associated with its production.	Low-impact farming – to reduce agricultural emissions Increasing our range of plant-based protein – to encourage plant-based diets for our customers
Cotton	Globally sourced raw material used in our clothing	Carbon tax on agricultural (seed to farm-gate) and manufacturing (all steps in cotton production) emissions	Extreme weather events and chronic climate change impact on agricultural production	Cost impacts from manufacturing emissions are higher than agricultural emissions, as manufacturing is a more carbon intensive process. The financial exposure is greatest on cotton sourced and manufactured in India and China, due to our reliance on cotton products from these countries.	Working with supplier and business partners on net zero journey – Sustainable Apparel Coalition – to support partners to reduce emissions in manufacturing
Property	UK Property Estate	Carbon tax on Scope 1 and 2 emissions	Flood risk	The financial impact may manifest itself in an increased cost of compliance.	Zero emissions property – Our Scope 1 and 2 greenhouse gas emissions – to reduce Scope 1 and 2 emissions

* Financial exposure from physical risk analysis to 2030 is low and therefore not considered as part of the mitigating strategies outlined above. Moving forward we will consider longer-term horizons when assessing physical risks.

METRICS AND TARGETS

Our net zero ambition builds on our absolute science-based target, aligned to the UN ambition to limit global warming to 1.5°C. Behind this ambition is a roadmap with clear milestones:

- 2025 target – 34% reduction in carbon emissions versus our baseline[1].
- 2030 target – 55% reduction in carbon emissions versus our baseline.
- 2035 target – Net zero across our own business.
- 2040 target – Net zero across our entire value supply chain.

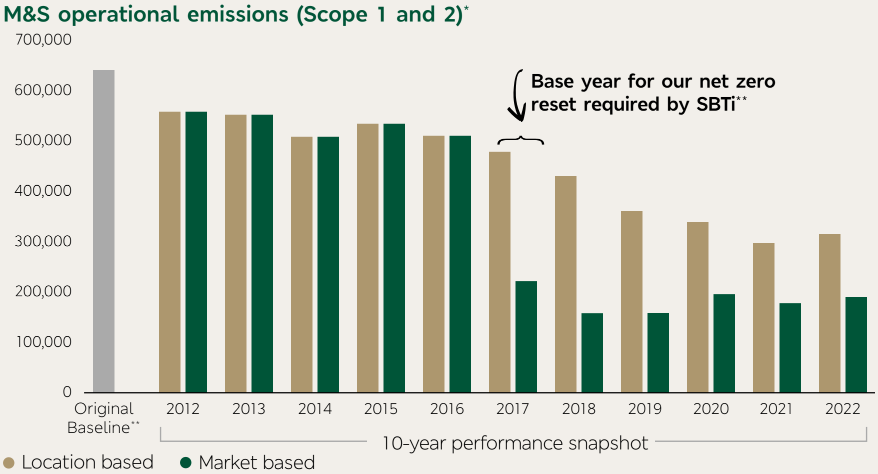
To achieve these targets, our roadmap includes 10 key workstreams outlining the immediate priorities we will focus on as we make on our journey towards net zero. These workstreams are at differing levels of maturity. Those more mature workstreams have targets (see roadmap on page 73) with associated metrics to measure performance. The remaining workstreams have more formative goals. Performance against these metrics, and updates on the remaining workstreams can be found in our Sustainability Report under the relevant headings.

1. Our baseline is 5.7 million tonnes of carbon emitted in 2016/2017.

Greenhouse gas emissions

Our Scope 1 and 2 carbon emissions, reported in line with the Greenhouse Gas Protocol are outlined in the chart below. These are assured by DNV Business Assurance Services UK Limited – more information can be found in the Sustainability Report Independent Assurance Statement.

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



* Please note, in accordance with GHG protocol guidelines, and in the 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.

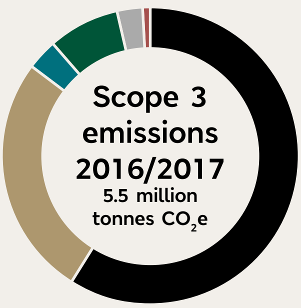
** Our original baseline was 2006/07. This has been used consistently as our baseline year in annual Plan A performance reports. Following the reset of Plan A, our base year is now 2016/17. This is used for our Science Based Target submission and will be used for our submissions to the Carbon Disclosure Project (CDP).

GOVERNANCE

ESG COMMITTEE REPORT
CONTINUED

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT CONTINUED

METRICS AND TARGETS CONTINUED



In addition to Scope 1 and 2 emissions, we have chosen to disclose the Scope 3 emissions that form the basis of our science-based target. Moving forward, this baseline will be used to track the emissions reduction that form our rapid decarbonisation plan to reduce our footprint by 34% by 2025.

Integrating sustainability metrics in remuneration

During the year, the ESG Committee recommended the inclusion of a sustainability-related metric into performance share plan awards should be investigated. The Remuneration Committee considered this, instructing a review of feasibility with input from our remuneration advisers, PwC, on the market position. More information on the outcome of this is provided in the Remuneration Committee Report on page 88.

Streamlined energy and carbon reporting

Energy and transport fuel consumed

	This year 2021/22 (GWh)	Last year 2020/21 (GWh)^	% Change
UK Operations	1,132	1,072	6%
International Operations	25	18	35%
Group	**1,157**	**1,091**	**6%**

^ Energy consumption (GWh) for 2020/21 has been re-stated to account for a historical reporting error that has been identified, concerning reported energy from diesel fuel. Consumption of diesel fuel has been reported accurately in litres, with fuel cards being used to collect data. A conversion factor used to calculate energy (GWh) from fuel consumption (litres) has previously been applied incorrectly, and as such, the energy reported last year has been re-stated. The conversion factor used to calculate greenhouse gas emissions (tCO_2e) from diesel fuel consumption (litres) was applied correctly and reported as such.

In 2021/22 operations were not impacted by national lockdowns in the way they had been in 2020/21. As a result, energy and fuel consumption increased this year, as compared to the previous year, by 6%, returning to similar levels of consumption as seen in 2019/20 (+4%). Location-based Scope 1 and 2 greenhouse gas emissions have gone up in line with the increase in energy consumption, but also reflecting a reported increase in emissions from refrigerant leakage, as maintenance of refrigerant systems and top-ups resumed this year following Covid-related disruption last year. Market-based Scope 1 and 2 emissions have increased by a smaller amount, due to a greater portion of electricity being purchased via a green tariff. Measures taken to improve energy efficiency throughout this year have included the installation of LED lighting in our International division, introduction of ISO 50001 in our Clothing and Home warehouses and improved metering in UK and ROI properties.

Greenhouse gas ("GHG") emissions

	This year 2021/22 (000 tonnes)	Last year 2020/21 (000 tonnes)^^	% Change
Direct emissions (Scope 1)	174	157	11%
of which UK & ROI:	172	156	10%
Indirect emissions from purchased electricity (Scope 2)	140	141	-1%
of which UK & ROI:	124	129	-4%
Total gross location-based method Scope 1+2 GHG emissions	**314**	**298**	**5%**
of which UK & ROI:	296	285	4%
GHG intensity per 1,000 sq ft of salesfloor	**16**	**15**	**6%**
Procured renewable energy	124	120	3%
Total gross market-based method Scope 1+2 GHG emissions	**190**	**177**	**7%**
of which UK & ROI:	172	165	5%

^^ GHG emissions (000 tCO_2e) for 2020/21 have been restated to account for the Motherwell warehouse coming into M&S' boundary of operational control in 2021/22, since operations began at the site during 2020.

GOVERNANCE

The Board has ultimate responsibility for both risk management and ESG matters, including those risks and opportunities related to climate change. Responsibilities in relation to ESG matters are discharged to the ESG Committee. Responsibilities in relation to risk management are discharged to the Audit Committee. Board members are on both of these Committees. The CEO is accountable for the delivery of the Company's ESG programme including climate change. Climate change and the delivery of our net zero goal are a strategic priority as outlined in the ESG Committee Report (page 70).

Executive accountability for overseeing the structure of the Group's overall risk management framework sits with the CFO, supported by the Group Risk team. At a management level, the leadership teams of the business areas (Food, Clothing & Home, International, Retail & Property and Bank & Services) are responsible for their business' risk register, and for managing and resourcing mitigating activities.

ESG risks, including those climate change risks identified via our TCFD scenario analysis, are considered as part of the business' risk register. The Executive Committee members are individually responsible for reviewing and confirming risks in their own areas, with the executive directors reviewing the entirety of the principal risks at the half year and year end, providing the Audit Committee with assurance 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 addressed. The Audit Committee review the principal risks twice a year, of which climate change and environmental responsibility is one. In addition to this, as part of our governance and non-financial control arrangements, the ESG Committee have oversight of our climate change and environmental responsibility principal risk and continue to support the risk management 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 and governance are available on page 45.

Following confirmation of our Group goal, we set up a Plan A (Net Zero) Steering Group to mobilise action across the business in line with the roadmap towards net zero.

This Steering Group is formed of business representatives across the leadership team and sponsored by the CFO and Nick Folland, our General Counsel & Company Secretary, who are responsible for Plan A. The Group meets bi-monthly to drive progress along our roadmap and workstreams, ensuring that targets are delivered to mitigate our climate risks, including those identified in our scenario analysis. The Steering Group also ensures suitable considerations are included within the financial planning cycle. The Steering Group updates the ESG Committee, a sub-committee of the Board, on a quarterly basis on progress against our net zero targets.

Board – Ultimate responsibility for both Risk Management and ESG matters, including those risks and opportunities related to climate change.

Audit Committee

- Responsible for ensuring the effectiveness of the risk management process, and confirming that the principal risks and uncertainties of the business are appropriately addressed.
- Reviews the principal risks twice a year, of which climate change and environmental responsibility is one.

ESG Committee

- Responsible for ensuring the Company's ESG strategy remains fit for purpose, and plans are in place and reported on.
- Advises the Audit Committee on ESG-related risks and opportunities, including climate-related issues.

Executive Committee

- The CEO is accountable for the delivery of the Company's ESG programme including climate change.
- The Executive Committee members are individually responsible for reviewing and confirming risks in their own areas, including climate risks.

Group Risk Management

- Responsible for implementing the Group risk management process, through which the business manages climate-related risks.
- See risk management process and governance overview on page 45.

Plan A (Net Zero) Steering Group

- Responsible for driving progress along our Net Zero Workstreams, which mitigate our climate risks.
- Updates the ESG Committee on a quarterly basis on progress against targets.
- Ensures net zero strategy considerations are included within financial planning cycles.

Business and Functional Leadership Teams

- Responsible for their business' risk register, and for managing and resourcing mitigating activities.
- Responsible for ensuring climate-related risks are considered as part of the business' risk register.

ACTIONS WE WILL TAKE IN 2022/23

- Undertake a detailed business-wide review of climate risks and opportunities over the short, medium and long term.
- Extend our scenario analysis to focus on additional business areas.
- Develop a financial framework to support our roadmap towards net zero.
- Review the inclusion of sustainability-linked performance metrics into share plan awards.
- Update on progress for tracking Scope 3 emissions data with initial focus on own brand products across Foods and Clothing & Home.

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AUDIT COMMITTEE REPORT

"THIS YEAR CONTINUED TO BE CHARACTERISED BY CHANGE AND UNCERTAINTY. NAVIGATING THE RISKS ASSOCIATED WITH MACROECONOMIC FACTORS WERE KEY COMPONENTS OF DISCUSSION."

Andy Halford, Chair of the Audit Committee

INTRODUCTION

As Chair of the Audit Committee (the "Committee"), I am pleased to present my ninth and final report. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year ended 2 April 2022, and the key topics it considered in doing so.

During the year, the Committee's core duties remained unchanged and the usual cadence of activities relating to risk, assurance and internal controls remained in place. While many immediate challenges arising from Covid-19 and Brexit had dominated the prior year, the backdrop of this year continued to be characterised by change and uncertainty. In particular, navigating the risks associated with macroeconomic factors were key components of discussion in every area of the business, including the Russian invasion of Ukraine in the latter part of the financial year. Detail on our risk mitigating activities can be found on pages 49 to 54.

The Committee continued its work to strengthen non-financial controls and governance arrangements including: updating and improving policies, metrics and assurance processes to ensure compliance with our Code of Conduct; refreshing accountabilities of the Financial Services Compliance Monitoring Committee to enhance oversight of duties relating to M&S Bank and Services; and driving progress with business unit level improvements to risk reporting and monitoring.

The Committee fulfils a vital role in the Company's governance framework, providing valuable independent challenge and oversight across all financial reporting and internal control procedures. Ultimately, it ensures our shareholders' interests are protected, the Company's accelerated transformation is supported and long-term value is created.

As referenced in the Chairman's Overview and the Nomination Committee Report, I have served as a non-executive director of M&S and chaired this Committee for nine years. I am therefore stepping down as Chair of the Committee on 7 June and, having ensured a smooth transition, will retire from the Board and as a Committee member by the end of 2022.

Evelyn Bourke will take over as Chair of the Audit Committee, bringing a wealth of knowledge from a variety of financial and risk-related leadership roles, including at the Bank of Ireland, Admiral and AJ Bell. I leave the Committee in good hands.

COMMITTEE MEMBERSHIP

The Committee solely comprises independent non-executive directors. Detailed information on the experience, qualifications and skillsets of all Committee members can be found on pages 60 to 61.

INDEPENDENCE AND EXPERIENCE

The Board has confirmed that it is satisfied all 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 both Andy Halford and Evelyn Bourke possess recent and relevant financial experience.

MEETINGS HELD IN 2021/22

The Committee held five 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 a number of meetings. It also met privately with the lead audit partners, and separately with the Head of Internal Audit & Risk, after a number of meetings.

It is important for the Committee Chair to understand fully any topics of 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 CEO and CFO, 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
Evelyn Bourke	1 Feb 2021	5	5
Andy Halford	1 Jan 2013	5	5
Justin King	4 Nov 2019	5	5

WHAT WAS ON THE COMMITTEE'S AGENDA IN 2021/22

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.
- 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 ("GSCOP").
- Assessed whether the Annual Report, taken as a whole, was fair, balanced and understandable.
- Reviewed the effectiveness and independence of the Internal Audit & Risk function.
- Reviewed relevant financial and climate-related scenario analysis, identifying future climate risks and opportunities with the support of the Environmental, Social & Governance ("ESG") Committee, for the purpose of aligning with the recommendations from the Task Force on Climate-related Financial Disclosures ("TCFD").

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.

In particular, the Committee debated M&S' response and approach to the BEIS white paper on restoring trust in audit and corporate governance. Whilst our gap analysis indicated the business would be in a strong position to comply with each of the potential requirements, it was agreed that steps should be taken to strengthen the Company's internal control environment, regardless of the outcome of the BEIS proposals. The progress of the Control Strategy delivery plan was then monitored by the Committee.

Risk and control updates

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

External audit

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

MANAGEMENT UPDATES

The Committee received detailed updates from one or more business areas at each of its meetings. Each update included a review of the risk register, noting 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 and Business Continuity

- Evaluated the plans to rotate the store estate, considering risks relating to inflationary pressures on renewal costs, sustainability factors, and the potential need to expand human resources to maintain and accelerate pace. The accounting treatment of the store programme was also debated and agreed with the external auditors.
- Monitored results and agreed actions from business continuity exercises and assurance reviews which had taken place globally. Assessment areas included disaster recovery plans at distribution centres and the manufacturing and sourcing model.

Clothing & Home

- Evaluated the risks arising from delivery of Plan A commitments in light of the scale and complexity of the net zero challenge, and risks arising from the introduction of third-party brands. Considered and agreed controls to manage these and other changes, including creation of a new Finance role.
- Discussed post-Covid customer behaviour and uncertainties arising from inflationary pressures in raw material, labour and freight.
- Monitored compliance in the supply chain with emphasis on modern slavery, child labour, chemicals and product safety regulations, including a return to in-person audits.

Food

- Reviewed and assessed risks relating to Ocado Retail, from the launch of new products on the platform through to financial and strategic impacts of the joint venture.
- Considered GSCOP compliance, agreed on additional training for suppliers and monitored the supply chain transformation risk.
- Discussed and agreed stronger controls and process adherence in food product development and food safety.

International

- Monitored risks arising from macroeconomic conditions, including delivering growth in priority markets, end-to-end supply chain and brand investment by franchise partners.
- Evaluated the mitigating actions presented by management against Brexit and differing responses to Covid-19 in local jurisdictions.

Bank & Services

- Considered the regulatory responsibilities and risks associated with having commercial partners operating under the M&S brand.
- Examined updates from the Financial Services Compliance Monitoring Committee, including an annual review of the framework and accountabilities.

Digital & Data

- Discussed risk appetite and ethics around data use.
- Assessed cyber security risk and instigated a review of existing insurance policies. Later in the year, the Committee evaluated the potential security impact of the invasion of Ukraine and reviewed actions to manage the increased threat.
- Monitored the technology transformation and discussed key areas of risk including available talent resource, quarterly investment assessments, cloud migration and compliance with payment data standards.

HR

- Considered the launch of the MyHR system and recommended a project implementation review with regards to colleague onboarding, particularly during the Company's peak-trading period.

AUDIT COMMITTEE REPORT
CONTINUED

AUDIT COMMITTEE EFFECTIVENESS REVIEW

The Committee's performance was reviewed as part of the 2021/22 internally facilitated Board Evaluation, which is covered on page 65.

The review found that the Committee functions effectively, with strong leadership from Andy Halford. 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. There is an awareness and acceptance that the demands on members time are significant but necessary. The remit and duties of the Committee were considered correct, particularly with its expanded oversight of risk, with a greater focus on non-financial controls and cyber threat, both of which are only expected to increase. The range of assurance provided to the Board by the Committee was deemed appropriate, and its interactions with the ESG Committee were considered to be working well. It was agreed more work was required to tackle business actions, structural issues, and topics that frequently reappear on the Committee's agenda.

The Committee made good progress on the 2021/22 action plan, particularly in relation to increasing the focus on technology, with risk reporting and compliance monitoring becoming embedded into the business in a more robust way. The Company's business units are becoming more accountable for risk management, but further work is required in this area to continue to improve.

2022/23 ACTION PLAN:

- Support the transition of the Committee Chair, and related Committee composition.
- Prepare for the next external audit tender, and Partner rotation the following year.
- Review the effectiveness of the Internal Audit function and its activities.
- Continue review of the Group's controls framework as well as monitoring the implications of the BEIS Restoring Trust in Audit and Corporate Governance reforms when they are published.
- Continue to push the accountability agenda for risk reporting at a business unit level.
- Continue to assess what improvements are required in the Company's information security, systems and technology.
- Drive and encourage management to tackle structural or reoccurring risk and issue areas.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2022 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 these messages are fairly summarised and lead to 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.

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 2022 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.

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: the implementation and execution of strategic programmes; directly attributable gains 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 reduction in M&S Bank charges incurred in relation to the insurance mis-selling provision; and franchise restructuring charges.

+ See note 5 on p143.

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 and reversals, 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/reversals (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 p130, p143, p159 and p175 respectively.

IMPAIRMENT OF GOODWILL, BRANDS, AND TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment and impairment reversals of goodwill, brands, and 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 and reversals, 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 and reversals, 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 impairments and reversals of tangible and intangible assets have been recognised.

+ See notes 1, 5, 14 and 15 on p130, p143 and p157-159 respectively.

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 2019/20. However, strong trade has allowed the Group to continue to sell much higher volumes of stock than assumed versus the Covid-19 scenario on which the provision was created. As a result and supported by the vaccines and removal of Covid-19 restrictions, a net credit has been recorded. After taking into account this release, the Covid-related inventory provisions recorded in the 2019/20 financial statements have now been fully released and inventory provisioning methodology has returned to pre-pandemic methodology.

Incremental provisions remain in place only in relation to the 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 future trade. The Committee has concluded that such are appropriate. The assumptions have been disclosed in the financial statements.

+ See notes 1 and 5 on p130 and p143 respectively.

AUDIT COMMITTEE REPORT
CONTINUED

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 approved budget and three-year plan. In the context of the current challenging environment as a result of Covid-19, the unfolding humanitarian crisis following the invasion of Ukraine, a severe but plausible downside scenario was applied to the plan. This included assumptions such as a sustained economic recession, increased costs and an inability for the Group to execute the transformation plan. 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 successful renegotiation of its revolving credit facility, which is set to run until June 2025, and replaces the facility which was due to mature in April 2023.

The Committee is satisfied that these measures have reduced liquidity risk.

See note 1 on p130.

RETIREMENT BENEFITS

Following the significant increase 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 p163.

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. 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 p130.

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. An impairment charge has been recorded (see note C6 Investments on page 186). The Committee has reviewed management papers outlining the key assumptions used in calculating the value in use and is satisfied that these are appropriate.

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 2022/23 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, the Group Financial Controller 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 throughout the year as restrictions on working from home began to lift. The audit partners continue to have a good understanding of our business. Early engagement throughout the year on key accounting judgements continues to be appreciated and allows a number of items to be addressed in advance of the year end.

A common theme reflected a desire for more focus on planning and communication during certain aspects of the audit cycle with opportunities for improvement available, as well as more engagement, including insights, 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 our website at marksandspencer.com/thecompany.

The Committee is satisfied that the Company was compliant during the year with both the UK Corporate Governance Code and the Financial Reporting Council'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 from the Chief Financial 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 2 April 2022 was 0.09:1, compared with the previous year's ratio of 0.09:1. The majority of the £0.2m in non-audit fees paid in total to Deloitte during 2021/22 was incurred for assurance services provided during the year. These comprised fees in respect of the Half Year review, turnover certificates and ESG assurance. 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.

AUDIT COMMITTEE REPORT
CONTINUED

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 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 evolution of Covid-19, EU-UK border regulations and more recently managing the implications of Russia's invasion of Ukraine.

See p47-54 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, the Group's Code of Conduct, and policies and procedures that cover financial planning and reporting, preparing consolidated accounts, capital expenditure, project governance and information security.

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, both internal and external. 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 corporate compliance and responsibility, information security, our property estate and new legal and regulatory requirements, like Natasha's Law and TCFD.

2. Management updates and risk deep dives

As part of the Committee's annual calendar, it receives updates on risk management, whistleblowing and fraud, and the 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 sourcing responsibilities, food safety and fire, health and safety. While reporting lines for these activities are directly to business areas, the processes and controls of these functions are periodically tested by Internal Audit and discussed with the Audit Committee.

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, ESG responsibilities, fraud risk management, property estate, technology and other areas of change. 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 Financial Reporting Council'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 113 to 123. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 2 April 2022 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	
Internal Audit	– 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 – e.g. Covid-19/Brexit	**Formal updates presented to the Committee at each meeting.** **Updates to the Audit Committee Chair as required.**	Audit Committee
Management updates and risk deep dives	Papers submitted on a range of issues including: – Information security – Bribery – Code of Conduct – GSCOP – Financial control – Business continuity – Risk deep dives from individual business areas and functions	**Formal updates presented to the Committee annually and as needed.**	Audit Committee
Functional assurance	Functional audit activities undertaken, including: – 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.**	Audit Committee
Operational oversight	– 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.**	Audit Committee

REMUNERATION OVERVIEW

> “THE COMMITTEE ENSURES THE PAY FRAMEWORK APPROPRIATELY RECOGNISES AND REWARDS HARD WORK AND FINANCIAL PERFORMANCE”
>
> *Andrew Fisher, Chair of the Remuneration Committee*

In this section

REMUNERATION

ANNUAL REPORT ON REMUNERATION

INTRODUCTION

On behalf of the Board, I am pleased to present our 2021/22 Remuneration Report.

The Remuneration Report provides a comprehensive picture of the structure and scale of our remuneration framework and its alignment with the business strategy and the rest of the workforce. It also details decisions made by the Committee as a result of business performance for this year and the intended arrangements for 2022/23, including the appointment of Stuart Machin as Chief Executive Officer (CEO) and Katie Bickerstaffe as Co-Chief Executive Officer.

CONTEXT OF BUSINESS PERFORMANCE

As anticipated in last year’s report, the Committee focused much of its activities during the year, on ensuring M&S’ pay frameworks and practices support M&S’ fundamental values of fairness where colleagues across the business are appropriately recognised and rewarded for hard work and financial results. The Committee ensures that any payments made do not “reward failure” or poor performance; and targets set are challenging yet motivational. Any discussion involving executive director incentive payments considers the appropriateness of the payment in the context of the shareholder experience, the general health of the business as well as pay outcomes experienced by colleagues across the business.

Based on the strong financial performance of M&S during the year, with PBT of £522.9m, the maximum payment opportunity under the corporate financial performance element of the Annual Bonus Scheme (ABS) was triggered (see page 97). This will be the first bonus payment made to colleagues or executives since 2017. This above-maximum profit performance was delivered through a mix of strong Food sales growth, an improving margin mix and the performance of the new Ocado and Costa channels, together with 3.8% sales growth in Clothing & Home, significant improvements in the online offer and fulfilment together with improved profitability, cash conversion and net debt. Further detail on these and other aspects of the business’s performance over the last year is explained earlier in this annual report.

As explained later in this Remuneration Report (see page 97 and 100), the Committee was mindful of this performance when discussing and approving incentive outcomes, especially when considering the uncertainty of performance caused by global macro events.

BOARD CHANGES

On 10 March we announced that after nearly 40 years of loyal service to M&S, Steve Rowe would be stepping down from his role as the CEO on 25 May, a role he has held for the last six years. He will cease full-time employment with the business at the conclusion of the Annual General Meeting (AGM) on 5 July. In view of his wisdom and formidable knowledge of the business, Steve has agreed to remain as an adviser to the new leadership for up to 12 months. I would like to take this opportunity to extend my personal thanks to Steve for his unwavering dedication and commitment to M&S, its colleagues and the Board.

When setting Steve’s exit arrangements, the Remuneration Policy provided an effective and clear framework, while also providing appropriate levels of flexibility for the application of discretion by the Remuneration Committee. Final pay arrangements for Steve are outlined on page 104 of this report.

During his tenure, Steve oversaw far-reaching changes in organisational structure and management, leaving behind a very strong leadership team. As a result of robust succession planning, the Board was delighted to be able to select Steve’s successors from within the existing leadership team, which not only demonstrates strong internal talent development but also provides for stability and continuity as we move to the next stage of our transformation journey. I warmly welcome Stuart Machin and Katie Bickerstaffe to the Board as CEO and Co-Chief Executive Officer respectively with effect from 25 May 2022, and I look forward to working more closely with both of them in their new roles.

As detailed on page 61, both Stuart and Katie are outstanding leaders with very strong track records and experience of leading businesses through

REMUNERATION OVERVIEW CONTINUED

transformative change. The Board is confident in their ability to take M&S through the next stage of transformation. The Board is also cognisant that our leadership structure is unusual so it has ensured clear accountability of roles between Stuart and Katie. Stuart has responsibility for day-to-day leadership of the business and the Executive Committee. He continues to have oversight of our Food business, as well as Operations, Property, Store Development and Technology, and has taken on responsibility for HR and Corporate Communications. Upon appointment, Stuart will receive an annual salary of £800,000. Katie has responsibility for Clothing & Home, MS2, International and Financial Services. She also has a particular focus on driving the global omni-channel, data and digital future of the business. Upon appointment, Katie will receive an annual salary of £750,000, reflecting her different work pattern. Both Stuart and Katie continue to be entitled to pension arrangements on the same terms as all colleagues and will be eligible to participate in the ABS and Performance Share Plan (PSP) on the same basis as all executive directors. There was careful deliberation when setting the pay arrangements for Stuart and Katie, during which a number of factors were taken into consideration, including their different work patterns, their experience and skill and the responsibilities of each, as well as external market factors.

In addition to his finance responsibilities, Eoin Tonge has taken on an enhanced role in leading the future development of the business strategy and oversight of Plan A, becoming our Group CFO & Chief Strategy Officer with effect from 25 May 2022. We believe the accountabilities of his new role go significantly beyond those normally associated with the CFO position. In light of this, Eoin's salary will increase to £660,000 from 25 May in recognition of his increased responsibilities, inclusive of any salary review for 2022/23.

Future Board salaries are confirmed on page 96, and further details of the contractual provisions for executive directors will be summarised in the Directors' Remuneration Report in next year's Annual Report & Financial Statements.

SINGLE FIGURE AND INCENTIVE SCHEME OUTCOMES

As shown in the table on page 95, the total single figure for the executive directors is higher than prior year. This can be wholly attributed to the outcome of the ABS as no bonus was paid last year.

As in previous years, the 2021/22 ABS remained focused on restoring the business to profitable growth with performance focused on Group Profit Before Tax before adjusting items (PBT) (70%) and individual measures set against key areas of delivery of the transformation (30%). Individual performance was measured independently of PBT performance, but no individual element could be earned until a threshold level of PBT was achieved.

It was with cautious optimism that we welcomed the 2021/22 financial results, recognising this as an indication of not only strong underlying performance in a very challenging climate, but also the impact of the successful transformation to date. The PBT outturn of £522.9m was above the maximum financial target, meaning the financial element of the bonus was achieved in full and the individual measures could pay out to the extent that executive directors achieved between target and stretch performance against their stretching personal objectives.

The Committee carefully reviewed the achievement of the individual objectives set at the beginning of the year to align with the strategic priorities to fulfil its remit and enable transparent disclosure to shareholders. Full disclosure can be seen on page 97, but the Committee noted in particular the step change in Clothing &

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIS

KPI/Strategic priority		As measured by	Performance Share Plan (PSP)	Annual Bonus Scheme (ABS)
KPI See **KPIs** on p35	Adjusted earnings per share (EPS)	**Financial results**	●	●
	Return on capital employed (ROCE)		●	●
	Group PBT before adjusting items (PBT)			●
Strategic priority See **Strategic priorities** on p6	M&S Food high-performing business and market share growth	**Achievement against objectives**	●	●
	Ocado transitioning to strong capacity growth post pandemic reversion		●	●
	Clothing & Home on track for a more profitable model capable of growth		●	●
	Building store rotation pipeline driving exit from legacy stores		●	●
	Absorbing Brexit related costs, but embryonic global strategy encouraging			●

2021/22 performance

ADJUSTED EARNINGS PER SHARE

21.7p

Adjusted EPS in 2021/22 was 21.7p. This was below the 22.7p threshold required for any vesting under this element of the 2019 PSP award.

RETURN ON CAPITAL EMPLOYED

8.7%

Average three-year ROCE performance was 8.7%. This was below the required 10.2% threshold for any vesting under this element of the 2019 PSP award.

GROUP PBT BEFORE ADJUSTING ITEMS

£522.9m

Group PBT was above the "maximum" target for bonus payments to be made under the 2021/22 ABS.

Home performance and action taken to strengthen the balance sheet in the challenging environment. The Committee was in agreement that it was appropriate to award 83% against the individual objectives for the CEO and CFO.

Even when considering the strong financial results and strong individual performances, the decision to pay 95% of maximum bonus opportunity was not taken lightly. Financial and strategic targets were examined throughout the financial year and at year-end to ensure they retained the same level of stretch envisaged when originally set. The Committee was satisfied that this was the case, and the ABS operated as intended.

None of the 2019 PSP will vest in respect of the three-year performance period up to 2 April 2022. Page 100 of this report provides further detail on the 2019 measures and targets and their respective achievement. While vesting of the PSP remains low, the Committee remains satisfied that this level of vesting is reflective of the shareholder experience in the challenging business environment in which the 2019 plan operated, particularly the first two years of the three-year performance period.

APPLICATION OF DISCRETION

A number of mechanisms are available to the Committee to ensure pay outcomes appropriately reflect individual and business performance, together with the wider economic and societal climate. This includes the ability to apply malus, clawback and responsible discretion to override formulaic outcomes under the incentive schemes.

Throughout the year, the Committee has carefully considered pay arrangements and where it may, or indeed may not, be appropriate to apply discretion.

After meaningful deliberation, the Committee concluded it was appropriate to award Steve Rowe a bonus despite him being under notice at the date of payment.

As detailed above, not only will Steve be working beyond the end of the 2021/22 financial year and for up to 12 months as an adviser to the new leadership team, he has worked tirelessly and determinedly to deliver on the transformation promise, as demonstrated in our strong 2021/22 business performance. Steve will not be eligible for a bonus in respect of the 2022/23 financial year.

As illustrated in the bar chart at the bottom of this page, half of Steve's bonus will be deferred into M&S shares and will be released to him after a three-year holding period; this treatment ensures a long-term alignment with shareholders' interests following the end of Steve's tenure as CEO.

Considering the ABS further, the Committee debated the appropriateness of the original 2021/22 bonus PBT targets in light of the achievement of above "maximum" PBT target performance. Together with the individual objectives, the Committee reviewed the targets set throughout the year and at year-end to ensure they remained relevant and appropriately stretching, recognising that when the targets were set ahead of the start of the financial year, there was still a high degree of uncertainty as to how the challenges of Covid-19 would impact the business throughout the year. The Committee was satisfied that the original targets set required stretching PBT performance. The Committee also took into account the experience of wider stakeholders, including our colleagues, customers and shareholders, when approving the final outcome. It was determined that the outcome is reflective of a strong year in business performance and recovery, together with individual outstanding contributions, and in this context it is important that colleagues are recognised for this performance.

The Committee did not apply any discretion to the outcomes of the 2019 PSP, which reached the end of its performance period on 2 April 2022 and will lapse in full. Despite the robust business performance in 2021/22, when considering the full three-year performance period of the plan, the Committee was satisfied the final vesting outcome is reflective of the shareholder experience during the period and the scheme had operated as intended.

As shown in the pie chart at the bottom of the page, Steve Rowe's single figure pay is 55% of the maximum possible for 2021/22.

STRATEGIC ALIGNMENT OF PAY

The Covid-19 pandemic increased the focus on transformation at M&S, which continued throughout this last financial year. During the year, the measures and targets used in M&S' incentive schemes, namely those of the PSP and ABS, were reviewed to ensure alignment with the key performance indicators (KPIs) and identified strategic priorities across the business. The illustration opposite on page 86 demonstrates the strong link between the KPIs and strategic priorities with executive remuneration at M&S. This strength of alignment enables the Committee to ensure pay arrangements support the delivery of transformation and fulfil M&S' potential for long-term sustainable growth. The Committee will continue to review thoroughly 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 moves into the 'shaping the future' phase of our transformation journey.

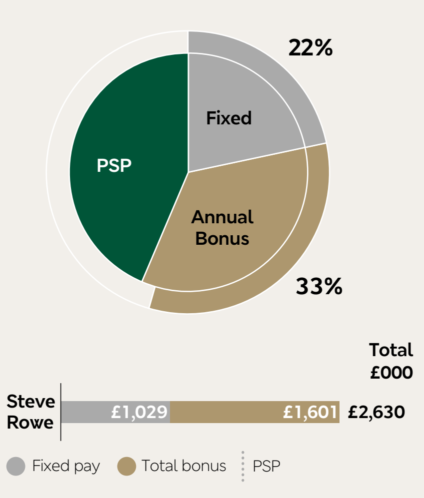
PAY ARRANGEMENTS FOR 2022/23

Due to the timings of Stuart's and Katie's appointments to the Board and Eoin's role change, as well as the accompanying significant analysis and consideration of both external and internal factors when setting their respective salaries, Stuart, Katie and Eoin will not be eligible to participate in the 2022 salary review. They will next be eligible to be considered for a salary review in July 2023. Further details of the wider workforce 2022 salary review can be found on page 88.

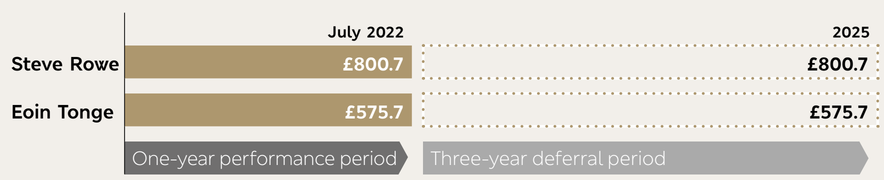
Reflecting on the existing variable remuneration framework, it was agreed that in 2021/22 the structures of the PSP and ABS worked well and as intended. As a result, no changes have been proposed for 2022/23.

Once again, performance under the ABS will be measured against corporate financial targets (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.

CEO single figure as a percentage of maximum opportunity



2021/22 Bonus payment timings (£000)



REMUNERATION OVERVIEW
CONTINUED

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. Following careful debate, it has been agreed that the 2022 PSP will maintain measures applied to the 2021 PSP awards, being 30% adjusted EPS, 30% ROCE, 20% relative total shareholder return (TSR) and 20% strategic measures. Targets have been set to be stretching yet motivating and are detailed in full on pages 100 and 101.

While no change has been proposed to the structure and measures of the 2022 PSP, this belies the significant and detailed conversation and analysis that took place around the appropriateness of the introduction of environmental, social and governance (ESG) measures and targets into the PSP. There is no doubt that M&S takes its ESG responsibility seriously. Our sustainability commitments sit at the heart of our business operations and inform decisions at all levels and across all departments (see page 70 for our ESG Committee Review). M&S was an early pioneer of championing sustainability and continues to hold a leading position in this field. One of the ways we believe we can improve our work in this area is to focus on communication with consumers to engage them on this important topic, and to be sure we improve awareness of the work we do. As such, when the Committee considered the introduction of a more traditional carbon metric in the pay framework, it determined that a measure which charts an improvement in customer sentiment would be more aligned to the strategy for the business. To track this credibly and robustly, a base case for current sentiment must first be established. This forthcoming year the Committee will review the base measurement line throughout the year with the intention of introducing a metric to show improvement from that baseline for 2023.

Having reduced award levels in 2020 to acknowledge the shareholder experience of Covid-19 and to mitigate against windfall gains, share price recovery led the Committee to decide that for the 2021 PSP award it was appropriate to return PSP award percentages to 250% of salary. Mindful of the need to incentivise executives and ensure that they remain aligned with the long-term interests of shareholders, we intend to once again grant PSP awards of 250% of salary in June 2022. The Committee retains the right to review award levels in the event of significant share price movement prior to the date of grant. Furthermore, it should be noted that when this award reaches the point of vesting, careful consideration will not only be applied to achievement against the relevant performance conditions, but also to ensure the vesting values are reflective of the shareholder experience across the term of the plan. Should the Committee believe this not to be the case, it retains its right to apply discretion to the final outturn.

WIDER WORKFORCE PAY ARRANGEMENTS

The Committee continued to receive, and indeed welcome, regular and varied updates during the year relating to M&S' pay arrangements. In addition to those already outlined in the Committee's remit, available on the M&S website, discussions included hourly pay for store colleagues and career progression through the organisation. The Committee was also informed of the outcome of the company-wide Total Reward Review that took place in the prior year. More than 14,000 colleagues gave us their views and suggestions on pay arrangements at M&S. As a result of this feedback in 2021/22, we saw the implementation of Virtual GP, which allowed colleagues unlimited 24/7 access to a GP, Check4Cancer, which provides free screenings to all colleagues for high-risk cancers, and salary finance options to help consolidate debt, save and protect through income protection insurance.

To bring M&S in line with market practice, and in direct response to colleague feedback as a result of the company-wide Total Reward Review, from 1 April 2022 the Company has introduced a 5% payment in lieu of pension allowance for colleagues impacted by either the Annual or Lifetime Allowance limits. The Committee recognises this provision aligns with market practice. To maintain alignment between executive directors and colleagues in the wider population, it is intended to introduce a similar arrangement into the new Remuneration Policy which will be brought for shareholder approval at the 2023 AGM.

The Committee welcomes continued collaboration with the Business Involvement Group (BIG). At Committee meetings we receive direct feedback on colleagues' views from the National Chair of BIG and in turn the Head of Executive Reward and Pay Governance attends National BIG Committee meetings to share and discuss the executive pay framework and its relationship with the wider workforce. Such dialogue forms the basis of a trusted and valued collaborative working partnership and ensures a close link between the pay philosophies at the most senior levels and those for the wider population.

To demonstrate the importance the Committee gives to the alignment of executive pay with the wider workforce, in the 2021 Remuneration Report we expanded our disclosures on such pay arrangements. We are pleased to continue this approach in this year's report; see pages 89 and 90.

Given the economic environment in which we are operating currently, it is unsurprising that significant time was taken in discussing the appropriate approach to the annual pay review. As is to be expected, this topic generated a robust debate, and we believe the end result of salary increases ranging from 3% for our senior population to 4%-6.5% for the wider workforce balances the need for financial restraint with support for our colleagues given the increases to cost of living being experienced by all. Further details can be found on pages 89 and 96.

LOOKING AHEAD

We look ahead to what will be a new and dynamic chapter in the M&S story. This will be the final year under the current remuneration framework, and at the 2023 AGM we will be seeking your support and approval for a new Remuneration Policy. During the coming year, the Committee will be working to ensure any new Remuneration Policy is valid and effective in driving and supporting the business strategy while remaining appropriate when considering the overall M&S remuneration framework and the external regulatory environment.

I would like to thank our shareholders for their continued support during the year. I will be available at the AGM on the 5 July 2022 to answer any questions in relation to this Remuneration Report.

Andrew Fisher

REMUNERATION IN CONTEXT

COLLEAGUE ENGAGEMENT

Share ownership across our colleagues

M&S is a proud advocate of employee share ownership. The Board believes this supports colleagues not only to share in M&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 101m save as you earn options in our ShareSave scheme and over 2,000 colleagues hold shares in our share incentive plan ShareBuy.

Direct engagement with our colleagues

Since 2018, the Chair of BIG, our colleague representative body, has been invited to attend a Remuneration Committee meeting each year to engage and contribute on a full 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 providing feedback on, and agreeing with, the ShareSave communication materials and funding options of our share schemes. They also discussed the operation of a tax-advantaged ShareSave in Ireland, which has been paused while alternative options are investigated due to the absence of an approved savings carrier. The collaborative relationship we have with BIG strongly reflects our belief in the key role that colleague voice plays in ensuring 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.

The average pay increase for our UK Store Customer Assistants and Team Support Managers awarded in April 2022 was 5.3%. Effective July 2022, salary increases ranging from 3% for our senior population to 4%-6.5% for the wider salaried workforce have been awarded.

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 it the additional context needed to make informed decisions. The Head of Executive Reward & Pay Governance advises the Committee on the approach to be adopted in 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. Alongside our annual survey, bi-annual pulse and quarterly focused surveys provide dynamic and relevant colleague feedback. The pulse surveys have helped us to better understand, and take action on, the things which matter most to our colleagues. These have focused on topics such as Inclusion & Diversity, Wellbeing and overall colleague engagement.

Colleagues are encouraged to raise questions at the periodic all-colleague announcements led by the CEO. All questions raised 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 these representatives in turn 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 dedicated 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 are 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 reporting approach, an annual shareholder meeting is normally held and views on a variety of topics, including executive pay, are taken into account.

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 104.

	% change 2020/21 – 2021/22		
	Base salary/fees	Benefits	Annual bonus
CEO (Steve Rowe)	1%	-20%%	100%
Average non-executive director	1%	0%	–
UK colleagues (average per FTE)	4%	0%	100%

GOVERNANCE

REMUNERATION IN CONTEXT
CONTINUED

GENDER PAY GAP

The M&S median gender pay gap for the year to April 2021 is 4.8%, compared with an average of 9% for the Wholesale and Retail sector. The M&S mean gap for the same period is 12.5%.

Throughout the year we've continued to take actions that further promote and enhance inclusion and diversity (I&D) at M&S so that all of our remarkable colleagues are able to feel comfortable being themselves and experience a culture that's inclusive and diverse, where everyone is respected and feels valued and that they belong.

A data-led reset of the I&D strategy has resulted in a clear and focused plan for the next three years to build better representation through targeted hiring, internal development and progression initiatives, and better education and awareness activities which will build on the impact arising from over 90% of colleagues completing the first two I&D modules.

M&S is clear that any form of discrimination, bullying, harassment, or victimisation will not be tolerated in any part of the business, and this is underpinned by a new 'Respect Matters' policy, launched in October 2021.

Our colleague networks continue to bring our diverse communities together and help create a safe space for colleagues to speak out and share their views, as well as influencing our plans and culture, celebrating key events in the inclusion calendar, and raising important matters through the online social communities.

This year, the Gender Equality Network celebrated International Women's Day by hosting the first ever Ideathon to generate ideas and suggestions on how M&S can 'break the bias' when it comes to gender equality.

We remain proud that nearly 73% of our customer assistants are women, but while we're seeing some progress in diversity in more senior roles, more still needs to be done to drive better representation. I&D remains a strategic priority for M&S, and we'll continue to focus our efforts to build on the success of previous years.

Gender pay gap (median)

4.8%

The CEO and the non-executive directors were awarded a 1% pay increase in respect of the 2020/21 financial year, while customer assistants received a 5.6% increase to £9.50 per hour. Salaried colleagues received on average a 2% increase.

The overall structure of the benefits package has not changed; however, as previously agreed, in order to bring the pension supplement in line with the broader colleague offer by 2024, the pension supplement paid to Steve Rowe was reduced from £202,500 to £135,000.

In 2020/21 Steve Rowe returned to using the chauffeur service in contrast to 2019/20 when, during periods of national lockdown, Steve Rowe drove himself, to ensure the safety of his driver and maintain the required social distancing.

As previously disclosed, the bonus scheme for 2020/21 was cancelled, so no award was made to either the CEO or anyone else within the wider workforce; a bonus payment was made in respect of the 2021/22 financial year to the CEO and just under 5,000 bonus-eligible colleagues.

CHIEF EXECUTIVE'S PAY RATIO

Year	Methodology	25th percentile ratio	50th percentile ratio	75th percentile ratio
2022	**Option A**	**128 : 1**	**117 : 1**	**99 : 1**
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 and most appropriate and robust way to calculate the ratio.

Option A requires the pay and benefits of all UK colleagues to be calculated to identify the three colleagues at the 25th, 50th and 75th percentiles as at 2 April 2022. This is calculated on the same basis as the CEO total single figure of remuneration except in that the individual performance element of the ABS that is applicable to the relevant colleagues (when operating) is the estimated actual value. 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 2021/22 financial year and does not include the value of any deferred shares vesting in the year.
- 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 2 April 2022.

The table above shows the ratio of CEO pay in 2021/22, using the single total figure remuneration as disclosed in Figure 7 (page 95), 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 along with M&S' policy to pay for performance. The increase in pay ratio this year is as a result of bonus payments being made across the business, including to the CEO.

Pay data	Salary (£000) 2020/21	Total pay and benefits (£000) 2020/21	Salary (£000) 2021/22	Total pay and benefits (£000) 2021/22
CEO remuneration	834	1,068	**841**	**2,630**
UK colleague 25th percentile	18	20	**19**	**21**
UK colleague 50th percentile	20	21	**21**	**22**
UK colleague 75th percentile	24	25	**25**	**26**

SUMMARY REMUNERATION POLICY

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 3 JULY 2020)

This report sets out a summary of M&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/thecompany. 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 given 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.	Currently a maximum employer contribution of 12% of salary where the employee contributes 6% of salary. From 3 July 2020, pension cash supplements were removed for future directors.
ABS 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 the 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.
PSP	Directors are eligible to participate in the PSP. This is a non-contractual, discretionary plan and is M&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%.

SUMMARY REMUNERATION POLICY CONTINUED

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).
ABS	– Eligible to take part in the ABS 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.
ABS	– There is no contractual entitlement to payments under the ABS. 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 reasonable legal fees and pay for professional outplacement services.

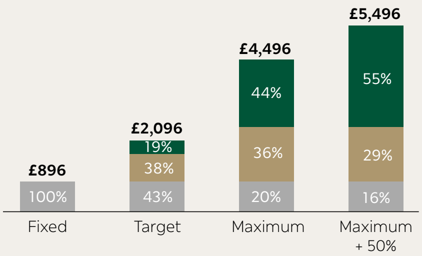
The full Policy sets out further detail on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control or winding up of the Company.

APPLICATION OF REMUNERATION POLICY

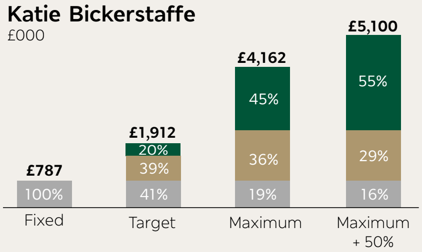
The charts below provide an illustration of what could be received by each of the executive directors in 2022/23 under the Policy. These charts are illustrative, as the actual value which will ultimately be received will depend on business performance in the year 2022/23 (for the cash element of the ABS) and in the three-year period to 2024/25 (for the PSP), as well as share price performance to the date of the vesting of the PSP awards in 2025

DIRECTORS

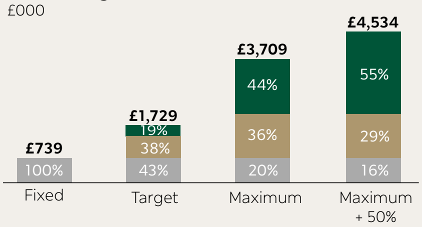
Stuart Machin
£000



Katie Bickerstaffe
£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: – ABS: 50% of maximum, assumes no share price growth. – PSP: 20% of 250% of salary, assumes no share price growth.
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: – ABS: 100% of maximum, assumes no share price growth. – PSP: 100% of 250% of salary, assumes no share price growth.
Maximum +50% share price growth	Includes the following assumptions for the vesting of the incentive components of the package: – ABS: 100% of maximum, assumes no share price growth. – PSP: 100% of 250% of salary with 50% share price growth. – Grant share price for the purpose of demonstrating the 50% growth taken as closing share price at 2021/22 year end.

Fixed remuneration

Includes all elements of fixed remuneration:

– Base salary (effective 25 May 2022), as shown in the table on page 96.

– Pension benefits, as detailed on page 96.

– Benefits (using the value for 2021/22 included in the single figure table on page 95).

ABS

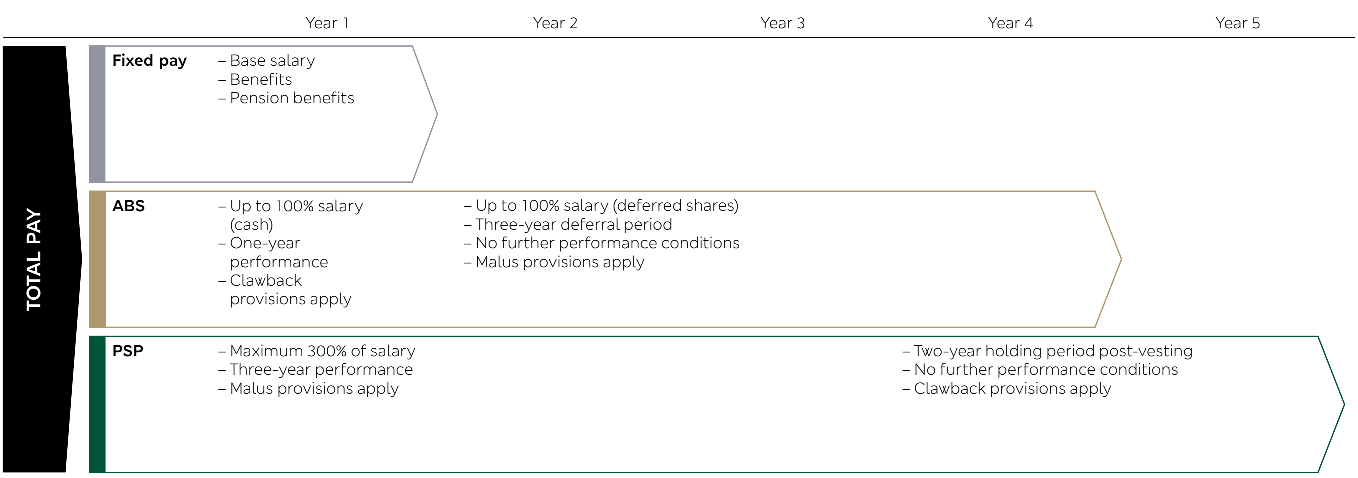
Represents the potential total value of the annual bonus for 2022/23. Half of any bonus would be deferred into shares for three years, and this is included in the value shown.

PSP

PSP represents the potential value of the PSP to be awarded in 2022, which would vest in 2025 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 fixed to performance-related pay is currently appropriate for M&S' strategy and risk profile.



SUMMARY REMUNERATION POLICY CONTINUED

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	– 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 non-executive director basic fee, 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	– Fees are reviewed annually and are determined by the Chairman and executive directors. – The maximum aggregate non-executive director basic fee, including the Chairman's basic fee, is £750,000 p.a, as set out in our Articles of Association.
Additional fees	Additional fees are paid for undertaking the extra responsibilities of: – Board Chairman. – Senior Independent Director. – Committee Chair.
Benefits	– In line with our other colleagues, the Chairman and non-executive directors are entitled to receive colleague discounts. – 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	– 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' 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. Colleagues affected by the HMRC Annual and/or Lifetime Allowance limits, can now choose to opt out of the pension and receive a cash payment in lieu of this. In addition, all UK colleagues are provided with life insurance and colleague discounts, 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 ABS which is partially determined by Group PBT performance. Part of the bonus is deferred into shares for three years.

Around 170 of M&S' top senior executives may be invited to participate in the PSP, and will then be 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 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 not only that the framework is 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' KPIs and strategic priorities detailed in the Strategic Report, as illustrated on pages 35 and 6 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 2021/22

Fixed pay	+ Annual bonus	+ PSP	= Total pay for 2021/22
Base salary Benefits Pension benefits	200% of salary maximum bonus opportunity (with 50% deferral) Measured against a balance of Group PBT before adjusting items and individual performance	250% of salary awarded in 2019 Measured against adjusted EPS, average ROCE and TSR achievement was 0% against targets set	**Total payments are c.55% of maximum potential**
1% increase in line with other management positions	**Payments made are 95% of maximum bonus opportunity**	**0% of award vested**	
	For more **information** see p97	For more **information** see p99	

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	2021/22	841	53	1,601	0	135	0	**2,630**	1,029	1,601
	2020/21	834	31	0	0	203	0	1,068	1,068	0
Eoin Tonge	2021/22	605	24	1,151	0	73	0	**1,853**	701	1,151
	2020/21	489	105	0	0	39	1,316	1,949	1,949	–

The increase in Steve's benefits is a result of the resumed use of his driver, which was paused during periods of lockdown in 2020/21, and the upgrade of the car used to a lower CO2 emitting vehicle. Whilst the change in vehicle is better for the environment, it does have a higher market value which increased the level of tax payable by Steve. No additional benefit was received by Steve.

Eoin Tonge received an award under the Restricted Share Plan (RSP) to compensate him, on a fair value basis, for share awards granted under his prior employer's share schemes. The face value of this award is shown in the 2020/21 row of the above table. Details of the calculation method were disclosed on page 94 of last year's annual report.

REMUNERATION REPORT
CONTINUED

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 2021, in line with increases for management positions, the Committee awarded Steve Rowe an increase of 1%, making his salary £842,845. Eoin Tonge also received a 1% salary increase, making his salary £606,000.

As set out on page 104 when Steve Rowe steps down from CEO on 25 May, Stuart Machin will become CEO, and his salary on appointment will be £800,000. On the same day, Katie Bickerstaffe will become Co-Chief Executive Officer on a salary of £750,000; Eoin Tonge will become Group CFO & Chief Strategy Officer, and his salary will increase by 8.9% to £660,000.

The next annual salary review for the executive directors will be effective in July 2023.

The table below details the executive directors' salaries as at 2 April 2022 and salaries which will take effect from 25 May 2022.

FIGURE 8: SALARIES

	Annual salary as of 2 April 2022 £000	Annual salary as of 25 May 2022 £000	Change in salary % increase
Steve Rowe	842.8	–	–
Eoin Tonge	606.0	660.0	8.9%
Stuart Machin	N/A	800.0	N/A
Katie Bickerstaffe	N/A	750.0	N/A

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. Eoin Tonge does not receive a car or cash allowance. As disclosed last year, to facilitate Eoin Tonge's recruitment and relocation, he was provided with travel and accommodation allowances. The taxable value of these benefits in kind was detailed in Figure 7 on the previous page.

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 previously disclosed, he has agreed that his pension cash supplement be reduced to zero over a three-year period. For 2022/23, the CEO's total annual cash supplement will be reduced by one-third to £67,500 until Steve Rowe ceases employment with the business at the AGM on 5 July. Details of these future payments 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 2 April 2022 are shown in Figure 9 below.

Eoin Tonge is a member of the Your M&S Pension Savings Plan, as described on page 91. 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 95. 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	164.6	0	0.5	0	5,320

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 2 April 2022. 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.

ANNUAL BONUS SCHEME 2021/22 (AUDITED)

Annual performance for the year was measured against pre-determined Group PBT before adjusting items (PBT) (70%) and individual performance (30%) targets. PBT is used as a core bonus measure, as it is considered to be an important measure of overall performance and is consistent with how business performance is assessed internally by the Board and Executive Committee.

Individual performance was measured against a scorecard of individual measures set against the areas of delivery of the transformation plan that were deemed most critical to the future success of M&S. Individual performance was measured independently of PBT performance; no individual element could be earned until a threshold needed to secure payment under the corporate element was similarly achieved.

ANNUAL BONUS SCHEME 2021/22 (AUDITED) CONTINUED

PBT outturn for the year was £522.9m, which was above the target set to trigger payments under both the corporate and individual elements of the scheme. As shown in Figure 11 below, the strong PBT performance during the year exceeding the maximum target set at the start of the year meaning that executive directors were awarded 100% of maximum opportunity under the corporate element of the scheme and c.83% of the maximum for individual performance. Total bonus achievement was 95% of opportunity.

When discussing the payments to executive directors, the Committee noted that under the terms of scheme, Steve would not technically be eligible for a payment due to being under notice before the payment date. However, the Committee considered his direct impact on delivering this first phase of transformation and his achievements against the individual objectives set for 2021/22. Given these and Steve's agreement to continue to support M&S beyond the end of his tenure, the Committee deemed it appropriate to apply their discretion and agree a bonus payment commensurate with his performance over the year.

The Committee reviewed achievement to ensure that total payments were appropriate in the context of several factors. These included M&S' overall financial performance, the outturn of individual objectives, and the level of bonus payable elsewhere in the business.

Figure 11 below sets out the Group PBT targets comprising 70% of awards and illustrates the extent to which each director achieved their four individual objectives. Total payments shown below directly correspond to the figure included in the single figure table on page 95.

FIGURE 10: INDIVIDUAL OBJECTIVES (AUDITED)

Director	Individual
Steve Rowe	**Creation and implementation of revised Executive Committee structure and roles and the development of strong succession plans.** Streamlined and sharpened the Executive Committee, creating a cohesive top team, supported by the CEO through coaching and counselling. Supported the Board in the delivery of a strong succession plan, as demonstrated by the internal appointment of the new leadership team. **Delivery of the transformation programme in Clothing & Home.** Clothing & Home delivered sales growth of 3.8% vs 2019/20 with three consecutive quarters of underlying growth. Online sales grew 55.6% with strong growth throughout the year outperforming pure play peers and gaining 60bps of market share. Store sales declined 11.2% with performance continuing to be impacted by legacy High Street and City Centre stores which is being addressed through the store renewal programme. Operating profit before adjusting items of £330.7m, compared to £224.0m in 2019/20 reflected the benefit of sales growth combined with a much stronger full price sales mix. Brand strategy established and model refined, with third party brands across Clothing & Home and Beauty generating c.£100m of orders in 2021/22. **Reset the strategic relationship with Ocado regarding platform integration, data sharing, infrastructure and category strategy.** Significant improvement in working relationships with Ocado Group. Greater "omni-channel" joint working, with upcoming trials on data sharing and category approaches. As expected 2021/22 saw a reduction in average basket size resulting in a decline in revenue, however, Ocado substantially outperformed the online grocery market. M&S branded products consistently make up over 25% of Ocado Retail's sales, generating substantial buying gains for both M&S Foods and Ocado Retail. **Revitalise Plan A.** Plan A has always been an important pillar within the M&S business, and this year saw a relaunch of a strengthened Plan A mission providing new oversight, energy and momentum, and a singular focus on cutting the M&S carbon footprint by one third by 2025 and to be fully net zero by 2040. Agreed a new £850m Revolving Credit Facility linked to the delivery of the net zero roadmap.
Eoin Tonge	**Drive a focus on financial delivery of critical transformation strategies in Property and supply chain.** Stepped up the new store pipeline to enable a drive in rotation with c.15 new full line stores and a further 32 store closures in the pipeline over the next three years with expectation that this will build further. Trials implemented to test an accelerated "close and recapture" model delivered proof of concept, expanding possibilities around estate rotation capabilities. Strong results from recent openings with sales averaging 11% above plan with payback at around 1.5 years (-44% against plan). With regard to supply chain, Eoin played a key role in the resetting of the Gist relationship. Put a strong three-year plan in place for Clothing & Home supply chain and successfully delivered in-store fulfilment. **Design and deliver critical Group investment evaluation processes and models.** Further tightening of our capital discipline and appraisal processes. Delivered corporate development through purchase of strategically identified businesses, such as Nobody's Child, The Sports Edit and our investment in the True investment fund. Successfully integrated Jaeger into the M&S family. **Shape and strengthen the balance sheet.** Balance sheet strengthened with net debt down two-thirds from two years ago, through prudent cashflow management, capex discipline and working capital initiatives. Critically renegotiated bank revolving credit facility. **Deliver step change in the control environment.** Improvement in all internal governance mechanisms including reporting to and engaging with the Audit Committee and ESG Committee. New business model control framework put in place.

FIGURE 11: ANNUAL BONUS SCHEME 2021/22 (AUDITED)

	CORPORATE GROUP PBT (70%)		INDIVIDUAL (30%)		TOTAL PAYMENT	
	Target/performance		Performance	Achievement		
Director	Min £315m	Max £361m			% of salary	£000
Steve Rowe	100% of max bonus	£522.9m		83.3% of max bonus	**190%**	**£1,601**
Eoin Tonge	100% of max bonus	£522.9m		83.3% of max bonus	**190%**	**£1,151**

REMUNERATION REPORT CONTINUED

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (AUDITED)

Currently 50% of any bonus payment is compulsorily deferred into a conditional share award. These awards vest after three years, subject to continued employment as well as malus provisions. As the ABS did not operate in 2020/21, no share awards under the DSBP were made during the year. The table below provides the value of the share awards to be made in respect of the 2021/22 bonus. This value reflects half of the value shown for the 2021/22 bonus payments in the single figure table on page 95.

FIGURE 12: DSBP AWARDS IN RESPECT OF 2021/22	Basis of award	Face value of award £000	End of deferral period
Steve Rowe	50% of bonus	£800.7	30/6/2025
Eoin Tonge	50% of bonus	£575.7	30/6/2025

ANNUAL BONUS SCHEME FOR 2022/23

During the year, the Committee reviewed the 2022/23 scheme, considering the accelerated Never the Same Again transformation programme together with bonus arrangements elsewhere in the business.

The Committee was satisfied that the structure of the ABS, as approved by shareholders at the 2020 AGM, remains appropriate. Subject to the achievement of stretching targets, set in line with the 2022/23 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.

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 2022/23 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, at 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
Stuart Machin	70%	30%	– Lead and develop a successful rhythm and effective ways of working with new executive team. Leadership and governance of Executive Committee. – Implement a simplified and effective organisational structure. – Evolve the Ocado Retail joint venture and strategic plan. – Deliver the Food supply chain transformation. – Deliver the Property store rotation and renewal programme. – Create a high performing and engaged culture across the whole of M&S.
Katie Bickerstaffe	70%	30%	– Deliver the MS2 and omni-channel strategy and performance. – Improvement in Sparks active members, engagement, personalisation and payment. – Achieve International growth and strategy for India expansion. – Deliver end to end clothing supply chain (phase 1). – Deliver digital and data capability and put at the heart of the delivery of the next phase of growth transformation. – Clothing category management and effective ways of working.
Eoin Tonge	70%	30%	– Continue to improve and strengthen the Group balance sheet. – Implement a new energised control and risk framework – Lead the strategic framework review for the next phase of growth transformation – Accelerate the Property store rotation programme. – Lead the organisation productivity and efficiency initiatives. – Deliver a step change in our sustainability plan and put at the centre of our Brand and proposition.

PERFORMANCE SHARE PLAN (PSP)

PSP AWARDS MADE IN 2021/22 (AUDITED)

Ahead of grants being made, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable. After consideration, it was decided that the current structural arrangements remained appropriate, 20% of the 2021 PSP award would be based upon strategic transformation goals relevant to the achievement of the business strategy over the next three years and the remaining 80% of the award would be based on EPS (30%), ROCE (30%) and relative TSR (20%).

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' business operations and best reflected the value of shareholders' investment in M&S over the respective performance period. These companies are listed in Figure 14.

In light of the return of share price to pre-pandemic levels, the Committee decided that it was appropriate for grant levels to return to 250% of salary for the 2021 PSP. In determining the size of the 2021 PSP awards, the Committee decided that as a result of the share price recovery over the last 12 months, fewer shares would be awarded than in 2020. The grant was made on 29 June 2021.

Having taken the decision to delay target setting, the Committee consulted with shareholders on the proposed targets and received support for the proposed targets. 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 13.

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FIGURE 13: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2021/22 (AUDITED)

		Details	
2021/22 award measures	Weighting	Threshold	Maximum
Adjusted EPS in 2023/24 (p)	30%	15p	24p
ROCE in 2023/24 (%)	30%	10.5%	13.5%
Relative TSR	20%	Median	Upper quartile
Strategic measures	20%	M&S.com growth Food like-for-like sales Store staff cost to sales ratio	

FIGURE 14: TSR COMPARATOR GROUP 2021/22 AWARDS

ASOS	Dunelm Group	J Sainsbury	Next	Wm Morrisons
B&M European	Frasers	Kingfisher	Tesco	
Dixons Carphone	JD Sports Fashion	N Brown Group	WHSmith	

FIGURE 15: PSP AWARDS MADE IN 2021/22 (AUDITED)

	Basis of award % of salary	Threshold level of vesting	Face value of award £000	End of performance period	Vesting date
Steve Rowe	250%	20%	2,086	01/04/2024	29/06/2024
Eoin Tonge	250%	20%	1,500	01/04/2024	29/06/2024

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 2021 award, the share price was calculated as £1.5267, being the average share price between 22 June 2021 and 28 June 2021.

FIGURE 16: PSP AWARDS VESTING IN 2021/22 (AUDITED)

For directors in receipt of PSP awards granted in 2019, the awards will vest in June 2022 based on three-year performance over the period to 2 April 2022. 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 for either share price movements or formulaic vesting outcomes.

Details of performance against the specific targets set are shown in the table overleaf.

The total vesting values shown in Figure 17 directly correspond to the figure included in the single figure table on page 95.

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PERFORMANCE SHARE PLAN (PSP) CONTINUED

2019/20 award	Adjusted EPS in 2021/22 (p) 1/3 of award	Average ROCE (2019/20-2021/22) (%) 1/3 of award	TSR 1/3 of award	Total vesting % of award
Threshold performance	22.7	10.2	Median	
Maximum performance	28.5	12.7	Upper quartile	
Actual performance achieved	21.7p	8.7%	Below median	
Percentage of maximum achieved	0%	0%	0%	**0%**

The 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 24.0p-31.0p and ROCE 13.0%-17.0%. For threshold performance 20% of the 2019/20 award would have vested, increasing to 100% on a straight-line basis between threshold and maximum performance.

FIGURE 17: VESTING VALUE OF AWARDS VESTING IN 2021/22 (AUDITED)

	On grant		At the end of performance period (2 April 2022)				
	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	Impact of share price performance	Total vesting of award £000
Steve Rowe	983,801	250%	51,437	0	1,035,238	–	**£0k**

Dividend equivalents accrued during the performance period have been included in the table above.

PSP AWARDS TO BE MADE IN 2022/23

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained suitable. While the 2022 PSP will maintain the measures used for the 2021 PSP awards (30% adjusted EPS, 30% ROCE, 20% relative TSR and 20% strategic measures), the EPS and ROCE targets have been increased from those seen in awards from previous years.

In making this decision, the Committee was mindful of the need to ensure that M&S' PSP motivates senior leaders to drive the required transformation to secure M&S' long-term success while balancing shareholder interests. Overall, the Committee believes that these PSP targets are appropriately stretching in the context of the business and analyst expectations and remain equally challenging as those set at the start of the performance period for previous awards.

TSR will once again be measured against a bespoke group of companies taken from the FTSE 350 General and Food & Drug Retailers indices. The existing group of 13 companies, as detailed in Figure 14, was thoroughly reviewed to ensure the constituents remained appropriate and aligned to M&S' business operations. This review resulted in the removal of Wm Morrisons, as it is no longer listed on the FTSE. The revised TSR comparator group of 12 companies can be found in Figure 19.

Following a debate on M&S' share price performance since the 2020/21 PSP was awarded in June 2021, a grant of 250% of salary was approved for the 2022 PSP. The Committee will review and reconfirm this decision immediately prior to grant to ensure this remains appropriate.

Performance will be measured as shown in Figure 18 below, with 20% of awards vesting for threshold performance and 100% for maximum.

FIGURE 18: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2022/23

		Details	
2022/23 award measures	Weighting	Threshold	Maximum
Adjusted EPS in 2024/25 (p)	30%	18p	27p
ROCE in 2024/25 (%)	30%	11.5%	14.0%
Relative TSR	20%	Median	Upper quartile
Strategic measures	20%	M&S.com growth Food like-for-like sales Store staff cost to sales ratio	

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 19: TSR COMPARATOR GROUP 2022/23 AWARD

ASOS	Dunelm Group	J Sainsbury	Next
B&M European	Frasers	Kingfisher	Tesco
Dixons Carphone	JD Sports Fashion	N Brown Group	WHSmith

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 20: 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 2 April 2022. 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 24 May 2022. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Restricted Share Plan	Vested unexercised options
Steve Rowe	562,662	3,861,479	–	–
Eoin Tonge	277,999	2,032,049	789,252	–

FIGURE 21: SHAREHOLDING REQUIREMENTS INCLUDING POST-CESSATION (AUDITED)

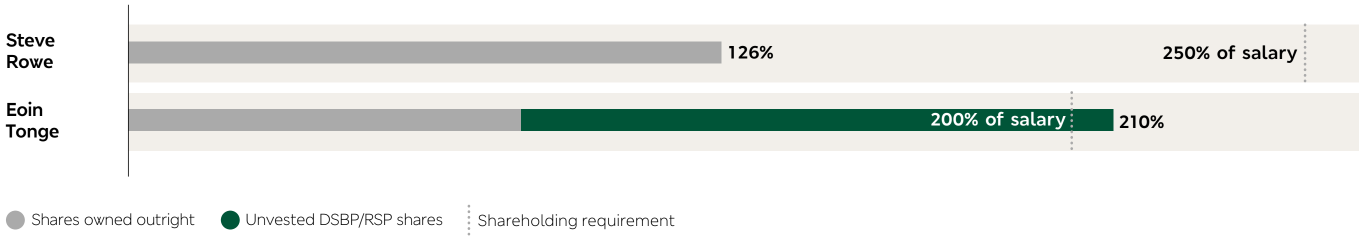
All executive directors are required to build shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 200% of salary. A similar requirement 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 2 April 2022. 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 shareholding requirement guidelines and actual director shareholdings under review and will take appropriate action should it feel this is necessary.

To support 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 UK Corporate Governance Code changes and the Investment Association's updated guidelines, in 2020 the Committee approved the extension of shareholding guidelines to 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 £1.809, with resultant shareholdings illustrated in the chart below.



GOVERNANCE

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EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (AUDITED)

Executive directors may participate in ShareSave, the Company's save as you earn (SAYE) 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 of the financial statements on pages 154 to 156.

DILUTION OF SHARE CAPITAL BY EMPLOYEE SHARE PLANS

Awards granted under the Company's SAYE 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 10-year period) and executive share plans (5% in any rolling 10-year period) as at 2 April 2022 is shown in Figure 22 and 23:

FIGURE 22: All share plans

FIGURE 23: Executive share plans

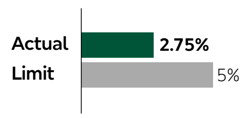


FIGURE 24: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 3 April 2021	Awarded during the year	Exercised during the year	Lapsed during the year	Dividend equivalents accrued	Maximum receivable at 2 April 2022
Steve Rowe						
Performance Share Plan	3,228,450	1,366,509	–	733,480	–	**3,861,479**
Deferred Share Bonus Plan	–	–	–	–	–	**–**
SAYE	21,951	–	–	–	–	**21,951**
Total	3,250,401	1,366,509	–	733,480	–	**3,883,430**
Eoin Tonge						
Performance Share Plan	1,049,538	982,511	–	–	–	**2,032,049**
Restricted Share Plan	789,252	–	–	–	–	**789,252**
SAYE	21,951	–	–	–	–	**21,951**
Total	1,860,741	982,511	–	–	–	**2,843,252**

The market price of the shares at the end of the financial year was £1.5795; the highest and lowest share prices during the financial year were £2.5690 and £1.3155 respectively.

Figure 25 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.

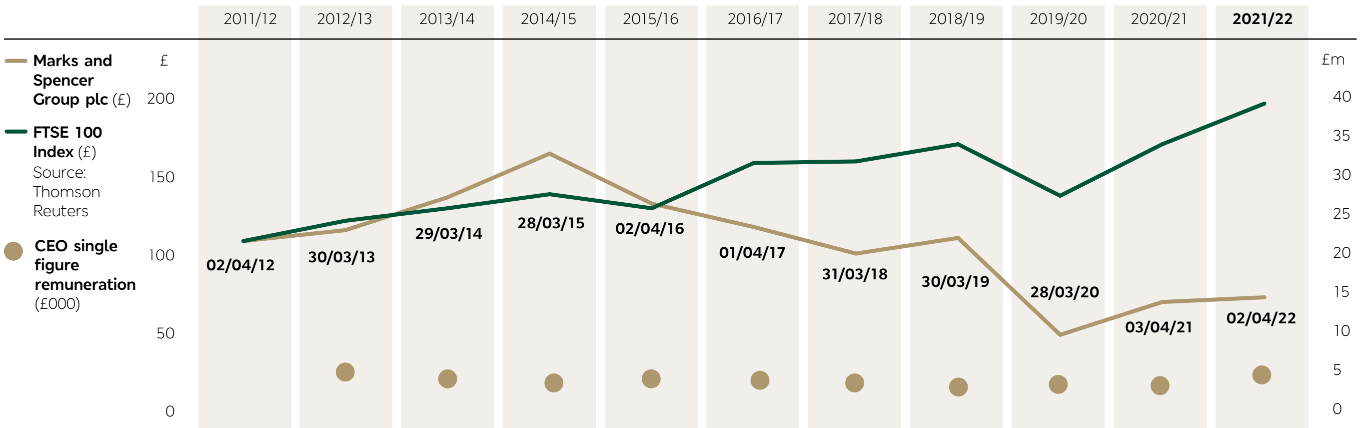
FIGURE 25: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

		Maximum receivable at 2 April 2022 (all discretionary schemes)	2022/23		2023/24		2024/25	
			Maximum receivable	Lapsed	Maximum receivable	Lapsed	Maximum receivable	Lapsed
Steve Rowe	Performance Share Plan	3,861,479	–	1,035,238	1,459,732	–	1,366,509	–
Eoin Tonge	Performance Share Plan	2,032,049	–	–	1,049,538	–	982,511	–
	Restricted Share Plan	789,252	526,168	–	263,084	–	–	–

As reported on page 99, the 2019 PSP awards included within the totals shown in Figure 25 will vest at 0% in June 2022. This has been reflected above in the 2022/23 Lapsed column.

FIGURE 26: 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 this 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.



	CEO	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
CEO single figure (£000)	Steve Rowe	–	–	–	–	1,642	1,123	1,517	1,205	1,068	2,630
	Marc Bolland	2,142	1,568	2,095	2,015	–	–	–	–	–	–
Annual bonus payment (% of maximum)	Steve Rowe	–	–	–	–	36.98%	0.00%	0.00%	0.00%	0.00%	95.0%
	Marc Bolland	42.50%	0.00%	30.55%	31.90%	–	–	–	–	–	–
PSP vesting (% of maximum)	Steve Rowe	–	–	–	–	0.00%	8.20%	34.0%	11.20%	0.00%	0.00%
	Marc Bolland	00.00%	7.60%	4.70%	4.80%	–	–	–	–	–	–

FIGURE 27: PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

	% change 2020/21-2021/22			% change 2019/2020-2020/21		
	2020/21 Base salary/ fees	Benefits	Annual bonus	2019/20 Base salary/ fees	Benefits	Annual bonus
Steve Rowe	1%	-20%	100%	0%	-36.8%	–
Eoin Tonge	1%	-33%	100%	0%	–	–
Archie Norman	1%	200%	N/A	0%	-74%	N/A
Andy Halford	1%	100%	N/A	0%	0%	N/A
Andrew Fisher	1%	100%	N/A	0%	-100%	N/A
Justin King	1%	-100%	N/A	0%	100%	N/A
Tamara Ingram	1%	–	N/A	0%	–	N/A
Sapna Sood	1%	–	N/A	0%	–	N/A
Evelyn Bourke	1%	100%	N/A	N/A	N/A	N/A
Fiona Dawson	1%	–	N/A	N/A	N/A	N/A
UK colleagues (average FTE)	2%	0%	100%	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 change in the taxable benefits is a result of Covid-19 travel restrictions easing and not a change in the benefits policy.

FIGURE 28: 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 buyback. 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 that the Board considers when assessing Company performance.

	2020/21 £m	**2021/22 £m**	% change
Total colleague pay	1,463.7	**1,487.5**	1.6%
Total returns to shareholders	Nil	**Nil**	–
Group PBT before adjusting items	41.6	**522.9**	1,257%

Group PBT before adjusting items as disclosed on page 86.

REMUNERATION REPORT
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EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 29: 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 2021/22

DIRECTORS APPOINTED TO THE BOARD

As announced on 10 March 2022, Stuart Machin will join the Board on 25 May 2022 as CEO. His basic annual salary is £800,000. Stuart's incentive arrangements are aligned with our Remuneration Policy, as summarised on page 91.

It was announced on the same day that Katie Bickerstaffe, having previously served as a non-executive director, will rejoin the Board on 25 May 2022 as Co-Chief Executive. Her basic annual salary is £750,000. Katie's incentive arrangements are aligned with our Remuneration Policy on page 91.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

As announced on 10 March 2022, Steve Rowe will stand down from the Board after the preliminary results on 25 May and will cease full-time employment with M&S at the AGM on 5 July. In view of his wisdom and formidable knowledge of the business, he has agreed to remain as an adviser to the new leadership for up to 12 months. The terms of his remuneration upon leaving are in line with the approved Termination Policy. Steve is contractually entitled to receive a salary, and benefits, by way of phased monthly payments from 6 July 2022 to 5 July 2023, subject to mitigation.

The Committee determined good leaver treatment in line with the plan rules, and therefore his unvested conditional shares awarded under the 2020 and 2021 PSP will be time pro-rated to 5 July 2022. As detailed earlier in the report, the PSP awards granted in 2019 vested in June 2022 at 0%, resulting in the award lapsing in full.

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. No executive directors held an external appointment during 2021/22.

FIGURE 30: 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 2021/22 and 2020/21 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.

As reported last year, the basic non-executive fee 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 increased to £618,000.

The additional fee for chairing a committee increased in the year from £15,500 to £20,000 with effect from 1 January 2022.

In line with pay increases across the business, non-executive director fees will increase by 3% to £74,380 with effect from 1 July 2022. The Board Chairman was also awarded an increase of 3% bringing the total aggregate fee to £636,540.

Fee levels will again be reviewed in the year, ahead of any changes which would be effective 1 July 2023.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Archie Norman	2021/22	72	544	10	**626**
	2020/21	71	541	5	617
Andy Halford	2021/22	72	31	0	**103**
	2020/21	71	31	0	102
Andrew Fisher	2021/22	72	17	1	**90**
	2020/21	71	16	0	87
Justin King	2021/22	72	0	0	**72**
	2020/21	71	0	1	72
Tamara Ingram[1]	2021/22	72	17	0	**89**
	2020/21	60	10	0	70
Sapna Sood	2021/22	72	0	0	**72**
	2020/21	60	0	0	60
Evelyn Bourke	2021/22	72	0	1	**73**
	2020/21	12	0	0	12
Fiona Dawson	2021/22	62	0	0	**62**
(from 25 May 2021)	2020/21	0	0	0	0

1. The 2020/21 additional fees for Tamara Ingram have been restated to include £5,167 Committee Chair fees earned in 2020/21 but paid in 2021/22.

FIGURE 31: 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 2 April 2022 (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 24 May 2022 (or upon their date of retiring from the Board) are shown in the table opposite.

Director	Number of shares held as at 2 April 2022	Number of shares held as at 24 May 2022
Archie Norman	148,600	No change
Andy Halford	25,200	No change
Andrew Fisher	4,243	No change
Justin King	64,000	No change
Tamara Ingram	2,000	No change
Sapna Sood	2,000	No change
Evelyn Bourke	50,000	No change
Fiona Dawson	12,352	No change

FIGURE 32: 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 (or six months' notice 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 2022/23

ROLE CHANGES WITHIN THE BOARD

Andy Halford retires as the Chair of the Audit Committee on 7 June 2022; he will remain as the Senior Independent Director until he retires and steps down before the 2023 AGM. His fee will increase, in line with the increase to basic non-executive director fees, from £103,215 to £105,380.

Evelyn Bourke will become Chair of the Audit Committee with effect from 7 June 2022. Evelyn will receive a total fee of £92,215, which is inclusive of the standard annual non-executive director fee of £72,215 (£74,380 from 1 July 2022).

REMUNERATION REPORT
CONTINUED

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee reviewed the Terms of Reference to ensure 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 Committee continues to have a strong focus on ensuring an appropriate alignment between the remuneration of executive directors, the Executive Committee and 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 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 is 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' 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 Company and individual performance, and the context of the wider workforce, into account.
- 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 BIG, the Group's colleague representative body, colleague voice surveys and management reports to ensure colleague views on Group culture, including remuneration strategy and I&D are considered.

REMUNERATION COMMITTEE AGENDA FOR 2021/22

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 2021/22 performance objectives for executive directors and the Executive Committee.
- Approval of targets for the 2022/23 ABS ensuring that the performance conditions are transparent, stretching and rigorously applied.
- Approval of the 2022/23 individual performance objectives for executive directors and the Executive Committee.
- Noting of the total budgeted expenditure for the ABS across M&S.

Long-term incentives

- Approval of 2022 PSP awards for the executive directors and the Executive Committee.
- Approve the 2022 PSP targets ensuring appropriate alignment between driving exceptional performance and motivating and retaining top talent.
- Approval of the vesting level of the 2019 PSP awards across M&S.
- Regular review of all in-flight PSPs 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 2021/22 and review of the AGM voting outcome for the 2020/21 report.
- Review of the Committee's performance in 2021/22, 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 BIG, M&S' colleague representative body, to ensure that all colleague 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

During the year, the Board Chairman led an internal review of the Board's effectiveness. All non-executive directors independently provided their views, which were then reviewed and discussed collectively.

The Remuneration Committee, under the leadership of Andrew Fisher, continues to operate efficiently; matters discussed during the year fulfil the Committee's expanded remit and are thoughtfully debated in the context of internal and external factors.

2022/23 ACTION PLAN

- Full review of the M&S Remuneration Policy in anticipation of the binding shareholder vote at the 2023 AGM, ensuring the policy continues to accelerate the transformation and support long-term success of M&S and is aligned with the 2018 UK Corporate Governance Code, other external governance and emerging best practice.
- Review and discuss Group future pay and incentive structures to align with organisational design and M&S values, ensuring appropriateness of reward structures and costs for the future, as well as continued alignment with the Board approach to pay.
- Review of proposed ESG customer sentiment metric and establishment of base line for measurement together with continuing discussion on alternative ESG measures to ensure appropriate focus on Plan A goals in Board pay arrangements.
- Continue to support the work of the Nomination Committee through the assessment of senior leadership talent, succession planning and associated pay arrangements, together with talent plans and colleague engagement across the entire organisation.

FIGURE 33: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2021/22.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Andrew Fisher (Committee Chair)	1 October 2018	5	5	100%
Archie Norman	3 November 2017	5	5	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 adviser 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 £66,750 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.

PwC's advisory team has no connection with any individual director of the Group.

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 dedicated to ensuring that executive pay remains competitive, appropriate and fair in the contexts 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 dedicated to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. As described in the Committee Chair's letter, dialogue on the proposed measures and weightings of the PSP continued during the year. Shareholders were positive in their feedback and confirmed that the targets set aligned with their expectations.

SHAREHOLDER SUPPORT FOR THE REMUNERATION POLICY AND 2020/21 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 6 July 2021, 99.15% of shareholders voted in favour of approving the Directors' Remuneration Report for 2020/21. 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 2020/21 Directors' Remuneration Report.

FIGURE 34: VOTING OUTCOMES FOR THE REMUNERATION POLICY AND 2020/21 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy (at the 2020 AGM)	1,125,697,134	97.14%	33,187,602	2.86%	942,792
2020/21 Remuneration Report (at the 2021 AGM)	1,271,170,625	99.15%	10,910,040	0.85%	2,734,663

APPROVED BY THE BOARD

Andrew Fisher Chair of the Remuneration Committee
London, 24 May 2022

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 2 April 2022 comprises pages 56 to 112 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 2 to 55, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on pages 45 to 46.
- Details of branches operated by the Company on pages 9 to 25.
- Information on how the directors have had regard for the Company's stakeholders, and the effect of that regard, on pages 32 to 34.

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 165 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 70 to 77, and refer to the sustainability section of our website: **marksandspencer.com/sustainability**.

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	86-88, 91-93, 95, 99-104

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 60 and 61. Changes to the directors during the year and up to the date of this report are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 100 to 102 and 105. Options granted to directors under the Save As You Earn ("SAYE") and Executive Share Option Schemes are shown on page 102. Further information regarding employee share option schemes is provided in note 13 to the financial statements on pages 154 to 156.

Name	Role	Effective date of departure/ appointment
Departures		
Steve Rowe	Executive Director	25 May 2022
Appointments		
Fiona Dawson	Non-Executive Director	25 May 2021
Stuart Machin	Executive Director	25 May 2022
Katie Bickerstaffe	Executive Director	25 May 2022

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 2 April 2022 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 2 April 2022 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 profit for the financial year, after taxation, amounts to £309.0m (last year £(194.4)m on a 52 week basis). The directors have not declared dividends as follows:

Ordinary shares	£m
No proposed interim dividend (last year no proposed interim dividend)	–
No proposed final dividend (last year no proposed final dividend)	–
No dividend proposed for 2021/22 (last year no proposed dividend)	–

SHARE CAPITAL

The Company's issued ordinary share capital as at 2 April 2022 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, 215,753 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' SAYE Share Option Scheme. 31,470 shares were issued at a price of 151p, 122,163 shares at a price of 82p and 62,120 shares at a price of 238p.

In addition, during the period, 2,176,000 ordinary shares were issued to satisfy employee share awards under the Company's Restricted Share Plan at a price of 1p.

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 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 might 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 2021 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 2 April 2022 and up to the date of this report.

This standard authority is renewable annually; the directors will seek to renew it at the 2022 AGM.

The Company was also authorised at the 2021 AGM, pursuant to the reduction of the nominal value of its ordinary shares from £0.25 to £0.01, to make an off-market purchase of its deferred shares of £0.24 each. In accordance with this authority, 1,957,779,626 deferred shares of £0.24 were bought back for a total aggregate amount of £0.01, and cancelled on 8 July 2021.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's DTRs is published on a Regulatory Information Service and on the Company's website. As at 2 April 2022, 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.	98,157,250	5.01	Indirect interest (4.62%), securities lending (0.13%), CFD (0.26%)
RWC Asset Management LLP	104,965,660	5.38	Indirect interest
Norges Bank	57,796,956	2.95168	Direct interest

* 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 2 April 2022 to the date of this report, we received a further notification in accordance with DTR 5 from Blackrock Inc., disclosing a holding of 117,319,126 ordinary shares (5.97%, broken down as follows: Indirect, 5.49%; Securities lending, 0.07%; and CFD, 0.41%).

OTHER DISCLOSURES
CONTINUED

The directors were granted authority at the 2021 AGM to allot relevant securities up to a nominal amount of £6,521,758.64. This authority will apply until the conclusion of the 2022 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £6,529,881.95 and (ii) comprising equity securities up to a nominal amount of £13,059,763.91 (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 2023 or on 1 October 2023, whichever is sooner.

A special resolution will 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 £979,482.29. In addition, 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 £979,482.29.

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 195,896,459 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, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The £850m Credit Agreement dated 13 December 2021 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, 32 to 34, and 63 to 64.

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 SAYE Scheme and Share Incentive Plan. As at 2 April 2022, 15,442 colleagues were participating in ShareSave, the Company's SAYE Scheme. Full details of all schemes are given on pages 154 to 156.

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, sponsored by a member of the Executive Committee and championed by our Inclusion Activation Group of senior leaders.

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. Unfortunately, these targets have not been achieved; in response we will maintain these as targets and through a review and re-set of our strategy and approach, we will ensure focus is given to gender representation, ethnicity and disability.

We know we have a lot more to do, but we are facing into this and want to show our colleagues, customers and communities that we continue to be committed to making M&S an inclusive organisation.

Further information on our inclusion and diversity initiatives can be found on pages 26 to 29, and page 69.

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 available on our corporate website: **marksandspencer.com/thecompany**.

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 4 April 2021 to 2 April 2022 to the Audit Committee on 12 May 2022. It was approved on 19 May 2022.

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 seven 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 six of them have been resolved or closed, with one issue remaining open. One additional Code reference made by a supplier before 4 April 2021 was also closed 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 2 April 2022. 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, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 36 to 44, the Group's financial risk management objectives and exposures to liquidity and financial risks as set out in note 21 to the financial statements, as well as the Group's principal risks and uncertainties as set out on pages 47 to 54.

Based on the Group's cash flow forecasts, the Board expects the Group to have adequate resources to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach the covenant under its revolving credit facility for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. The Board therefore 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 2025. 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 55.

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 2022 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be broadcast online from M&S' Waterside House support centre on 5 July 2022 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 198 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 80.

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 ("IFRS"). 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 UK) 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 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 60 and 61, 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 24 May 2022 and signed on its behalf by

Nick Folland

Nick Folland General Counsel and Company Secretary

London, 24 May 2022

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 2 April 2022 and of the Group's profit for the 52 weeks then ended;**
- **the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;**
- **the Company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statements of Cash Flows; and
- the related notes 1 to 32 and C1 to C7.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions 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 financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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

The key audit matters that we identified in the current year were:

- impairment and impairment reversal of UK store assets;
- accounting for the UK store estate programme;
- inventory provisions for UK Clothing & Home; and
- disclosure of adjusting items as part of alternative performance measures.

Within this report, key audit matters are identified as follows:

Increased level of risk

Similar level of risk

Decreased level of risk

MATERIALITY

The materiality that we used for the Group financial statements was £25.0m (2021: £16.0m) 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:

- adjusted profit before tax;
- earnings before interest, tax, depreciation and amortisation; and
- revenue.

SCOPING

We have performed a full-scope audit on the UK component of the business. Balances subject to full scope audit represent 95% (2021: 96%) of the Group's revenue, 88% (2021: 95%) of adjusted profit before tax, 93% (2021: 93% of loss before tax) of profit before tax, 80% (2021: 80%) of total assets and 88% (2021: 88%) of total liabilities. We perform analytical review procedures on the residual balances.

SIGNIFICANT CHANGES IN OUR APPROACH

We have determined that the impairment of per una goodwill and the going concern basis of accounting are no longer key audit matters in the current period. These changes are discussed further in section 5.

4. CONCLUSIONS RELATING TO GOING CONCERN

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.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- 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;
- reviewed management's assessment of going concern and viability, including the three-year plan, as set out in their paper to the Audit Committee;
- assessed the appropriateness of forecast assumptions by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
  - testing the underlying data generated to prepare the forecast scenarios and to determine whether there was adequate support for the assumptions underlying the forecast;
  - reviewing correspondence relating to UK Government support such as indirect tax holidays and staff furlough;
  - reviewing correspondence relating to the availability of the Group's financing arrangements;
  - considering the results of the sensitivity analyses performed; and
  - evaluating the Group's disclosures on going concern against the requirements of IAS 1.

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.

In relation to the reporting on how the Group has applied the UK Corporate 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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. KEY AUDIT MATTERS

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

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

Changes in the current period relative to the prior period are as follows:

- Due to the recognition of an impairment in the prior period, the carrying amount of per una goodwill is below our materiality and, therefore, it does not represent a risk of material misstatement. We have therefore not identified the impairment of per una goodwill as a key audit matter. Goodwill is disclosed in note 14.
- In the prior period going concern was identified as a key audit matter as a response to the Covid-19 pandemic when there was uncertainty around the financial impact and the potential for restrictions to the Group's ability to trade from its physical stores. This uncertainty has reduced significantly and accordingly we have not identified the going concern basis of accounting as a key audit matter in the current period. Our conclusions relating to going concern are discussed in section 4.

GOVERNANCE

5.1. IMPAIRMENT AND IMPAIRMENT REVERSAL OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

As at 2 April 2022 the Group held £3,379.4 million (2021: £3,594.0 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 £6.9 million (2021: £66.4 million) and a reversal of previously recognised impairment charges of £63.4 million have been recognised 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 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 Audit Committee considers this to be a significant matter. Their consideration is on page 81.

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, impairment charges and reversals recorded and disclosures within the financial statements are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

5. KEY AUDIT MATTERS CONTINUED

5.2. 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 £657.6 million. A further net charge of £161.4 million has been recognised in the current period as a result of:

- an increase in the number of stores assessed as probable for closure and the update 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 22 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, store closure costs, freehold sale proceeds, leasehold surrender costs and expected sublet income, lease incentives and void periods.

The Audit Committee considers this to be a significant matter. Their consideration is on page 81.

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 benchmark 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, store closure costs, freehold sale proceeds, leasehold surrender costs, expected sublet income, sublet lease incentives and void periods with reference to available 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 estate 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.

5.3. INVENTORY PROVISIONS FOR UK CLOTHING & HOME

KEY AUDIT MATTER DESCRIPTION

As at 2 April 2022, the Group held UK Clothing & Home inventories of £458.6 million (2021: £430.6 million), inclusive of a provision of £48.3 million (2021: £78.2 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 the prior period the Group recorded a net reversal of the inventory impairment of £90.8 million (£101.6 million relating to UK Clothing & Home inventory).

In this period the Group has reversed or utilised the remaining Covid-19 provision of £18.6 million that was originally recorded and presented within adjusting items.

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.

Management has determined the level of provision using judgement and with reference to forecast future sales utilising available data from past periods on the saleability of stock. 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 81.

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.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

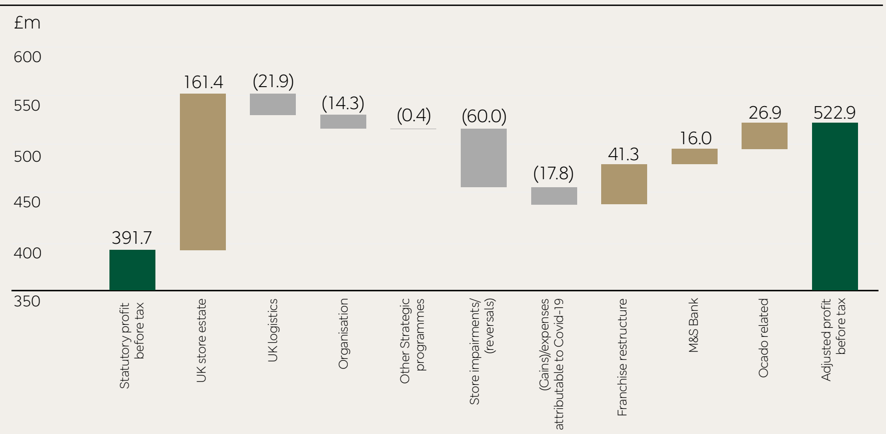
5. KEY AUDIT MATTERS CONTINUED

5.4. 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 £522.9 million (2021: £50.3 million), which is derived from statutory profit before tax of £391.7 million (2021: loss before tax of £209.4 million) adjusted for a number of items totalling £131.2 million (2021: £259.7 million) which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items in accordance with guidance issued by the FRC and ESMA. We consider there to be a risk of fraud in the reporting of adjusting items within the alternative performance measures.

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 81.

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;
- 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 are in line with the Group's policy and that they are appropriately disclosed.

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	£25.0 million (2021: £16.0 million)	£22.5 million (2021: £14.4 million)
Basis for determining materiality	We considered the following metrics in the current and prior period: – Adjusted profit before tax – Earnings before interest, tax, depreciation and amortisation ('EBITDA') – Revenue Using professional judgement, we determined materiality to be £25.0m.	We have used 3% of net assets in both the current and the prior period, capped at 90% of Group materiality, as the basis for materiality.
Rationale for the benchmark applied	In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements. Group materiality represents: **Metric** – **%** Adjusted profit before tax – 4.8 EBITDA – 2.3 Revenue – 0.2	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 they key metric for the Company. 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.

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	65% (2021: 60%) of Group materiality	65% (2021: 60%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – our cumulative knowledge of the Group and its environment, including industry specific trends; – the change in the level of judgement required in key accounting estimates; – reliability on internal control over financial reporting; – the level of change to the business in the period; – the stability in key management personnel; – the level of centralisation in the Group's financial reporting controls and processes; and – the level of misstatements identified in prior periods. Our performance materiality percentage has increased from 60% to 65% of materiality due to the reduction in the level of uncertainty caused by Covid-19.	

6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.3 million (2021: £0.8 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

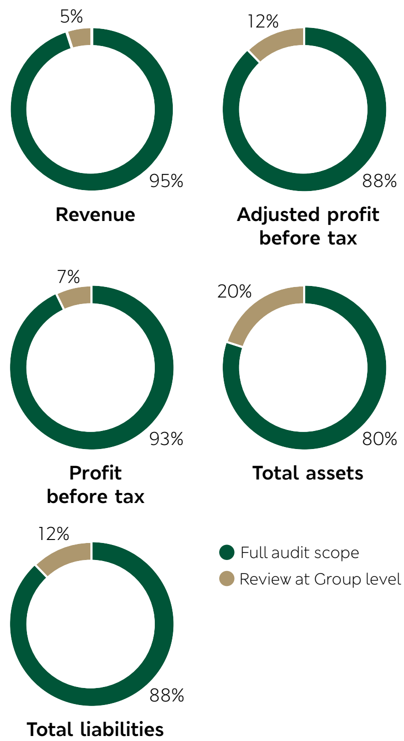
7.1. IDENTIFICATION AND SCOPING OF COMPONENTS

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 £22.5 million (or 90% of Group materiality) (2021: £15.2 million).

The Group holds 50% of the ordinary shares of Ocado Retail Ltd ('ORL'). 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 loss of associate from ORL of £18.6 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, 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 of a number of business cycles, such as payables, procurement, lease accounting, property plant and equipment and inventory.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT CONTINUED

7.3. OUR CONSIDERATION OF CLIMATE-RELATED RISKS

The Group continues to develop its assessment of the potential impacts of climate change and set targets which management considers to be aligned with the Paris Agreement. Management has identified a number of milestones, including the target of net zero carbon emissions by 2040, as discussed in the Task Force on Climate-Related Financial Disclosures report on pages 72 to 77. This assessment focusses on the impact on property and two of the Group's key resources: animal protein and cotton.

Management considers that the most likely impact on the financial statements will be in relation to its three-year cash flow forecasts, including those described as part of our key audit matters in section 5, and has included the impact within these forecasts where appropriate. Whilst at this stage there is significant uncertainty regarding what the long-term impact of climate change initiatives may be, the forecasts reflect management's best estimate of the impact on the financial statements as explained in note 1.

As a part of our audit procedures, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any reasonably possible risks of material misstatement. Our procedures were performed with the involvement of our climate-change specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

We did not identify climate-related risk as a separate Key Audit Matter in our audit given the nature of the Group's operations and knowledge gained of its impact on critical accounting estimates and judgements during our risk assessment procedures and audit procedures.

We have not been engaged to provide assurance over the accuracy of these disclosures.

7.4. 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 28 November 2021 and the reporting received from the component auditor for the period subsequent to 28 November 2021.

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.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

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 within alternative performance measures. 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 within alternative performance measures as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter 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 judgements 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 component team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

In the light of the knowledge and understanding of the Group and the 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 111;
- 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 55;
- the directors' statement on fair, balanced and understandable set out on page 112;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 112;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 45 to 55; and
- the section describing the work of the audit committee set out on pages 78 to 84.

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 8 periods, covering the periods ending 28 March 2015 to 2 April 2022.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Richard Muschamp FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London
24 May 2022

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 2 April 2022 Total £m	53 weeks ended 3 April 2021 Total £m
Revenue	2, 3	**10,885.1**	9,155.7
Share of result in associate – Ocado Retail Limited	3, 5, 29	**(18.6)**	64.2
Operating profit/(loss)	2, 3, 5	**572.2**	(30.7)
Finance income	5, 6	**33.9**	57.4
Finance costs	5, 6	**(214.4)**	(236.1)
Profit/(loss) before tax	4, 5	**391.7**	(209.4)
Income tax (expense)/credit	7	**(82.7)**	8.2
Profit/(loss) for the year		**309.0**	(201.2)
Attributable to:			
Owners of the parent		**306.6**	(198.0)
Non-controlling interests		**2.4**	(3.2)
		309.0	(201.2)
Earnings/(loss) per share			
Basic earnings/(loss) per share	8	**15.7p**	(10.1p)
Diluted earnings/(loss) per share	8	**15.1p**	(10.1p)
Reconciliation of profit before tax and adjusting items:			
Profit/(loss) before tax		**391.7**	(209.4)
Adjusting items	5	**131.2**	259.7
Profit before tax and adjusting items – non-GAAP measure		**522.9**	50.3
Adjusted earnings per share – non-GAAP measure			
Adjusted basic earnings per share	8	**21.7p**	1.4p
Adjusted diluted earnings per share	8	**20.9p**	1.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Profit/(loss) for the year		**309.0**	(201.2)
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	11	**357.0**	(1,352.0)
Tax (charge)/credit on retirement benefit schemes		**(127.6)**	256.5
Loss on disposal of investment held at fair value through other comprehensive income ("FVOCI")	16	**(3.7)**	–
		225.7	(1,095.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(13.5)**	(27.7)
– reclassified and reported in profit or loss		**(0.5)**	3.7
Cash flow hedges			
– fair value movements recognised in other comprehensive income	21	**91.3**	(215.5)
– reclassified and reported in profit or loss	21	**(10.5)**	26.5
Tax (charge)/credit on cash flow hedges		**(14.7)**	37.0
		52.1	(176.0)
Other comprehensive income/(expense) for the year, net of tax		**277.8**	(1,271.5)
Total comprehensive income/(expense) for the year		**586.8**	(1,472.7)
Attributable to:			
Owners of the parent		**584.4**	(1,469.5)
Non-controlling interests		**2.4**	(3.2)
		586.8	(1,472.7)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2022 £m	As at 3 April 2021 £m
Assets			
Non-current assets			
Intangible assets	14	**192.5**	232.0
Property, plant and equipment	15	**4,902.3**	5,058.6
Investment property		**15.0**	15.2
Investments in joint ventures and associates	29	**810.9**	825.8
Other financial assets	16	**4.5**	9.7
Retirement benefit asset	11	**1,043.9**	639.2
Trade and other receivables	17	**270.6**	261.4
Derivative financial instruments	21	**21.4**	0.3
		7,261.1	7,042.2
Current assets			
Inventories	5	**706.1**	624.6
Other financial assets	16	**17.6**	18.4
Trade and other receivables	17	**217.1**	209.6
Derivative financial instruments	21	**43.6**	32.8
Current tax assets		**–**	35.4
Cash and cash equivalents	18	**1,197.9**	674.4
		2,182.3	1,595.2
Total assets		**9,443.4**	8,637.4
Liabilities			
Current liabilities			
Trade and other payables	19	**1,960.9**	1,599.0
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	124.9
Borrowings and other financial liabilities	20	**247.2**	432.8
Derivative financial instruments	21	**3.2**	96.0
Provisions	22	**53.6**	43.1
Current tax liabilities		**34.0**	–
		2,370.8	2,295.8
Non-current liabilities			
Retirement benefit deficit	11	**5.7**	7.8
Trade and other payables	19	**188.2**	192.3
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**120.4**	68.6
Borrowings and other financial liabilities	20	**3,561.0**	3,659.9
Derivative financial instruments	21	**0.4**	10.7
Provisions	22	**91.8**	74.2
Deferred tax liabilities	23	**187.2**	42.3
		4,154.7	4,055.8
Total liabilities		**6,525.5**	6,351.6
Net assets		**2,917.9**	2,285.8
Equity			
Issued share capital	24	**19.7**	489.2
Share premium account		**910.6**	910.4
Capital redemption reserve		**2,680.4**	2,210.5
Hedging reserve	21	**17.6**	(54.8)
Cost of hedging reserve	21	**3.6**	4.6
Other reserve		**(6,542.2)**	(6,542.2)
Foreign exchange reserve		**(73.9)**	(59.9)
Retained earnings		**5,897.9**	5,325.2
Equity attributable to owners of the parent		**2,913.7**	2,283.0
Non-controlling interests		**4.2**	2.8
Total equity		**2,917.9**	2,285.8

The financial statements were approved by the Board and authorised for issue on 24 May 2022. The financial statements also comprise notes 1 to 32.

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 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**

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 4 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**
Profit for the year	–	–	–	–	–	–	–	306.6	306.6	2.4	309.0
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	(13.5)	–	(13.5)	–	(13.5)
– reclassified and reported in profit or loss	–	–	–	–	–	–	(0.5)	–	(0.5)	–	(0.5)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	357.0	357.0	–	357.0
Tax charge on retirement benefit schemes	–	–	–	–	–	–	–	(127.6)	(127.6)	–	(127.6)
Loss on disposal of investments held at FVOCI	–	–	–	–	–	–	–	(3.7)	(3.7)	–	(3.7)
Cash flow hedges											
– fair value movement in other comprehensive income	–	–	–	92.1	(0.8)	–	–	–	91.3	–	91.3
– reclassified and reported in profit or loss	–	–	–	(10.5)	–	–	–	–	(10.5)	–	(10.5)
Tax on cash flow hedges	–	–	–	(14.5)	(0.2)	–	–	–	(14.7)	–	(14.7)
Other comprehensive income/(expense)	–	–	–	67.1	(1.0)	–	(14.0)	225.7	277.8	–	277.8
Total comprehensive income/(expense)	–	–	–	67.1	(1.0)	–	(14.0)	532.3	584.4	2.4	586.8
Cash flow hedges recognised in inventories	–	–	–	6.5	–	–	–	–	6.5	–	6.5
Tax on cash flow hedges recognised in inventories	–	–	–	(1.2)	–	–	–	–	(1.2)	–	(1.2)
Transactions with owners:											
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	(1.7)	(1.7)	(1.0)	(2.7)
Shares issued in respect of employee share options	0.4	0.2	–	–	–	–	–	(0.3)	0.3	–	0.3
Buy back and cancellation of own shares[3]	(469.9)	–	469.9	–	–	–	–	–	–	–	–
Credit for share-based payments	–	–	–	–	–	–	–	38.8	38.8	–	38.8
Deferred tax on share schemes	–	–	–	–	–	–	–	3.6	3.6	–	3.6
As at 2 April 2022	**19.7**	**910.6**	**2,680.4**	**17.6**	**3.6**	**(6,542.2)**	**(73.9)**	**5,897.9**	**2,913.7**	**4.2**	**2,917.9**

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. On 8 July 2021, the Company reduced the nominal value of its 1,957,779,626 ordinary shares in issue at that date from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remains unchanged and each shareholder's proportionate interest in the share capital of the Company remains unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,385.7**	876.7
Income tax paid		**(7.7)**	(5.8)
Net cash inflow from operating activities		**1,378.0**	870.9
Cash flows from investing activities			
Proceeds on property disposals		**43.9**	2.9
Purchase of property, plant and equipment		**(192.8)**	(158.9)
Purchase of intangible assets		**(64.6)**	(47.8)
Sale/(purchase) of current financial assets		**0.8**	(6.7)
Purchase of non-current financial assets		**(3.3)**	–
Proceeds on disposal of non-current financial assets		**5.2**	–
Purchase of investments in associates and joint ventures[1]		**(37.8)**	8.7
Acquisition of subsidiary, net of cash acquired[2]		**(4.5)**	–
Loans to related parties		**(1.0)**	–
Interest received		**8.4**	9.2
Net cash used in investing activities		**(245.7)**	(192.6)
Cash flows from financing activities			
Interest paid[3]		**(216.6)**	(219.3)
Issuance of Medium Term Notes		**–**	300.0
Redemption of Medium Term Notes		**(163.6)**	(136.4)
Repayment of lease liabilities		**(216.0)**	(184.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		**–**	(17.2)
Shares issued on exercise of employee share options	24	**0.3**	–
Purchase of own shares by employee trust		**–**	(0.8)
Cash received from settlement of derivatives		**–**	14.0
Net cash used in financing activities		**(595.9)**	(244.0)
Net cash inflow from activities		**536.4**	434.3
Effects of exchange rate changes		**(8.2)**	(3.3)
Opening net cash		**669.7**	238.7
Closing net cash	27	**1,197.9**	669.7

1. Current year includes £33.8m outflow in relation to contingent consideration settled with Ocado Retail Limited and £4.0m outflow on the acquisition of 27% of the issued share capital of Nobody's Child Limited. Last year includes inflow of £11.2m upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited and outflow of £2.5m in relation to Founders Factory Retail Limited.
2. £4.5m outflow on the acquisition of 77.7% of the issued share capital of The Sports Edit Limited.
3. Includes interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £nil (last year: £6.4m) and interest paid on lease liabilities of £128.3m (last year: £132.3m).

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public limited company domiciled and incorporated in England and Wales under the Companies Act 2006. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations are 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 52 weeks ended 2 April 2022 (last year: 53 weeks ended 3 April 2021) in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 Board has 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 36 to 44, 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 47 to 54.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. At 2 April 2022, the Group had further strengthened its available liquidity over the year to £2,072.9m (last year: £1,799.4m), comprising cash and cash equivalents of £1,197.9m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £850.0m (set to mature in June 2025), and undrawn uncommitted facilities amounting to £25.0m. The Group's net debt at 2 April 2022 was £2,698.8m, a reduction of £817.1m since 3 April 2021, primarily driven by strong free cash flow generation.

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

In adopting the going concern basis of preparation, the Board has assessed the Group's cash flow forecasts which incorporate a latest estimate of the ongoing impact of current market conditions on the Group and include a number of assumptions including sales growth and customer behaviour. While trading continues to be strong, in forming their outlook on the future financial performance, the Board considered a variety of downsides that the Group might experience, such as a sustained economic recession, increased costs and an inability for the Group to execute the transformation plan.

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 Board has also modelled a more severe, but plausible, downside scenario. This downside scenario assumes that:

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

Even under this severe but plausible downside scenario, the Group would continue to have sufficient liquidity and headroom on its existing facilities and against the RCF 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 Board considers 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 Board expects the Group to have adequate resources to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach the covenant under the revolving credit facility for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. The Board therefore considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

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 4 April 2021:

- Amendments to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform Phase 2.

The adoption of the 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.

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IFRS 3: Reference to the Conceptual Framework
- 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
- IFRS 17 Insurance Contracts
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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: sales; 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. 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 52-week period ended 2 April 2022:

- 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 or operational 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 significant in nature and/or value. Impairment charges are recognised in operating profit before adjusting items where they relate to stores not previously impaired.
- 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.
- 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.

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. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue.

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.

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 ("DB") pension schemes, the difference between the fair value of the assets and the present value of the DB obligation is recognised as an asset or liability in the statement of financial position. The DB 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 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. When the Group incurs configuration and customisation costs as part of a cloud-based software-as-a-service agreement, and where this does not result in the creation of an asset which the Group has control over, then these costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Costs include 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 sublease as two separate contracts. The sublease 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.

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.

The table below sets out the Group's accounting classification of each class of its financial assets and liabilities:

	Note	Measurement
Financial assets:		
Other investments	16	FVTPL[1]
Unlisted equity investments	16	FVOCI[2]
Trade receivables	17	Amortised cost
Lease receivables	17	Amortised cost
Other receivables	17	Amortised cost
Cash and cash equivalents	18	Amortised cost
Derivative financial instruments	21	FVTPL
Financial liabilities:		
Borrowings and overdrafts	20	Amortised cost
Trade payables	19	Amortised cost
Other payables	19	Amortised cost
Contingent consideration	19	FVTPL
Accruals	19	Amortised cost
Lease liabilities	20	Amortised cost
Derivative financial instruments	21	FVTPL

1. Fair value through profit or loss.
2. Fair value through other comprehensive income.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A. Trade and other receivables Trade receivables are recorded initially at transaction price and subsequently measured at amortised cost, except those which, due to factoring arrangements, are held within a "hold to collect and sell" business model and are measured at FVOCI. Trade receivables measured at amortised cost are carried 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, loans receivable, venture capital investments 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 or loss ("FVTPL"). 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 FVTPL 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 FVTPL 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.

Derivative financial instruments and hedging activities

The Group primarily uses 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.

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 which was issued in August 2020. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. While the Group no longer holds any fair value hedge relationships, these amendments allow the Group to retain any balances from discontinued IBOR linked hedge relationships on the balance sheet as these are now deemed to be based on the replacement rate.

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 2 April 2022. 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 £1,043.9m has been recognised.

Assessment of control over Ocado Retail Limited

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 is initially hedged, approximately 14 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.

Key sources of estimation uncertainty

Climate change impact

Climate change is a global challenge and an emerging risk to businesses, people and the environment across the world. Although commitments we have made to date form part of the cash flow projections within our going concern and impairment assessments, the impact of climate change is not judged to have been a key driver in determining the outcomes of these exercises and is therefore not currently classified as a key source of estimation uncertainty. The Group will continue to review this classification as the assessment of the impacts, risks and opportunities presented by climate change and the Group's commitments to address the challenges presented evolve over the coming years.

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £161.4m (last year: £95.3m) 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 to 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.

Inventory provisioning

The Group assesses the recoverability of inventories by applying assumptions around the future saleability and estimated selling prices of items.

At 2 April 2022, the Group had recognised a total UK Clothing & Home inventory provision of £48.3m (last year: £78.2m), which included £nil (last year: £24.2m) relating specifically to the estimated impact of the Covid-19 pandemic. During 2021/22, UK Clothing & Home performance has been strong, with better-than-expected sell-through of inventory originally provided for and the Group has updated its assumptions regarding future trading performance. After utilising £10.2m of these provisions in the period, the Group has released the remaining £14.0m, resulting in no UK Clothing & Home inventory provisions in relation to Covid-19 remaining on the balance sheet at 2 April 2022. 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.

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:

	52 weeks ended 2 April 2022						53 weeks ended 3 April 2021					
	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
Sales before adjusting items[1]	**3,332.2**	**6,639.6**	**937.2**	**–**	**–**	**10,909.0**	2,239.0	6,138.5	789.4	–	–	9,166.9
Revenue before adjusting items[2]	**3,308.3**	**6,639.6**	**937.2**	**–**	**–**	**10,885.1**	2,239.0	6,138.5	789.4	–	–	9,166.9
Operating profit/(loss) before adjusting items[3]	**330.7**	**277.8**	**73.6**	**13.9**	**13.0**	**709.0**	(130.8)	228.6	44.1	78.4	1.9	222.2
Finance income before adjusting items						**28.3**						57.4
Finance costs before adjusting items						**(214.4)**						(229.3)
Profit/(loss) before tax and adjusting items	**330.7**	**277.8**	**73.6**	**13.9**	**13.0**	**522.9**	(130.8)	228.6	44.1	78.4	1.9	50.3
Adjusting items						**(131.2)**						(259.7)
Profit/(loss) before tax	**330.7**	**277.8**	**73.6**	**13.9**	**13.0**	**391.7**	(130.8)	228.6	44.1	78.4	1.9	(209.4)

1. Sales before adjusting items is revenue before adjusting items stated prior to adjustments for UK Clothing & Home brand consignment sales of £23.9m.
2. Revenue is stated prior to adjusting items of £nil (last full year: £11.2m) (see note 5).
3. Operating profit/(loss) before adjusting items is stated as gross profit less operating costs prior to adjusting items. Reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

2 SEGMENTAL INFORMATION CONTINUED

Other segmental information

	52 weeks ended 2 April 2022						53 weeks ended 3 April 2021					
	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)	**139.2**	**163.7**	**18.5**	**–**	**–**	**321.4**	50.5	105.0	6.8	–	–	162.3
Depreciation and amortisation[1,2]	**(268.1)**	**(248.8)**	**(35.0)**	**–**	**–**	**(551.9)**	(312.3)	(259.4)	(25.1)	–	–	(596.8)
Impairment charges, impairment reversals and asset write-offs[1]	**(37.2)**	**10.7**	**(8.0)**	**–**	**–**	**(34.5)**	(155.1)	(34.9)	(4.7)	–	–	(194.7)

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 £0.2m (last year: £0.3m) depreciation charged on 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

	2022 Total £m	2021 Total £m
Revenue	**10,885.1**	9,155.7
Cost of sales	**(7,130.3)**	(6,244.1)
Gross profit	**3,754.8**	2,911.6
Selling and administrative expenses	**(3,244.1)**	(3,018.9)
Other operating income	**80.1**	12.4
Share of results of Ocado Retail Limited	**(18.6)**	64.2
Operating profit/(loss)	**572.2**	(30.7)

The figures above include £136.8m (last year: £252.9m) adjusting item charges within operating profit/(loss) (see note 5). These are further analysed against the categories of revenue (£nil; last year: £11.2m), cost of sales (£17.0m gain; last year: £86.3m gain), selling and administrative expenses (£155.9m; last year: £313.8m), other operating income (£34.6m; last year: £nil) and share of results of Ocado Retail Limited (£32.5m; last year: £14.2m).

The selling and administrative expenses are further analysed below:

	2022 Total £m	2021 Total £m
Employee costs[1,2]	**1,420.6**	1,339.1
Occupancy costs	**344.3**	223.9
Repairs, renewals and maintenance of property	**122.2**	95.8
Depreciation, amortisation and asset impairments and write-offs[3]	**586.4**	791.7
Other costs[4]	**770.6**	568.4
Selling and administrative expenses	**3,244.1**	3,018.9

1. There are an additional £65.1m (last year: £68.8m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. Last year included furlough income (see note 30).
3. Includes £0.2m (last year: £0.3m) depreciation charged on investment property.
4. Includes costs such as logistics, IT, marketing and sundry costs.

Adjusting items categorised as selling and administrative expenses are further analysed as: employee costs of £0.1m (last year: £100.4m); occupancy costs £5.9m (last year: £6.1m); depreciation, amortisation and asset impairments/reversals and write-offs £64.9m (last year: £188.6m); and other costs £85.0m (last year: £18.7m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 PROFIT/(LOSS) BEFORE TAXATION

The following items have been included in arriving at profit/(loss) before taxation:

	2022 £m	2021 £m
Net foreign exchange (gains)/losses	**(14.5)**	2.9
Cost of inventories recognised as an expense	**6,086.3**	5,427.6
Write-down of inventories recognised as an expense	**197.6**	117.0
Depreciation of property, plant and equipment[1]		
– owned assets	**290.5**	312.1
– right-of-use assets	**167.8**	153.1
Amortisation of intangible assets	**93.6**	131.6
Impairments and write-offs of intangible assets and property, plant and equipment	**100.1**	252.0
Impairment reversals of property, plant and equipment	**(62.1)**	(73.1)
Impairments of right-of-use assets	**25.4**	52.7
Impairment reversals of right-of-use assets	**(28.9)**	(36.9)

1. Includes £0.2m (last year: £0.3m) depreciation charged on 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:

	2022 £m	2021 £m
Annual audit of the Company and the consolidated financial statements	**1.7**	1.6
Audit of subsidiary companies	**0.6**	0.6
Total audit fees	**2.3**	2.2
Audit-related assurance services	**0.2**	0.2
Total non-audit services fees	**0.2**	0.2
Total audit and non-audit services	**2.5**	2.4

5 ADJUSTING ITEMS

The total adjusting items reported for the 52-week period ended 2 April 2022 is a net charge of £131.2m (last year: £259.7m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	**2022 £m**	2021 £m
Included in revenue			
Sparks loyalty programme transition		**–**	(11.2)
		–	(11.2)
Included in operating profit			
Strategic programmes – UK store estate	15, 22	**(161.4)**	(95.3)
Strategic programmes – UK logistics	15, 22	**21.9**	(2.2)
Strategic programmes – Organisation	15, 22	**14.3**	(133.7)
Strategic programmes – International store closures and impairments	22	**0.4**	(3.6)
Store impairments, impairment reversals and other property charges	15, 22	**60.0**	6.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	29	**(32.5)**	(14.2)
Directly attributable gains resulting from the Covid-19 pandemic		**17.8**	90.8
M&S Bank charges incurred in relation to insurance mis-selling provision		**(16.0)**	(2.4)
Franchise restructure		**(41.3)**	–
Intangible asset impairments	14	**–**	(79.9)
Sparks loyalty programme transition		**–**	(5.4)
Establishing the investment in Ocado Retail Limited		**–**	(1.7)
GMP and other pension equalisation	11	**–**	(1.0)
		(136.8)	(241.7)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind		**5.6**	(6.8)
		5.6	(6.8)
Adjustments to profit before tax		**(131.2)**	(259.7)

Strategic programmes – UK store estate (£161.4m)

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 incurred charges of £657.6m up to April 2021 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

During 2020/21, the Group experienced a significant channel shift from stores to online due to the pandemic, accelerating the Group's ambition to achieve a Clothing & Home online sales mix of at least 40% over the next three years. This acceleration in channel shift required the Group to revise the UK store estate strategic programme to ensure the estate continued to meet customers' needs.

The Group has recognised a charge of £161.4m in the period in relation to those stores identified as part of the rotation plans. The charge primarily reflects a revised view of latest store closure plans and assumptions for estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes.

Further charges relating to the closure and rotation of the UK store estate are anticipated over the next nine years as the programme progresses, the quantum of which is subject to change throughout the programme period as we get greater certainty of circumstances that need to be in place to make closure financially viable. Future charges will not include Foodhall closures at lease event where there is opportunity for a better location, as this is not in the scope of the programme.

Following the latest review at 2 April 2022, the total closure programme now consists of 204 stores, 100 of which have already closed. Further charges of c.£200m are estimated within the next nine financial years, bringing anticipated total programme costs since 2016 to c.£1bn, vs c.£926m year. In addition, where store exit routes in the next nine years lead to the recognition of gains on exit, particularly those relating to asset management, these credits will also be recognised within adjusting items as part of the programme.

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.

The anticipated total programme costs do not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next nine years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store the exit routes are not yet certain.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – UK logistics (£21.9m credit)

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 credit of £21.9m has been recognised in the period, reflecting the gain on disposal of distributions centres and an updated view of estimated closure costs. Total programme costs to date are £17.9m with further net charges of £43.3m expected over the next three financial years.

These net credits are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our UK logistics network and to aid comparability from one period to the next.

Strategic programmes – Organisation (£14.3m credit)

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. The changes resulted in a reduction of c.8,200 roles across central support centres, regional management and stores. A credit of £2.4m has been recognised in the period based on the finalisation of redundancy costs associated with these changes. No provision remains at the year end and there are no further 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. In previous years, an impairment charge of £11.9m was recognised in relation to the sub-let of previously closed offices. In the period, this impairment charge has been fully reversed with a credit of £11.9m recognised. This relates to the updating of assumptions and market fluctuations over the life of the sublet of previously closed offices. Total costs of centralising our London Head Office functions into one building incurred to date are c.£86m. Any future charges will relate to the updating of assumptions and market fluctuations over the life of the sublet lease.

These credits are reported as adjusting items on the basis that they are consistent with the disclosure of costs previously recognised.

Strategic programmes – International store closures and impairments (£0.4m credit)

In 2016/17, the Group announced its intention to close owned stores in 10 international markets. A credit of £0.4m (last year: 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 net cost to date to £148.2m.

The net credit is considered to be an adjusting item as it is part of a strategic programme which, over the six years of net charges, has been significant in both quantum and nature to the results of the Group. No further significant charges are expected.

Directly attributable gains resulting from the Covid-19 pandemic (£17.8m credit)

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.

The pandemic continued to impact the Group throughout 2020/21 and it became increasingly more difficult to differentiate Covid-19 items from costs that supported the underlying performance of the business. In addition, the estimated timeframe over which these effects may have impacted 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 and bad debt provision.

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 total remaining provision held as at 3 April 2021 was £36.7m.

Included within the UK Clothing & Home provision last year was 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. During 2021/22, UK Clothing & Home performance has been strong, with better-than-expected sell-through of stock originally provided for. During the year, £10.2m of the Covid-19 provision has been utilised, and there has been a release of £14.0m recognised in adjusting items. No UK Clothing & Home inventory provisions in relation to Covid-19 remain on the balance sheet at 2021/22. Similarly, following better-than-expected sell-through of inventory previously provided for in the International markets, there has been a release of £0.8m of the Covid-19 inventory provisions during 2021/22. No International Covid-19 stock provisions remain on the balance sheet at 2021/22. During the year, of the UK Food 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, £3.0m has been utilised and £2.2m released. A provision of £5.6m remains on the balance sheet at 2021/22.

The carrying value of the Group's inventories at 2 April 2022 is £706.1m, split across the UK Clothing & Home, UK Food and International businesses representing gross inventories of £506.9m, £200.4m and £70.8m respectively, against which a provision of £48.3m, £17.8m and £5.9m has been recognised. The total UK Clothing & Home inventory provisions represent 9.5% (last year: 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 2022/23 Budget. However, trading could be higher or lower than expected and a 5% increase in the UK Clothing & Home inventory provision (from 9.5% to 14.5%) would result in a reduction in the valuation of inventory held on the balance sheet of £25.2m and would result in a corresponding decrease to recognised profit before tax in the period.

In addition, a release of £0.8m has been recognised within adjusting items in relation to the Covid-19 bad debt provision recognised against international franchise partners. At 2021/22 no Covid-19 bad debt provision remains.

5 ADJUSTING ITEMS CONTINUED

The £17.8m 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. No future charges are expected. Any future credits relating to these items will continue to also be classified as adjusting.

Store impairments, impairment reversals and property charges (£60.0m credit)

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 strong Group performance and lifting of government restrictions, 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 £2.9m (last year: £66.4m) has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £63.4m (last year: £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.

A further charge of £0.5m has been recognised in relation to the settlement of provisions for property charges. This treatment is consistent with the original provision charges, which were recognised within adjusting items.

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. Any future charges or reversals relating to stores previously impaired within adjusting items will continue to be recognised within adjusting items in line with the original charge.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£32.5m)

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 £17.6m recognised in the period. In addition, a further deferred tax charge of £14.9m has been recognised predominantly relating to the substantial enactment of the Finance Act 2021 during the period increasing the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

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. These charges are reported as adjusting items on the basis that they are significant in quantum and to aid comparability from one period to the next.

M&S Bank charges incurred in relation to insurance mis-selling provisions (£16.0m)

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 £16.0m (last year: £2.4m).

The treatment of this in adjusting items is in line with previous charges in relation to settlement of Payment Protection Insurance (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 PPI is £326.3m which exceeds the total offset against profit share of £259.0m to date, and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Franchise restructuring (£41.3m)

During the year, the Group recognised a charge of £41.3m as a result of the restructure of certain International franchise operations.

In September 2021 the Group announced the closure of 11 franchise stores in France in response to increased EU border costs. Consequently, the Group has recognised a charge of £10.3m for closure costs. No future costs are currently expected.

In March 2022, in response to the unfolding humanitarian crisis following the invasion of Ukraine, the Group announced it had suspended shipments to its Turkish franchisee's Russian business. The Group has subsequently made the decision to fully exit its Russian franchise. As a result, the Group has recognised a charge of £31.0m representing the Group's full exit costs from Russia and business disruptions in Ukraine.

The costs are considered to be adjusting items as they are one-off in nature and significant in value to the results of the Group and to the International segment.

Remeasurement of contingent consideration including discount unwind (£5.6m credit)

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. During the period, £33.8m of contingent consideration was settled, following the achievement of the first and second performance targets (see note 21). A credit of £5.6m 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 FINANCE INCOME/COSTS

	2022 £m	2021 £m
Bank and other interest receivable	**3.7**	2.9
Other finance income	**5.9**	1.8
Pension net finance income (see note 11H)	**13.2**	47.2
Interest income of subleases	**5.5**	5.5
Finance income before adjusting items	**28.3**	57.4
Finance income in adjusting items	**5.6**	–
Finance income	**33.9**	57.4
Other finance costs	**(0.8)**	(0.6)
Interest payable on syndicated bank facility	**(4.7)**	(3.9)
Interest payable on Medium Term Notes	**(79.6)**	(86.4)
Interest payable on commercial paper facility	**–**	(0.4)
Interest payable on lease liabilities	**(121.1)**	(130.4)
Unwind of discount on provisions	**(3.8)**	(2.7)
Unwind of discount on Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(4.4)**	(4.9)
Finance costs before adjusting items	**(214.4)**	(229.3)
Finance costs in adjusting items	**–**	(6.8)
Finance costs	**(214.4)**	(236.1)
Net finance costs	**(180.5)**	(178.7)

7 INCOME TAX (CREDIT)/EXPENSE

A. Taxation charge

	2022 £m	2021 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	**66.8**	3.7
– adjustments in respect of prior years	**(1.0)**	(12.1)
UK current tax	**65.8**	(8.4)
Overseas current taxation		
– current year	**9.6**	0.2
– adjustments in respect of prior years	**2.2**	(0.2)
Total current taxation	**77.6**	(8.4)
Deferred tax		
– origination and reversal of temporary differences	**14.9**	6.7
– adjustments in respect of prior years	**0.7**	(5.9)
– changes in tax rate	**(10.5)**	(0.6)
Total deferred tax (see note 23)	**5.1**	0.2
Total income tax expense/(credit)	**82.7**	(8.2)

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 21.1% (last year: 3.9%) and is explained below.

	2022 £m	2021 £m
Profit/(loss) before tax	**391.7**	(209.4)
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**74.4**	(39.8)
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**7.8**	5.2
Tax benefit arising from UK super deduction regime	**(6.2)**	–
Other income and expenses that are not taxable or allowable for tax purposes	**6.1**	8.6
Joint venture results accounted for as profit after tax	**(2.5)**	(14.6)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(10.5)**	–
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.7
Movement in unrecognised overseas deferred tax assets	**–**	0.9
Adjustments to the current and deferred tax charges in respect of prior periods	**1.9**	(18.2)
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	**3.9**	8.5
– International store closures and impairments	**–**	(1.0)
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**2.2**	13.0
– Amortisation arising as a part of the investment in Ocado Retail Limited	**6.2**	2.7
Total income tax expense/(credit)	**82.7**	(8.2)

The effective tax rate in respect of the profit excluding adjusting items was 18.2% (last year: 50.3%).

During the period, no payments have been made to the Marks and Spencer Scottish Limited Partnership and as such the tax impact to the income tax expense in the period was £nil (last year: £4.1m charge). 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.

The Finance Act 2021 contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The Group has therefore remeasured its UK deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2023. This has resulted in the recognition of a deferred tax credit of £10.5m in the income statement.

On 20 December 2021, the OECD published their proposals in relation to Global Anti-Base Erosion Rules, which provide for an internationally co-ordinated system of taxation to ensure that large multinational groups pay a minimum level of corporate income tax in countries where they operate. In January 2022 the UK government reconfirmed its intention to introduce legislation to give effect to the OECD proposals. The new rules are expected to take effect from 2023 onwards.

There remains a considerable amount of uncertainty with respect to the detailed operation of the Global Anti-Base Erosion Rules and their impact. Further details and guidance are due in the course of 2022. From an initial review of the Group's business and tax profile, we do not expect the rules to have a material impact on the Group's tax rate or tax payments. There is no impact on the Group's results for 2021/22.

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.

	2022 £m	2021 £m
Profit/(loss) before tax	**391.7**	(209.4)
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**74.4**	(39.8)
Disallowable accounting depreciation and other similar items	**63.7**	75.1
Deductible capital allowances	**(75.7)**	(50.0)
Adjustments in relation to employee share schemes	**6.7**	1.9
Adjustments in relation to employee pension schemes	**(2.5)**	(4.7)
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.7
Movement in unrecognised overseas deferred tax	**–**	0.9
Joint venture results accounted for as profit after tax	**(2.5)**	(14.6)
Current year losses carried forward	**–**	11.3
Other income and expenses that are not taxable or allowable	**0.6**	(0.1)
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**3.9**	8.5
– International store closures and impairments	**–**	(1.0)
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**2.2**	5.5
– Impairment to per una goodwill	**–**	7.5
– Amortisation arising as a part of the investment in Ocado Retail Limited	**6.2**	2.7
Current year current tax charge	**76.4**	3.9
Represented by:		
UK current year current tax	**66.8**	3.7
Overseas current year current tax	**9.6**	0.2
	76.4	3.9
UK adjustments in respect of prior years	**(1.0)**	(12.1)
Overseas adjustments in respect of prior years	**2.2**	(0.2)
Total current taxation (note 7A)	**77.6**	(8.4)

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 distortive to underlying results (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.

Details of the adjusted earnings per share are set out below:

	2022 £m	2021 £m
Profit/(loss) attributable to equity shareholders of the Company	**306.6**	(198.0)
Add/(less):		
Adjusting items (see note 5)	**131.2**	259.7
Tax on adjusting items	**(12.6)**	(33.5)
Profit before adjusting items attributable to equity shareholders of the Company	**425.2**	28.2

8 EARNINGS PER SHARE CONTINUED

	Million	Million
Weighted average number of ordinary shares in issue	**1,958.1**	1,953.5
Potentially dilutive share options under Group's share option schemes[1]	**73.0**	15.0
Weighted average number of diluted ordinary shares	**2,031.1**	1,968.5

1. In the prior year, the potentially dilutive share options are only considered in relation to adjusted diluted earnings per share as the Group made a basic loss per share.

	Pence	Pence
Basic earnings/(loss) per share	**15.7**	(10.1)
Diluted earnings/(loss) per share	**15.1**	(10.1)
Adjusted basic earnings per share	**21.7**	1.4
Adjusted diluted earnings per share	**20.9**	1.4

9 DIVIDENDS

At the full-year results in May 2021, the Board announced that payment of a dividend in the 2021/22 financial year would be unlikely as we focus on restoring sustainable profitability and recovering the balance sheet towards metrics consistent with investment grade.

Consistent with that announcement, the Board does not expect to pay a dividend this financial year.

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including Executive Committee) were:

	2022 Total £m	2021 Total £m
Wages and salaries	**1,256.0**	1,210.3
Social security costs	**84.6**	99.5
Pension costs	**69.0**	71.3
Share-based payments (see note 13)	**30.2**	19.3
Employee welfare and other personnel costs	**54.1**	43.7
Capitalised staffing costs	**(6.4)**	(6.4)
Total aggregate remuneration[1]	**1,487.5**	1,437.7

1. Excludes amounts recognised within adjusting items of £0.1m (last year: £100.4m) (see notes 3 and 5).

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2022	2021
UK stores		
– management and supervisory categories	**4,570**	4,870
– other	**51,585**	54,076
UK head office		
– management and supervisory categories	**3,275**	2,948
– other	**660**	749
UK operations		
– management and supervisory categories	**124**	117
– other	**1,667**	1,507
Overseas	**5,205**	5,579
Total average number of employees	**67,086**	69,846

The average number of full-time equivalent employees is 47,108 (last year: 49,177).

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 legacy 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), 51,444 deferred members (last year: 53,674) and 53,270 pensioners (last year: 52,794).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

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 DC arrangement had some 46,560 active members (last year: 46,191) and some 45,778 deferred members (last year: 40,604).

The Group also operates a small legacy 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 £55.9m (last year: £23.9m). Of this, income of £8.8m (last year: income of £43.3m) relates to the UK DB Pension Scheme, costs of £62.0m (last year: costs of £64.0m) to the UK DC plan and costs of £2.8m (last year: costs of £3.2m) to other retirement benefit schemes.

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial valuation, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities is based on corporate bond yields.

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 continue to work constructively with the Trustees of the UK DB Pension Scheme with regard to agreeing the triennial actuarial valuation of the scheme as at 31 March 2021. Consequently, the results of the valuation are not yet finalised, although it is likely that there will continue to be a surplus.

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.

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

A. Pensions and other post-retirement liabilities

	2022 £m	2021 £m
Total market value of assets	**10,090.7**	10,442.9
Present value of scheme liabilities	**(9,046.8)**	(9,803.7)
Net funded pension plan asset	**1,043.9**	639.2
Unfunded retirement benefits	**(2.6)**	(3.8)
Post-retirement healthcare	**(3.1)**	(4.0)
Net retirement benefit surplus	**1,038.2**	631.4
Analysed in the statement of financial position as:		
Retirement benefit asset	**1,043.9**	639.2
Retirement benefit deficit	**(5.7)**	(7.8)
Net retirement benefit surplus	**1,038.2**	631.4

11 RETIREMENT BENEFITS CONTINUED

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 right 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. Scheme assets

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

	2022 £m	2021 £m
Fair value of scheme assets at start of year	**10,442.9**	10,653.8
Interest income based on discount rate	**204.4**	254.9
Actual return on scheme assets excluding amounts included in net interest income[1]	**(213.4)**	(117.5)
Actuarial loss – asset ceiling	**(19.4)**	–
Employer contributions	**41.8**	41.5
Benefits paid	**(359.3)**	(379.4)
Administration costs	**(4.6)**	(4.3)
Exchange movement	**(1.7)**	(6.1)
Fair value of scheme assets at end of year	**10,090.7**	10,442.9

1. The actual return on scheme assets was a loss of £9.0m (last year: gain of £137.4m).

C. Pensions and other post-retirement liabilities

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

	2022 £m	2021 £m
Present value of obligation at start of year	**9,811.5**	8,751.2
Current service cost	**0.2**	0.2
Administration costs	**0.2**	0.2
Past service cost	**–**	1.0
Interest cost	**191.2**	207.7
Benefits paid	**(359.3)**	(379.4)
Actuarial loss/(gain) – experience[1]	**153.9**	(82.6)
Actuarial loss/(gain) – demographic assumptions	**89.0**	(12.5)
Actuarial (gain)/loss – financial assumptions	**(832.7)**	1,332.1
Exchange movement	**(1.5)**	(6.4)
Present value of obligation at end of year	**9,052.5**	9,811.5
Analysed as:		
Present value of pension scheme liabilities	**9,046.8**	9,803.7
Unfunded pension plans	**2.6**	3.8
Post–retirement healthcare	**3.1**	4.0
Present value of obligation at end of year	**9,052.5**	9,811.5

1. Includes £nil (last year: £2.5m loss) relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions.

The average duration of the defined benefit obligation at 2 April 2022 is 17.3 years (last year: 19.0 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

D. 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 103% of interest rate movements and 104% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

	2022			2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government bonds net of repurchase agreements[1]	3,482.9	(1,185.2)	2,297.7	3,945.2	(1,443.5)	2,501.7
– Corporate bonds	6.0	950.0	956.0	6.4	1,036.6	1,043.0
– Asset-backed securities and structured debt	–	365.9	365.9	–	256.1	256.1
Scottish Limited Partnership Interest (see note 12)	–	193.5	193.5	–	142.5	142.5
Equity investments						
– Developed markets	550.3	–	550.3	450.9	–	450.9
– Emerging markets	113.7	–	113.7	131.1	–	131.1
Growth asset funds						
– Global property	5.4	308.7	314.1	5.4	276.8	282.2
– Hedge and reinsurance	25.8	324.7	350.5	43.8	299.0	342.8
– Private equity and infrastructure	5.9	223.6	229.5	–	224.1	224.1
Derivatives						
– Interest and inflation rate swaps	15.6	406.9	422.5	18.4	298.6	317.0
– Foreign exchange contracts and other derivatives	–	(40.0)	(40.0)	93.2	4.5	97.7
Cash and cash equivalents	5.9	168.1	174.0	13.6	148.9	162.5
Other						
– Buy-in insurance	–	2,910.0	2,910.0	–	3,177.0	3,177.0
– Secure income asset funds	–	1,121.6	1,121.6	–	1,064.4	1,064.4
– Other	–	150.8	150.8	38.7	211.2	249.9
Total[2]	4,211.5	5,898.6	10,110.1	4,746.7	5,696.2	10,442.9

1. Repurchase agreements were £1,184.0m (last year: £1,443.5m).
2. The difference between the total assets of £10,110.1m above compared to £10,090.7m is £19.4m. This relates to the cap applied to the Irish DB scheme and therefore the actuarial gain is not recognised as per IFRIC 14.

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 33,210 (last year: 75,223) ordinary shares in the Company through its investment in UK Equity Index Funds.

11 RETIREMENT BENEFITS CONTINUED

E. 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:

	2022 %	2021 %
Rate of increase in pensions in payment for service	**2.3-3.6**	2.2-3.2
Discount rate	**2.70**	2.00
Inflation rate for Retail Price Index (RPI)	**3.70**	3.30
Long-term healthcare cost increases	**7.70**	7.30

F. 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:

		2022	2021
Current pensioners (at age 65)	– male	**22.3**	22.2
	– female	**25.1**	25.0
Future pensioners – currently in deferred status (at age 65)	– male	**24.0**	24.0
	– female	**26.9**	26.8

G. Sensitivity analysis

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

	2022 £m	2021 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(20.0)**	(20.0)
Decrease in scheme surplus caused by a decrease in the discount rate of 0.50%	**(30.0)**	(30.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(70.0)**	(20.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	**(130.0)**	(30.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**270.0**	300.0

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

H. Analysis of amounts charged against profits

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

	2022 £m	2021 £m
Current service cost	**0.2**	0.2
Administration costs	**4.8**	4.5
Past service costs	**–**	1.0
Net interest income	**(13.2)**	(47.2)
Total	**(8.2)**	(41.5)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**213.4**	117.5
Actuarial loss/(gain) – demographic assumptions	**89.0**	(12.5)
Actuarial loss/(gain) – experience[1]	**153.9**	(82.6)
Actuarial (gain)/loss – financial assumptions	**(832.7)**	1,332.1
Actuarial loss – asset ceiling	**19.4**	–
Components of defined benefit (income)/expense recognised in other comprehensive income	**(357.0)**	1,354.5

1. Includes £nil (last year: £2.5m loss) relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions.

FINANCIAL STATEMENTS

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 £1.3bn (last year: £1.4bn) of properties at book value 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) previously entitled the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. As a result of the Covid-19 pandemic and the need to preserve cash, in agreement with the Trustees, only £18.9m of the June 2020 payment was made, with the remaining £53.0m being deferred.

During the period, the Group and the Pension Scheme Trustees agreed to amend the distribution dates so that, rather than making the planned payment of £71.9m in June 2021 along with the deferred £53.0m, the Pension Scheme is now entitled to receive £71.9m in 2022, £73.0m in 2023 and £54.4m in 2024. The second Partnership interest (also held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive a further £36.4m annually from June 2017 until June 2031. All profits generated by the Partnership in excess of this are distributable to Marks and Spencer plc.

The Partnership liability in relation to the first interest of £192.3m (last year: £193.5m) 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 2 April 2022, an interest charge of £4.4m (last year: £4.9m) 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 £193.5m (last year: £142.5m).

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 £30.2m was recognised for share-based payments (last year: charge of £19.3m). Of the total share-based payments charge, £15.1m (last year: £9.2m) relates to the Save As You Earn share option scheme and a charge of £6.7m (last year: £1.7m) relates to the Performance Share Plan. The remaining charge of £8.4m (last year: £8.4m) is spread over the other share plans. In addition, a charge of £8.6m was recognised in relation to the Annual Bonus Scheme for 2021/22 under the Deferred Share Bonus Scheme. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn scheme – £15.1m

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: £500) 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.

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**119,151,406**	**99.4p**	53,139,941	190.7p
Granted	**11,526,149**	**189.0p**	101,466,321	82.0p
Exercised	**(208,238)**	**138.2p**	(556)	151.0p
Forfeited	**(12,207,656)**	**102.6p**	(23,811,474)	155.7p
Expired	**(7,698,700)**	**206.5p**	(11,642,826)	248.7p
Outstanding at end of year	**110,562,961**	**100.9p**	119,151,406	99.4p
Exercisable at end of year	**11,945**	**186.8p**	7,211,376	212.5p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 206.3p (last year: 152.4p).

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:

	2022	2021	
	3-year plan	3-year plan	3-year plan 2020 modified[1]
Grant date	**Dec 21**	Dec 20	Dec 20
Share price at grant date	**235p**	103p	103p
Exercise price	**189p**	82p	151p
Option life in years	**3 years**	3 years	3 years
Risk-free rate	**0.5%**	0.0%	0.0%
Expected volatility	**49.3%**	45.6%	45.6%
Expected dividend yield	**0.0%**	0.0%	0.0%
Fair value of option	**81p**	34p	19p
Incremental fair value of option	**n/a**	n/a	15p

1. In the prior year, there was 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 has been 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 was 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:

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	**2022**	2021	**2022**	2021	Option price
January 2017	**–**	9,202	**–**	–	250p
January 2018	**5,441**	4,112,855	**(0.8)**	0.3	251p
January 2019	**2,399,413**	3,405,862	**0.2**	1.3	238p
February 2020	**8,006,941**	12,331,683	**1.3**	2.3	151p
February 2021	**89,284,282**	99,291,804	**2.3**	3.3	82p
February 2022	**10,866,884**	–	**3.3**	–	189p
	110,562,961	119,151,406	**2.3**	3.1	101p

1. For the purpose of the above table the option granted date is the contract start date.

B. Performance Share Plan* – £6.7m

The Performance Share Plan ("PSP") is the primary long-term incentive plan for approximately 160 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 2021/22 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, 19,374,217 shares (last year: 19,777,921) were awarded under the plan. The weighted average fair value of the shares awarded was 155.1p (last year: 101.4p). As at 2 April 2022, 44,534,437 shares (last year: 33,878,325) were outstanding under the plan.

C. Deferred Share Bonus Plan* – £8.8m

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 5,000 employees within the Group. As part of the plan, the employees 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 2 April 2022, 190,596 shares (last year: 422,672) were outstanding under the plan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

D. Restricted Share Plan* – £8.2m

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, 2,441,809 shares (last year: 11,996,948) have been awarded under the plan. The weighted average fair value of the shares awarded was 158.7p (last year: 124.3p). As at 2 April 2022, 10,368,217 shares (last year: 10,722,919) were outstanding under the plan.

E. Republic of Ireland Save As You Earn scheme – £0.2m

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: €500) 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, no options were granted (last year: 1,409,129 were granted at a fair value of 33.7p). As at 2 April 2022, 1,195,159 options (last year: 1,846,589) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 264,779 (last year: 527,116) shares with a book value of £0m (last year: £0.1m) and a market value of £0.4m (last year: £0.8m). 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.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation and impairments	(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
Year ended 2 April 2022					
Opening net book value	**23.7**	**6.1**	**177.4**	**24.8**	**232.0**
Additions	**4.8**	**0.1**	**0.9**	**63.8**	**69.6**
Transfers and reclassifications	**–**	**–**	**29.6**	**(44.6)**	**(15.0)**
Asset write-offs	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Amortisation charge	**–**	**(0.6)**	**(93.0)**	**–**	**(93.6)**
Exchange difference	**0.1**	**–**	**–**	**–**	**0.1**
Closing net book value	**28.6**	**5.6**	**114.3**	**44.0**	**192.5**
At 2 April 2022					
Cost	**140.6**	**118.7**	**1,570.1**	**76.1**	**1,905.5**
Accumulated amortisation, impairments and write-offs	**(112.0)**	**(113.1)**	**(1,455.8)**	**(32.1)**	**(1,713.0)**
Net book value	**28.6**	**5.6**	**114.3**	**44.0**	**192.5**

Goodwill related to the following assets and groups of cash generating units (CGUs):

	per una £m	**India £m**	**Sports Edit £m**	**Other £m**	**Total goodwill £m**
Net book value at 3 April 2021	**16.5**	**6.5**	**–**	**0.7**	**23.7**
Additions[2]	**–**	**–**	**4.8**	**–**	**4.8**
Exchange difference	**–**	**0.1**	**–**	**–**	**0.1**
Net book value at 2 April 2022	**16.5**	**6.6**	**4.8**	**0.7**	**28.6**

1. Last year 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.
2. In February 2022, the Group acquired 77.7% of the issued share capital of The Sports Edit Limited, a non-listed company based in England and Wales. The Sports Edit Limited is a brand platform specialising in activewear and was acquired for an initial purchase price of £4.5m. Goodwill of £4.8m was recognised on acquisition of the business, with the acquisition representing a strategic investment opportunity.

FINANCIAL STATEMENTS

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: £16.5m), India £6.6m (last year: £6.5m), Sports Edit £4.8m (last year: £nil) 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 was 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 has been fully amortised. It is held at a net book value of £nil (last year: £nil). The per una goodwill of £16.5m is tested for 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 1.6% (last year: 0.5%), which is a reduction from the overall Group long-term growth rate of 2.0% (last year: 1.75%). The Group's current view of achievable long-term growth for India is 5.5% (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 10.8% for per una (last year: 11.0%) and 11.3% for India (last year: 12.9%).

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 both per una and India respectively, there are no reasonably possible changes in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £4,902.3m (last year: £5,058.6m) consists of owned assets of £3,486.5m (last year: £3,562.6m) and right-of-use assets of £1,415.8m (last year: £1,496.0m).

Property, plant and equipment – owned

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
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	(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
Year ended 2 April 2022				
Opening net book value	**2,022.4**	**1,490.9**	**49.3**	**3,562.6**
Additions	**0.9**	**17.7**	**238.0**	**256.6**
Transfers and reclassifications	**3.0**	**175.8**	**(164.3)**	**14.5**
Disposals	**(15.9)**	**(1.9)**	**–**	**(17.8)**
Impairment reversals	**34.5**	**27.6**	**–**	**62.1**
Impairment charge	**(57.6)**	**(31.4)**	**–**	**(89.0)**
Asset write-offs	**0.9**	**(11.4)**	**–**	**(10.5)**
Depreciation charge	**(34.2)**	**(256.1)**	**–**	**(290.3)**
Exchange difference	**(1.7)**	**–**	**–**	**(1.7)**
Closing net book value	**1,952.3**	**1,411.2**	**123.0**	**3,486.5**
At 2 April 2022				
Cost	**2,764.8**	**5,275.7**	**141.2**	**8,181.7**
Accumulated depreciation, impairments and write-offs	**(812.5)**	**(3,864.5)**	**(18.2)**	**(4,695.2)**
Net book value	**1,952.3**	**1,411.2**	**123.0**	**3,486.5**

Asset write-offs in the year include assets with gross book value of £383.3m (last year: £67.4m) 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

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
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**
Additions	**72.7**	**17.9**	**90.6**
Transfers and reclassifications	**0.5**	**–**	**0.5**
Disposals	**(7.7)**	**(0.2)**	**(7.9)**
Impairment reversals	**28.9**	**–**	**28.9**
Impairment charge	**(25.4)**	**–**	**(25.4)**
Depreciation charge	**(146.2)**	**(21.6)**	**(167.8)**
Exchange difference	**0.9**	**–**	**0.9**
As at 2 April 2022	**1,368.4**	**47.4**	**1,415.8**

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 and impairment reversals have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5).

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 as 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 9.8% to 15.8% (last year: 8.9% to 14.0%). 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.

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 £6.9m and impairment reversals of £63.4m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £66.4m and impairment reversals of £64.5m). Impairment charges of £2.9m and impairment reversals of £63.4m have been recognised within adjusting items (see note 5). The remaining £4.0m impairment charge has been recognised in operating profit before adjusting items as it relates to stores not previously impaired. The impaired stores were impaired to their 'value in use' recoverable amount of £37.1m, which is their carrying value at year end. The stores with impairment reversals were written back to their 'value in use' recoverable amount of £302.3m.

For UK stores, when considering both impairment charges and reversals, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.0%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2.0%. The rate used to discount the forecast cash flows for UK stores is 9.8% (last year: 8.9%).

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 £22.8m and a 25 basis point reduction in gross profit margin from year 3 onwards would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. A 50 basis point increase in the discount rate would increase the impairment charge by £6.0m. 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 £17.2m and a 25 basis point reduction in gross profit margin from year 3 onwards would result in a reduction in the reversal of £1.1m. In combination, a 5% fall in sales and a 25 basis point fall in gross profit margin would reduce the reversal by £19.0m. A 50 basis point increase in the discount rate would reduce the reversal by £3.3m. Reducing the long-term growth rate to 0% across all stores, would not result in a significant decrease to the reversal, either individually or in combination.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £107.5m and impairment reversals of £27.6m relating to the on-going UK store estate programme (last year: impairment charge of £107.9m and impairment reversals of £36.7m). These stores were impaired to their 'value in use' recoverable amount of £376.7m, 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.

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 9.8% (last year: 8.9%).

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 by £37.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge by £14.2m. 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 prior year, the Group recognised an impairment reversal of £8.8m in Ireland as a result of store impairment testing.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 OTHER FINANCIAL ASSETS

	2022 £m	2021 £m
Non-current		
Other investments[1]	**4.5**	–
Unlisted equity investments[2]	**–**	9.7
Current		
Other investments[3]	**17.6**	18.4

1. Includes £3.1m (last year: £nil) of venture capital investments managed by True Capital Limited.
2. The Group has recognised a loss on disposal of its unlisted equity investment of £3.7m (last year:£nil) in other comprehensive income.
3. Includes £8.8m (last year: £9.2m) of money market deposits held by Marks and Spencer plc in an escrow account.

The Group irrevocably designated unlisted equity investments at 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

	2022 £m	2021 £m
Non–current		
Trade receivables	**0.1**	0.1
Lease receivables – net	**74.7**	62.8
Other receivables	**3.3**	2.1
Prepayments	**192.5**	196.4
	270.6	261.4
Current		
Trade receivables	**103.0**	109.8
Less: provision for impairment of receivables	**(4.8)**	(3.7)
Trade receivables – net	**98.2**	106.1
Lease receivables – net	**0.8**	–
Other receivables	**27.2**	30.5
Prepayments	**76.8**	53.9
Accrued income	**14.1**	19.1
	217.1	209.6

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 21B. Included in accrued income is £7.7m (last year: £5.7m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An 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 Group entered into finance leasing arrangements as a lessor for surplus office space in the Merchant Square building in London, which is sublet for the remaining duration of the lease.

The maturity analysis of the Group's lease receivables is as follows:

	2022 £m	2021 £m
Timing of cash flows		
Within one year	**4.8**	4.8
Between one and two years	**4.7**	4.8
Between two and three years	**4.7**	4.7
Between three and four years	**6.1**	4.7
Between four and five years	**7.8**	6.1
More than five years	**121.1**	128.9
Total undiscounted cash flows	**149.2**	154.0
Effect of discounting	**(73.7)**	(79.3)
Present value of lease payments receivable	**75.5**	74.7
Less: provision for impairment of receivables	**–**	(11.9)
Net investment in the lease	**75.5**	62.8

Included within trade and other receivables is £1.1m (last year: £nil) which, due to non-recourse factoring arrangements in place, are held within a "hold to collect and sell" business model and are measured at FVOCI.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £1,197.9m (last year: £674.4m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.7% (last year: 0.1%). These deposits have an average maturity of 39 days (last year: 5 days).

19 TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Current		
Trade payables	**732.8**	624.8
Other payables	**523.5**	466.7
Social security and other taxes	**59.1**	46.8
Accruals	**595.2**	407.5
Deferred income	**50.3**	53.2
	1,960.9	1,599.0
Non-current		
Other payables	**174.4**	179.2
Deferred income	**13.8**	13.1
	188.2	192.3

Included within current other payables is £nil (last year: £33.6m) and non-current other payables is £172.6m (last year: £178.4m) of contingent consideration relating to the investment in Ocado Retail Limited. See note 21D 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:

	2022 £m	2021 £m
Opening balance	**194.4**	180.8
Issues	**404.2**	363.2
Released to the income statement	**(412.8)**	(349.6)
Closing balance	**185.8**	194.4

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 2 April 2022, £330.0m (last year: £272.6m) of trade payables were amounts owed under these arrangements. During the year the maximum facility available at any one time under the arrangements was £404.1m (last year: £305.0m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2022 £m	2021 £m
Current		
Bank loans and overdrafts	–	4.7
Lease liabilities	200.2	219.4
6.125% £400m Medium Term Notes 2021[1]	–	163.5
Interest accrued on Medium Term Notes	47.0	45.2
	247.2	432.8
Non-current		
3.00% £300m Medium Term Notes 2023[1]	299.1	298.5
4.75% £400m Medium Term Notes 2025[1,2]	409.4	412.2
3.75% £300m Medium Term Notes 2026[1]	298.6	298.3
3.25% £250 Medium Term Notes 2027[1]	248.3	248.0
7.125% US$300m Medium Term Notes 2037[3,4]	192.3	192.2
Revaluation of Medium Term Notes[5]	34.8	24.2
Lease liabilities	2,078.5	2,186.5
	3,561.0	3,659.9
Total	3,808.2	4,092.7

1. These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually.
2. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £10.5m (last year: £13.6m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.
3. Interest on these bonds is payable semi-annually.
4. US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
5. Revaluation consists of foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £34.8m (last year: £24.2m).

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.

	2022 £m	2021 £m
Opening lease liabilities	2,405.9	2,562.0
Additions	100.6	48.3
Interest expense relating to lease liabilities	124.1	133.8
Payments	(344.3)	(316.7)
Disposals	(8.1)	(7.8)
Exchange difference	0.5	(13.7)
	2,278.7	2,405.9
Current	200.2	219.4
Non-current	2,078.5	2,186.5

The maturity analysis of lease liabilities is disclosed in note 21A.

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 £2,278.7m of lease liabilities held on the balance sheet.

The following amounts were recognised in profit or loss:

	2022 £m	2021 £m
Expenses relating to short-term leases	5.9	4.6
Expenses relating to low-value assets	1.4	1.0
Expenses relating to variable consideration	4.4	2.5

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 & 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.

During the year, the Group terminated its committed syndicated bank revolving credit facility and entered a new committed syndicated bank revolving credit facility of £850.0m with a current maturity date of 13 June 2025. The new facility contains a financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually. The Group was not in breach of this covenant at the reporting date.

The new revolving credit facility includes four additional sustainability metrics where the margin payable on the facility is adjusted to reflect the Group's performance against a number of ESG targets material to the Group's Plan A objectives. The Group was not in breach of these metrics at the reporting date.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £25m (last year: £25m), 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 £1.3bn (last year: £1.4bn) 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.

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 payables, other payables and accruals. The carrying value of all trade payables, other payables (excluding contingent consideration payable) and accruals of £1,853.3m (last year: £1,466.2m) 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 £nil (last year: £33.7m) is expected to become payable within one year and £190.8m (last year: £190.8m) between two and five years.

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities[1] £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives[2] £m	Cash outflow on derivatives[2] £m	Total derivative liabilities £m
Timing of cash flows								
Within one year	(4.7)	(244.8)	(326.3)	(124.9)	(700.7)	1,492.9	(1,586.8)	(93.9)
Between one and two years	–	(74.8)	(289.1)	(71.9)	(435.8)	162.7	(164.4)	(1.7)
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)	2,106.1	(2,163.6)	(57.5)
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)			
Timing of cash flows								
Within one year	**–**	**(75.5)**	**(313.2)**	**(71.9)**	**(460.6)**	**330.2**	**(333.6)**	**(3.4)**
Between one and two years	**–**	**(375.5)**	**(279.3)**	**(73.0)**	**(727.8)**	**30.9**	**(31.1)**	**(0.2)**
Between two and five years	**–**	**(864.3)**	**(786.0)**	**(54.4)**	**(1,704.7)**	**–**	**–**	**–**
More than five years	**–**	**(668.4)**	**(3,082.1)**	**–**	**(3,750.5)**	**–**	**–**	**–**
Total undiscounted cash flows	**–**	**(1,983.7)**	**(4,460.6)**	**(199.3)**	**(6,643.6)**	**361.1**	**(364.7)**	**(3.6)**
Effect of discounting	**–**	**454.2**	**2,181.9**	**7.0**	**2,643.1**			
At 2 April 2022	**–**	**(1,529.5)**	**(2,278.7)**	**(192.3)**	**(4,000.5)**			

1. Total undiscounted lease payments of £766.2m 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. Furthermore, £155.2m of these payments relate to leases where, following the break clause, the Group will have the ability to exit the lease at any point before the lease expiry with a maximum of six months' notice.
2. 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.

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.

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								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Other investments[1]	–	–	–	54.4	182.4	250.3	4.7	3.3	495.1
Derivative assets[2]	–	–	–	6.1	25.8	0.7	0.5	–	33.1
At 3 April 2021	–	–	–	60.5	208.2	251.0	5.2	3.3	528.2

	AAA £m	**AA+ £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Other investments[1]	**–**	**–**	**–**	**158.5**	**288.6**	**462.0**	**89.0**	**–**	**998.1**
Derivative assets[2]	**–**	**–**	**–**	**–**	**31.9**	**24.4**	**8.7**	**–**	**65.0**
At 2 April 2022	**–**	**–**	**–**	**158.5**	**320.5**	**486.4**	**97.7**	**–**	**1,063.1**

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 £217.4m (last year: £197.7m).
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.

21 FINANCIAL INSTRUMENTS CONTINUED

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £103.1m (last year: £106.2m), lease receivables £75.5m (last year: £62.8m), other receivables £30.5m (last year: £32.6m), cash and cash equivalents £1,197.9m (last year: £674.4m) and derivatives £65.0m (last year: £33.1m).

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.

As at 3 April 2021	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
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

As at 2 April 2022	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
Gross carrying amount – trade receivables	**76.7**	**15.8**	**–**	**1.9**	**7.5**	**1.1**	**103.0**
Expected loss rate	**2.87%**	**4.93%**	**0.0%**	**5.72%**	**7.76%**	**100.0%**	**4.63%**
Lifetime expected credit loss	**2.2**	**0.8**	**–**	**0.1**	**0.6**	**1.1**	**4.8**
Net carrying amount	**74.5**	**15.0**	**–**	**1.8**	**6.9**	**–**	**98.2**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The closing loss allowances for trade receivables reconciles to the opening loss allowances as follows:

Trade receivables expected loss provision	2022 £m	2021 £m
Opening loss allowance	**3.7**	4.0
Increase/(decrease) in loss allowance recognised in profit and loss during the year	**1.5**	(0.3)
Receivables written off during the year as uncollectable	**(0.4)**	–
Closing loss allowance	**4.8**	3.7

The closing loss allowances for lease receivables reconciles to the opening loss allowances as follows:

Lease receivables expected loss provision	2022 £m	2021 £m
Opening loss allowance	**11.9**	4.7
(Decrease)/increase in loss allowance recognised in profit and loss during the year[1]	**(11.9)**	7.2
Receivables written off during the year as uncollectable	**–**	–
Closing loss allowance	**–**	11.9

1. Relates to the sublet 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. In accordance with the Group's treasury policy, hedges are entered into by business line and by 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 £1,865.7m (last year: £1,776.6m) 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 2 April 2022 will be reclassified to the income statement at various dates over the following 15 months (last year: 16 months) from the balance sheet date.

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.

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.

21 FINANCIAL INSTRUMENTS CONTINUED

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 £0.3m gain (last year: £1.4m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £166.8m (last year: £172.0m).

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:

	2022			2021		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**3,610.6**	**–**	**3,610.6**	3,886.2	4.7	3,890.9
Euro	**104.3**	**–**	**104.3**	95.8	–	95.8
Other	**93.3**	**–**	**93.3**	106.0	–	106.0
	3,808.2	**–**	**3,808.2**	4,088.0	4.7	4,092.7

The prior year floating rate sterling borrowings were 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 5.1% (last year: 5.3%) and the weighted average time for which the rate is fixed is five years (last year: six years).

During the prior year, the Group closed out all interest rate swaps designated in hedge relationships.

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 £3,808.2m (last year: £4,088.0m) representing the public bond issues and lease liabilities, amounting to 100% (last year: 99%) of the Group's gross borrowings.

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

	2022 %	2021 %
Committed and uncommitted borrowings	**N/A**	N/A
Medium Term Notes	**5.1%**	5.3%
Leases	**5.4%**	5.4%

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).

Last year, the Group identified all contracts with reference to LIBOR and ensured that these were terminated or amended to specify the date on which the interest rate benchmark would be replaced, the alternative benchmark rate and the relevant spread adjustment. Where applicable, fallback language was included to incorporate any future transitions to new benchmark interest rates.

The Group no longer holds any financial instruments that reference LIBOR and is therefore not exposed to any liquidity, basis or accounting risks arising from benchmark reform. All necessary system and operational changes have been made to reference SONIA.

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.

	3 April 2021			
	Current		Non-current	
	Forward foreign exchange (FX) contracts £m	Forward foreign exchange (FX) contracts £m	Cross-currency swaps £m	Forward foreign exchange (FX) contracts £m
Hedging risk strategy	Cash flow hedges	FVTPL	Cash flow hedges	Cash flow 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%	n/a	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Intercompany loans/deposits	USD fixed rate borrowing	Highly probable 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/EUR1.13	–	GBP/USD 1.55	GBP/USD 1.28, GBP/EUR1.12
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)	–

	2 April 2022			
	Current		**Non-current**	
	Forward foreign exchange (FX) contracts £m	**Forward foreign exchange (FX) contracts £m**	**Cross-currency swaps £m**	**Forward foreign exchange (FX) contracts £m**
Hedging risk strategy	**Cash flow hedges**	**FVTPL**	**Cash flow hedges**	**Cash flow hedges**
Notional/currency legs	**1,536.9**	**166.8**	**193.5**	**162.0**
Carrying amount assets	**43.0**	**0.6**	**18.5**	**2.9**
Carrying amount (liabilities)	**(2.3)**	**(0.9)**	**–**	**(0.4)**
Maturity date	**to Sep 2022**	**to May 2022**	**to Dec 2037**	**to Apr 2023**
Hedge ratio	**100%**	**n/a**	**100%**	**100%**
Description of hedged item	**Highly probable transactional FX exposures**	**Intercompany loans/deposits**	**USD fixed rate borrowing**	**Highly probable transactional FX exposures**
Change in fair value of hedging instrument	**60.1**	**11.1**	**26.7**	**4.8**
Change in fair value of hedged item used to determine hedge effectiveness	**(60.1)**	**(10.8)**	**(25.4)**	**(4.8)**
Weighted average hedge rate for the year	**GBP/USD 1.37; GBP/EUR 1.18**	**–**	**GBP/USD 1.55**	**GBP/USD 1.34; GBP/EUR 1.17**
Amounts recognised within finance costs in profit and loss	**–**	**0.3**	**(0.1)**	**–**
Balance on cash flow hedge reserve at 2 April 2022	**(32.0)**	**–**	**9.5**	**2.5**
Balance on cost of hedging reserve at 2 April 2022	**–**	**–**	**(5.0)**	**–**

1. Last year, the £(11.1)m fair value change represented in the fair value movement of the forward contracts under FVTPL consisted of economic hedges of certain intercompany loans/deposits and forward contracts that were no longer in hedge relationships (total equivalent notional: £333.8m; current year: nil). Of this fair value change, £(10.2)m related to movements in valid hedge relationships that de-designated at the end of the respective financial year and were reclassified to the cost of inventory (current year: nil). This line also includes the cash settlements of the derivative positions during each respective year.

21 FINANCIAL INSTRUMENTS CONTINUED

		2 April 2022				3 April 2021			
		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	**1,348.8**	**188.1**	**43.0**	**(2.3)**	449.0	1,136.9	32.1	(83.9)
	– FVTPL	**37.2**	**129.6**	**0.6**	**(0.9)**	72.2	261.6	0.7	(12.1)
		1,386.0	**317.7**	**43.6**	**(3.2)**	521.2	1,398.5	32.8	(96.0)
Non-current									
Cross-currency swaps	– cash flow hedges	**193.5**	**–**	**18.5**	**–**	–	193.5	–	(8.1)
Forward foreign exchange contracts	– cash flow hedges	**131.1**	**30.9**	**2.9**	**(0.4)**	46.2	144.5	0.3	(2.6)
		324.6	**30.9**	**21.4**	**(0.4)**	46.2	338.0	0.3	(10.7)

The Group's hedging reserves disclosed in the consolidated statement of changes in equity, relate to the following hedging instruments:

	Cost of hedging reserve CCIRS[1] £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 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[2]	–	–	–	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
Opening balance 4 April 2021	**(5.8)**	**1.2**	**(4.6)**	**42.7**	**25.4**	**0.1**	**(13.4)**	**54.8**
Add: Change in fair value of hedging instrument recognised in OCI	**–**	**–**	**–**	**(65.7)**	**(26.4)**	**–**	**–**	**(92.1)**
Add: Costs of hedging deferred and recognised in OCI	**0.8**	**–**	**0.8**	**–**	**–**	**–**	**–**	**–**
Less: Reclassified to the cost of inventory	**–**	**–**	**–**	**(6.5)**	**–**	**–**	**–**	**(6.5)**
Less: Reclassified from OCI to profit or loss	**–**	**–**	**–**	**–**	**10.5**	**–**	**–**	**10.5**
Less: Deferred tax	**–**	**0.2**	**0.2**	**–**	**–**	**–**	**15.7**	**15.7**
Closing balance 2 April 2022	**(5.0)**	**1.4**	**(3.6)**	**(29.5)**	**9.5**	**0.1**	**2.3**	**(17.6)**

1. Cross-currency interest rate swaps.
2. Other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

During the prior 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 2 April 2022, the Group had a deferred fair value adjustment of £10.5m (last year: £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 £nil (last year: loss of £4.4m) and the gain on the hedging instruments was £nil (last year: gain of £4.4m).

Movement in hedged items and hedging instruments	2022 £m	2021 £m
Net gain in fair value of interest rate swap	**–**	4.4
Net loss on hedged items	**–**	(4.4)
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: £1.3m gain) as the loss on the hedged items was £25.4m (last year: £93.0m gain) and the movement on the hedging instruments was a £26.7m gain (last year: £91.7m loss). A nil gain or loss (last year: nil gain or loss) was recognised in profit or loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	2022 £m	2021 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	**26.7**	(91.7)
Net (loss)/gain on hedged items	**(25.4)**	93.0
Ineffectiveness	**1.3**	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 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 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)
At 2 April 2022				
Impact on income statement: (loss)/gain	**(19.2)**	**19.2**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(4.2)**	**3.3**	**243.5**	**(243.5)**

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 offset 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 offset £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not offset 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	(24.9)	8.2
	49.6	(12.8)	36.8	(24.9)	11.9
Trade and other payables	(257.4)	12.8	(244.6)	–	(244.6)
Derivative financial liabilities	(106.7)	–	(106.7)	24.9	(81.8)
	(364.1)	12.8	(351.3)	24.9	(326.4)

	Gross financial assets/ (liabilities) £m	**Gross financial (liabilities)/ assets offset £m**	**Net financial assets/ (liabilities) per statement of financial position £m**	**Related amounts not offset in the statement of financial position £m**	**Net £m**
At 2 April 2022					
Trade and other receivables	**27.9**	**(25.0)**	**2.9**	**–**	**2.9**
Derivative financial assets	**65.0**	**–**	**65.0**	**(3.4)**	**61.6**
	92.9	**(25.0)**	**67.9**	**(3.4)**	**64.5**
Trade and other payables	**(284.8)**	**25.0**	**(259.8)**	**–**	**(259.8)**
Derivative financial liabilities	**(3.6)**	**–**	**(3.6)**	**3.4**	**(0.2)**
	(288.4)	**25.0**	**(263.4)**	**3.4**	**(260.0)**

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 International Swaps and Derivatives Association ("ISDA") agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair value hierarchy

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

– Level 1: quoted (unadjusted) prices in active markets for identical assets 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:

	2022				2021			
	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 (FVTPL)								
– derivatives held at FVTPL	**–**	**0.6**	**–**	**0.6**	–	0.7	–	0.7
– other investments[1]	**–**	**17.6**	**4.5**	**22.1**	–	18.4	–	18.4
Derivatives used for hedging	**–**	**64.4**	**–**	**64.4**	–	32.4	–	32.4
Unlisted equity investments[2]	**–**	**–**	**–**	**–**	–	–	9.7	9.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss (FVTPL)								
– derivatives held at FVTPL	**–**	**(0.9)**	**–**	**(0.9)**	–	(12.1)	–	(12.1)
– contingent consideration[3]	**–**	**–**	**(172.6)**	**(172.6)**	–	–	(212.0)	(212.0)
Derivatives used for hedging	**–**	**(2.7)**	**–**	**(2.7)**	–	(94.6)	–	(94.6)

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. Within Level 3 other investments, the Group holds £3.1m of venture capital investments, managed by True Capital Limited, measured at FVTPL (last year: £nil) (see note 16) which are Level 3 instruments. The fair value of these investments has been determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. Where investments are either recently acquired or there have been recent funding rounds with third parties, the primary input when determining the valuation is the latest transaction price.
2. The Group holds £nil 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 was determined with reference to the net asset value of the entity in which the investment was held, which in turn derived the majority of its net asset value through a third-party property valuation.
3. As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. In June 2021, £16.8m was settled, relating to the first of the three targets. In October 2021, £17.0m was settled, relating to the second target. The final target relates to 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 £156.3m plus interest of 4%.

   The fair value of the contingent consideration 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 target is binary and, based on the latest five-year plan of Ocado Retail Limited, is expected to be met and therefore the fair value reflects the full, discounted £156.3m plus interest, and it is therefore expected that £190.8m will become payable in 2024/25. Should the target not be met, 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. A discount rate of 4.2% was used and a 2.0% change in the discount rate would result in a change in fair value of £8.0m. A 5% change in the forecast level of earnings used to assess the performance target would not result in a significant change in fair value of the contingent consideration. During the period, £33.8m of contingent consideration was settled and a gain of £5.6m recognised in profit or loss in relation to the remeasurement (see note 5).

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,090.7m (last year: £10,442.9m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £4,998.8m (last year: £5,446.0m). Additionally, the scheme assets include £5,091.9m (last year: £4,996.9m) 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:

	2022 £m	2021 £m
Opening balance	**4,996.9**	4,325.1
Fair value gain recognised in other comprehensive income	**138.6**	68.3
(Withdrawal)/additional investment	**(43.6)**	603.5
Closing balance	**5,091.9**	4,996.9

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (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 £1,482.5m (last year: £1,682.1m); the fair value of this debt was £1,549.6m (last year: £1,807.6m) 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 £192.3m (last year: £193.5m) and the fair value of this liability is £187.9m (last year: £185.5m).

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.

21 FINANCIAL INSTRUMENTS CONTINUED

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 five years (last year: six years). During the year, the Group maintained credit ratings of Ba1 (stable) with Moody's and BB+ (stable) 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	Total £m
At 29 March 2020	60.0	12.6	5.4	78.0
Provided in the year – charged to profit or loss	22.5	105.2	9.6	137.3
Provided in the year – charged to property, plant and equipment	25.9	–	–	25.9
Released in the year	(29.8)	(7.6)	(0.1)	(37.5)
Utilised during the year	(4.6)	(81.6)	(0.3)	(86.5)
Exchange differences	–	(0.1)	–	(0.1)
Discount rate unwind	2.7	–	–	2.7
Reclassified to the pension liability	–	–	(2.5)	(2.5)
At 3 April 2021	76.7	28.5	12.1	117.3
Analysed as:				
Current				43.1
Non-current				74.2

	Property £m	**Restructuring £m**	**Other £m**	**Total £m**
At 4 April 2021	**76.7**	**28.5**	**12.1**	**117.3**
Provided in the year – charged to profit or loss	**23.5**	**38.0**	**6.2**	**67.7**
Provided in the year – charged to property, plant and equipment	**5.3**	**–**	**–**	**5.3**
Released in the year	**(8.4)**	**(2.8)**	**(3.0)**	**(14.2)**
Utilised during the year	**(5.1)**	**(28.2)**	**(0.9)**	**(34.2)**
Exchange differences	**–**	**(0.1)**	**(0.2)**	**(0.3)**
Discount rate unwind	**3.8**	**–**	**–**	**3.8**
At 2 April 2022	**95.8**	**35.4**	**14.2**	**145.4**
Analysed as:				
Current				**53.6**
Non-current				**91.8**

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).

Movements in restructuring provisions relate to the utilisation and finalisation of 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; the strategic programme to transition to a single-tier UK distribution network; and costs associated with the decision to fully exit our Russian franchise operations. Closing provisions relate primarily to the strategic programme to transition to a single-tier UK distribution network, expected to be utilised over the period of closure of sites, and exit our Russian franchise operations, expected to be utilised within the next year.

Other provisions include amounts in respect of probable liabilities for employee-related matters.

Provisions related to adjusting items were £124.9m at 2 April 2022 (last year: £100.8m), with a net charge in the year of £48.2m (last year: £90.1m) (see note 5).

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% and 25% 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 29 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
(Charged)/credited 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)
At 4 April 2021	**(50.3)**	**22.6**	**(148.7)**	**135.5**	**(40.9)**	**(1.4)**	**(42.3)**
(Charged)/credited to income statement	**(15.4)**	**3.7**	**(14.7)**	**20.3**	**(6.1)**	**1.0**	**(5.1)**
(Charged)/Credited to equity/ other comprehensive income	**–**	**–**	**(128.7)**	**(14.1)**	**(142.8)**	**3.0**	**(139.8)**
At 2 April 2022	**(65.7)**	**26.3**	**(292.1)**	**141.7**	**(189.8)**	**2.6**	**(187.2)**

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 £236.6m (last year: £228.0m) and a tax value of £58.6m (last year: £43.3m). The tax value has increased in comparison to the prior year due to the effects of the change in rate, whereby, UK deferred tax assets and liabilities have been remeasured at 25% where these are expected to be realised or settled on or after 1 April 2023.

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 £5.6m (last year: £11.0m) and a tax value of £1.4m (last year: £3.0m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £34.2m (last year: £24.1m) 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 £3.1m (last year: £2.3m) however this has not been recognised on the basis that the distribution can be controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

In the prior year, a deferred tax asset of £10.5m relating to trading losses in the UK was recognised. As the amount has been fully utilised, no deferred tax asset relating to trading losses in the UK is recognised in the current period.

24 ORDINARY SHARE CAPITAL

	2022						2021	
	Ordinary shares of £0.25 each		Ordinary shares of £0.01 each		Deferred shares of £0.24 each		Ordinary shares of £0.25 each	
	Shares	£m	Shares	£m	Shares	£m	Shares	£m
Issued and fully paid							1,950,059,808	487.6
At start of year	**1,956,513,591**	**489.2**	**–**	**–**	**–**	**–**	6,453,783	1.6
Shares issued in respect of share option schemes	**1,266,035**	**0.3**	**–**	**–**	**–**	**–**	–	–
Subdivision of ordinary share capital	**(1,957,779,626)**	**(489.5)**	**1,957,779,626**	**19.6**	**1,957,779,626**	**469.9**	–	–
Repurchase of deferred shares	**–**	**–**	**–**	**–**	**(1,957,779,626)**	**(469.9)**	–	–
Shares issued in respect of share option schemes	**–**	**–**	**1,125,718**	**0.1**	**–**	**–**	–	–
At end of year	**–**	**–**	**1,958,905,344**	**19.7**	**–**	**–**	1,956,513,591	489.2

Nominal value reduction

In July 2021, the Company reduced the nominal value of its ordinary shares from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remained unchanged and each shareholder's proportionate interest in the share capital of the Company remained unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged. The repurchase and cancellation of the shares resulted in an increase to the Company's capital redemption reserve of £469.9m.

Issue of new shares

A total of 2,391,753 (last year: 6,453,783) ordinary shares having a nominal value of £0.4m (last year: £1.6m) 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 £0.3m (last year: £0.0m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2022 £m	2021 £m
Commitments in respect of properties in the course of construction	**59.8**	88.3
Software capital commitments	**6.1**	10.6
	65.9	98.9

In addition to the above, the Group has committed to invest up to £25.0m, over a three-year period to 2024/25, in an innovation and consumer growth fund managed by True Capital Limited. The fund can drawdown amounts at any time over the three-year period to make specific investments. During the period, the Group invested £3.3m of this commitment, which is held as a non-current other investment and measured at fair value through profit or loss (see note 16).

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Cash flows from operating activities

	2022 £m	2021 £m
Profit/(loss) on ordinary activities after taxation	**309.0**	(201.2)
Income tax expense/(credit)	**82.7**	(8.2)
Finance costs	**214.4**	236.1
Finance income	**(33.9)**	(57.4)
Operating profit/(loss)	**572.2**	(30.7)
Share of results of Ocado Retail Limited	**(13.9)**	(78.4)
(Increase)/decrease in inventories	**(46.5)**	41.2
(Increase)/decrease in receivables	**(2.9)**	67.4
Increase in payables	**289.1**	159.5
Depreciation, amortisation and write-offs	**510.7**	603.1
Non-cash share-based payment expense	**38.8**	19.3
Defined benefit pension funding	**(36.8)**	(37.1)
Adjusting items net cash outflows[1,2]	**(45.8)**	(118.1)
Adjusting items M&S Bank[3]	**(16.0)**	(2.4)
Adjusting operating profit items	**136.8**	252.9
Cash generated from operations	**1,385.7**	876.7

1. Excludes £5.6m (last year: £12.4m) 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.
2. Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, UK logistics, and the utilisation of the provisions for International store closures and impairments.
3. 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.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 29 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[1] £m	At 3 April 2021 £m
Net debt						
Bank loans and overdrafts (see note 20)	(15.5)	10.8	–	–	–	(4.7)
Cash and cash equivalents (see note 18)	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
Liabilities from financing activities						
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)

	At 4 April 2021 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[1] £m	**At 2 April 2022 £m**
Net debt						
Bank loans and overdrafts (see note 20)	(4.7)	4.7	–	–	–	**–**
Cash and cash equivalents (see note 18)	674.4	531.7	–	–	(8.2)	**1,197.9**
Net cash per statement of cash flows	669.7	536.4	–	–	(8.2)	**1,197.9**
Current other financial assets (see note 16)	18.4	(0.8)	–	–	–	**17.6**
Liabilities from financing activities	–	–	–	–	–	**–**
Medium Term Notes (see note 20)	(1,682.1)	244.0	–	–	(91.4)	**(1,529.5)**
Lease liabilities (see note 20)	(2,405.9)	344.3	–	(100.6)	(116.5)	**(2,278.7)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(185.5)	–	–	–	(2.4)	**(187.9)**
Derivatives held to hedge Medium Term Notes	(8.1)	–	26.6	–	–	**18.5**
Liabilities from financing activities	(4,281.6)	588.3	26.6	(100.6)	(210.3)	**(3,977.6)**
Less: Cashflows related to interest and derivative instruments	77.6	(208.7)	(26.6)	–	221.0	**63.3**
Net debt	(3,515.9)	915.2	–	(100.6)	2.5	**(2,698.8)**

B. Reconciliation of net debt to statement of financial position

	2022 £m	2021 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**1,197.9**	674.4
Current other financial assets (see note 16)	**17.6**	18.4
Bank loans and overdrafts (see note 20)	**–**	(4.7)
Medium Term Notes – net of foreign exchange revaluation (see note 20)	**(1,494.7)**	(1,657.9)
Lease liabilities (see note 20)	**(2,278.7)**	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	**(192.3)**	(193.5)
	(2,750.2)	(3,569.2)
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	**51.4**	53.3
Net debt	**(2,698.8)**	(3,515.9)

1. Exchange and other non-cash movements includes interest paid on Medium Term Notes of £79.6m (last year: £86.4m), interest paid on lease liabilities of £121.1m (last year: £130.4m) and interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £4.4m (last year: £4.9m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Ocado Retail Limited

A shareholder loan facility with Ocado Retail Limited was established in 2019/20, 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 2 April 2022 (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 2 April 2022 (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:

	2022 £m	2021 £m
Sales of goods and services	36.1	28.5
Purchases of goods and services	0.2	–

Included within trade and other receivables is a balance of £1.9m (last year: £2.3m) owed by Ocado Retail Limited.

Nobody's Child Limited

Nobody's Child Limited became an associate of the Group in November 2021 (see note 29).

Since November 2021, the Group made purchases of goods amounting to £1.2m. At 2 April 2022, included within trade and other payables is a balance of £0.2m owed to Nobody's Child Limited, and included within other financial assets is a balance of £0.7m owed from Nobody's Child 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.

	2022 £m	2021 £m
Salaries and short-term benefits	15.3	8.6
Share-based payments	2.1	3.2
Total	**17.4**	11.8

E. Other related party transactions

The Group acquired 77.7% of the issued share capital of The Sports Edit Limited ("TSE") in February 2022. A further 4.8% of TSE's issued share capital is currently owned by Mr. Justin King, a Non-Executive Director of the Group (the "JK TSE Shares"). Subject to shareholder approval, the Group will acquire the JK TSE Shares from Mr. Justin King at a total purchase price of £0.3m in July 2022.

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 28 November 2021, 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 1 March 2021 to 27 February 2022. There were no significant events or transactions in the period from 28 February 2022 to 2 April 2022.

The carrying amount of the Group's interest in Ocado Retail Limited is £800.4m (last year: £819.0m). The Group's share of Ocado Retail Limited loss of £18.6m (last year: profit of £64.2m) includes the Group's share of underlying profits of £13.9m, which includes £1.3m of exceptional income before tax related to insurance receipts (share of profit last year: £25.2m) and adjusting item charges of £32.5m (last year: £14.2m) (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 27 Feb 2022 £m	As at 28 Feb 2021 £m
Ocado Retail Limited		
Current assets	**291.2**	353.9
Non-current assets	**590.1**	336.8
Current liabilities	**(223.3)**	(245.7)
Non-current liabilities	**(449.8)**	(264.6)
Net assets	**208.2**	180.4

	29 Feb 2021 to 27 Feb 2022 £m	2 Mar 2020 to 28 Feb 2021 £m
Revenue	**2,248.8**	2,353.2
Profit for the period	**27.8**	156.8
Other comprehensive income	**–**	–
Total comprehensive income	**27.8**	156.8

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ocado Retail Limited recognised in the consolidated financial statements:

	As at 2 Apr 2022 £m	As at 3 Apr 2021 £m
Ocado Retail Limited		
Net assets	**208.2**	180.4
Proportion of the Group's ownership interest	**104.1**	90.2
Goodwill	**449.1**	449.1
Brand	**242.7**	249.2
Customer relationships	**77.7**	88.3
Other adjustments to align accounting policies	**(78.9)**	(63.5)
Acquisition costs	**5.7**	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	**800.4**	819.0

In November 2021, the Group acquired 27% of the issued share capital of Nobody's Child Limited, which is accounted for as an investment in associate.

Other than its investment in Ocado Retail Limited, the Group holds immaterial investments in joint ventures and associates (including its investment in Nobody's Child Limited) totalling £10.5m (last year: £6.8m). The Group's share of losses totalled £0.7m (last year: £1.3m loss).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 GOVERNMENT SUPPORT

The Group has not benefitted from government grant income in the year. Last year, the Group recognised £131.5m in relation to furlough programmes, such as the Coronavirus Job Retention Scheme ("CJRS") in the UK, and its equivalents in other countries. This income was recognised as a deduction against the related expense.

The Group benefited from business rates relief of £62.2m in the year (last year: £174.6m).

There are no unfulfilled conditions or contingencies attached to these grants.

31 CONTINGENT ASSETS

The Group is currently seeking damages from an independent third party following their involvement in anti-competitive behaviour that adversely impacted the Group. The Group expects to receive an amount from the claim (either in settlement or from the legal proceedings), a position reinforced by recent court judgements in similar claims. The value of the claim is confidential and is therefore not disclosed.

32 SUBSEQUENT EVENTS

The Board have approved a tender offer to repurchase c.£150m of the Group's Medium Term Notes which will be announced on 25 May 2022.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2022 £m	As at 3 April 2021 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,403.7**	9,730.8
Total assets		**9,403.7**	9,730.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,541.2**	2,541.8
Total liabilities		**2,541.2**	2,541.8
Net assets		**6,862.5**	7,189.0
Equity			
Ordinary share capital	C7	**19.7**	489.2
Share premium account	C7	**910.6**	910.4
Capital redemption reserve		**2,680.4**	2,210.5
Merger reserve	C7	**870.9**	1,262.0
Retained earnings		**2,380.9**	2,316.9
Total equity		**6,862.5**	7,189.0

The Company's loss for the year was £357.3m (last year: profit of £951.0m).

The financial statements were approved by the Board and authorised for issue on 24 May 2022. 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 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**
At 4 April 2021	**489.2**	**910.4**	**2,210.5**	**1,262.0**	**2,316.9**	**7,189.0**
Loss for the year	**–**	**–**	**–**	**–**	**(357.3)**	**(357.3)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**30.2**	**30.2**
Shares issued on exercise of employee share options	**0.4**	**0.2**	**–**	**–**	**–**	**0.6**
Buy back and cancellation of own Shares[1]	**(469.9)**	**–**	**469.9**	**–**	**–**	**–**
Reclassification to merger reserve	**–**	**–**	**–**	**(391.1)**	**391.1**	**–**
At 2 April 2022	**19.7**	**910.6**	**2,680.4**	**870.9**	**2,380.9**	**6,862.5**

1. On 8 July 2021, the Company reduced the nominal value of its 1,957,779,626 ordinary shares in issue at that date from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into 1 ordinary share of £0.01 and 1 deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remains unchanged and each shareholder's proportionate interest in the share capital of the Company remains unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged.

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Cash flow from investing activities		
Dividends received	**33.8**	–
Additional investment in subsidiary	**(33.8)**	–
Net cash (used in)/generated from investing activities	**–**	–
Cash flows from financing activities		
Shares issued on exercise of employee share options	**0.6**	1.6
Repayment of intercompany loan	**(0.6)**	(1.6)
Net cash generated from/(used in) financing activities	**–**	–
Net cash inflow from activities	**–**	–
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 limited company domiciled and incorporated in England and Wales under the Companies Act 2006. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW, United Kingdom.

The principal activities of the Company and the nature of the Company's operations are 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. 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 £1,174,790 (last year: £1,093,458). 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

At the full-year results in May 2021, the Board announced that payment of a dividend in the 2021/22 financial year would be unlikely as we focus on restoring sustainable profitability and recovering the balance sheet towards metrics consistent with investment grade.

Consistent with that announcement, the Board does not expect to pay a dividend this financial year.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £33.8m (last year: nil) and decreased its loan from Marks and Spencer plc by £0.6m (last year: £1.6m). The outstanding balance was £2,541.2m (last year: £2,541.8m) 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

	2022 £m	2021 £m
Beginning of the year	**9,730.8**	8,763.2
Contributions to subsidiary undertakings relating to share-based payments	**30.2**	16.6
Additions	**33.8**	–
Impairment (charge)/reversal	**(391.1)**	951.0
End of year	**9,403.7**	9,730.8

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc and Marks and Spencer Holdings Limited.

During the year, the Company purchased additional shares in Marks and Spencer Holdings Limited (£33.8m). This allowed Marks and Spencer Holdings Limited to settle the contingent consideration that became payable during the year as a result of 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 2 April 2022, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc of £9,188.6m, indicating a potential impairment, despite stronger Group performance.

The recoverable amount of the investment in Marks and Spencer plc has been determined based on a value in use calculation. The Company has updated its assumptions as at 2 April 2022, reflecting the latest budget and forecast cash flows covering a three-year period. The pre-tax discount rate of 9.8% (last year: 8.9%) was derived from the Group's weighted average cost of capital, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The long-term growth rate of 2.0% (last year: 1.75%), was based on inflation forecasts by recognised bodies 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 £8,797.5m and as a result has recognised an impairment of £391.1m. This impairment primarily relates to the impact of market volatility on the discount rate as a result of the unfolding humanitarian crisis following the invasion in Ukraine and updated forecast cashflows, as restrictions on capital expenditure imposed during the Covid-19 pandemic were lifted.

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 5% reduction in cash flows from the three-year plan would result in an additional impairment charge of £447.8m.
- A 50-basis point decrease in the long-term growth rate would result in an additional impairment charge of £479.1m.
- A 50-basis point increase in the discount rate would result in an additional impairment charge of £534.8m.

In the event that all three were to occur simultaneously, an additional impairment charge of £1,356.4m would be recorded.

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 2 April 2022 is disclosed below. All undertakings are indirectly owned by the Company unless otherwise stated.

***Subsidiary and other related undertakings registered in the UK*[(i)]**

Name	Share class	Proportion of shares held (%)
Founders Factory Retail Limited Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 ordinary (25.001% of total capital)	0.004
	£0.0001 Preference (74.999% of total capital)	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 ordinary A (50% of total capital)	–
	£1 ordinary B (50% of total capital)	100
Marks and Spencer Company Archive (CIC) (ii)	N/A	–
Marks and Spencer Guernsey Investments LLP	Partnership interest	100
Marks and Spencer Pension Trust Limited (iii)	£1 ordinary A	100
	£1 ordinary B	–
	£1 ordinary C	–
Marks and Spencer plc (v)	£0.25 ordinary	100
Marks and Spencer Scottish Limited Partnership (iv) Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	100
Ocado Retail Limited Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX	£0.01 ordinary	50
Amethyst Leasing (Holdings) Limited	£1 ordinary	100
M&S Limited	£1 ordinary	100
Manford (Textiles) Limited	£1 ordinary	100
Marks and Sparks Limited	£1 ordinary	100
Marks and Spencer (Northern Ireland) Limited Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR	£1 ordinary	100
Marks and Spencer Property Developments Limited	£1 ordinary	100
Nobody's Child Limited Registered Office: 10–11 Greenland Place, Camden, London, NW1 0AP	£0.01 ordinary (72.910% of total capital)	–
	£0.01 Preference (27.090% of total capital)	100
St. Michael (Textiles) Limited	£1 ordinary	100
St. Michael Finance plc	£1 ordinary	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

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 2 April 2022. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom and have a single class of ordinary share with a nominal value of £1. All undertakings are indirectly owned by the Company unless otherwise stated.

Name	Proportion of shares held (%)	Company number
Amethyst Leasing (Properties) Limited	100	4246934
Busyexport Limited	100	4411320
Marks and Spencer (Initial LP) Limited (v) Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	SC315365
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
Marks and Spencer 2005 (Kingston–on–Thames Satellite Store) Limited	100	5502523
Marks and Spencer 2005 (Kingston–on–Thames Store) Limited	100	5502520
Marks & Spencer Outlet Limited	100	4039568
Marks & Spencer Simply Foods Limited	100	4739922
Marks and Spencer (Property Investments) Limited	100	5502582
Marks and Spencer Chester Limited	100	5174129
Marks and Spencer France Limited	100	5502548
Marks and Spencer International Holdings Limited	100	2615081
Marks and Spencer (Investment Holdings) Limited	100	13587353
Marks and Spencer 2005 (Parman House Kingston Store) Limited	100	5502520
Marks and Spencer 2005 (Pudsey Store) Limited	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	100	5502502
Marks and Spencer Holdings Limited (v)	100	11845975
Marks and Spencer Hungary Limited	100	8540784
Marks and Spencer Investments	100	4903061
Marks and Spencer Property Holdings Limited	100	2100781
Ruby Properties (Cumbernauld) Limited	100	4922798
Ruby Properties (Hardwick) Limited	100	4716018
Ruby Properties (Long Eaton) Limited	100	4716031
Ruby Properties (Thorncliffe) Limited	100	4716110
Ruby Properties (Tunbridge) Limited	100	4716032
Simply Food (Property Investments)	100	5502543
Simply Food (Property Ventures) Limited	100	2239799
Minterton Services Limited	100	4763836
Marks and Spencer (Bradford) Limited	100	10011863
Marks and Spencer (Jaeger) Limited	100	13098074
The Sports Edit Limited Registered office: Studio 419, The Print Rooms, 164/180 Union Street, London, SE1 OLH (vi)	77.734	9331295

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £21.3m 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.
(v) Interest held directly by Marks and Spencer Group plc.
(vi) Marks and Spencer plc holds 94.078% of A ordinary shares (and will acquire the remaining A ordinary shares to bring it up to 100% once shareholder approval has been obtained at the AGM), 100% of B ordinary shares and 0% of C ordinary shares.

International subsidiary undertakings[i]

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Minter Ellison 'Governor Macquarie Tower' Level 40 1 Farrer Place Sydney NSW 2000 Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	USD NPV	100
Marks and Spencer Czech Republic a.s	Jemnická 1138/1, Michle, Praha 4, 140 00, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Jemnická 1138/1, Michle, Praha 4, 140 00, Czech Republic	Czech Republic	CZK NPV	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary €3 Preference	80(iv) 100
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership Interest	99.99

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Hong Kong) Investments Limited	Suites 807-13, 8/F, South Tower, World Finance Centre, Harbour City, Kowloon, Hong Kong	Hong Kong	No Par Value Ordinary	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 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
			INR 10 Class B (43.544% of total capital)	100
			INR 5 Class C(ii) (41.837% of total capital)	–
Aprell Limited	24/29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, D01 YE83, Ireland	Ireland	Ordinary of €1.25	100
Marks and Spencer Pensions Trust (Ireland) Company Limited By Guarantee	24-27 Mary Street, Dublin 1, Ireland	Ireland	N/A(iii)	–
M & S Mode International B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€450 Ordinary	100

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer BV	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Stores B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€450 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 8º, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	SGD NPV	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 Romania SA (in liquidation)	84 GEN. H. M. BERTHELOT Street, Space B, Room 5, Ground floor, 1st District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
M&S (Spain) S.L. (in liquidation)	C / Boix Y Morer 11 Local A Madrid 28-Madrid Spain	Spain	€1 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

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.
(iv) 20% of ordinary shares are owned by JV partner.

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

In July 2021, the Company reduced the nominal value of its ordinary shares from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remained unchanged and each shareholder's proportionate interest in the share capital of the Company remained unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged. The repurchase and cancellation of the shares resulted in an increase to the Company's capital redemption reserve of £469.9m.

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. In 2018/19, an amount equal to the impairment charge of £1,086.3m was transferred from the merger reserve to retained earnings as that amount had become a realised profit in accordance with TECH 02/17. Following the reversal of impairment recognised in 2019/20, an amount equal to the reversal of £951.0m was transferred from retained earnings to the merger reserve, in accordance with TECH 02/17. In the current year, an amount equal to the impairment of £391.1m has been transferred from the merger reserve to retained earnings in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2022 52 weeks £m	2021 53 weeks £m	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m
Income statement					
Revenue[1]					
UK Clothing & Home	**3,308.3**	2,239.0	3,209.1	3,499.8	
UK Food	**6,639.6**	6,138.5	6,028.2	5,903.4	
Total UK	**9,947.9**	8,377.5	9,237.3	9,403.2	9,611.0
International	**937.2**	789.4	944.6	974.1	1,087.2
Revenue before adjusting items	**10,885.1**	9,166.9	10,181.9	10,377.3	10,698.2
Adjusting items included in revenue	**–**	(11.2)	–	–	–
Revenue	**10,885.1**	9,155.7	10,181.9	10,377.3	10,698.2
Operating profit/(loss)[1]					
UK Clothing & Home	**330.7**	(130.8)	223.9	355.2	
UK Food	**277.8**	228.6	236.7	212.9	
Ocado	**13.9**	78.4	2.6	–	
Other	**13.0**	1.9	16.8	27.0	
Total UK	**635.4**	178.1	480.0	595.1	535.4
International	**73.6**	44.1	110.7	130.5	135.2
Total operating profit before adjusting items	**709.0**	222.2	590.7	725.6	670.6
Adjusting items included in operating profit	**(136.8)**	(252.9)	(335.9)	(427.5)	(514.1)
Total operating profit/(loss)	**572.2**	(30.7)	254.8	298.1	156.5
Net interest payable	**(199.3)**	(219.1)	(211.2)	(239.7)	(107.4)
Pension finance income	**13.2**	47.2	23.6	25.8	17.7
Net finance costs before adjusting items	**(186.1)**	(171.9)	(187.6)	(213.9)	(89.7)
Adjusting items included in net finance costs	**5.6**	(6.8)	–	–	–
Net finance costs	**(180.5)**	(178.7)	(187.6)	(213.9)	(89.7)
Profit before tax and adjusting items	**522.9**	50.3	403.1	511.7	580.9
Profit/(loss) on ordinary activities before taxation	**391.7**	(209.4)	67.2	84.2	66.8
Income tax (expense)/credit	**(82.7)**	8.2	(39.8)	(38.9)	(37.7)
Profit/(loss) after taxation	**309.0**	(201.2)	27.4	45.3	29.1

		2022 52 weeks	2021 53 weeks	2020 52 weeks	2019 52 weeks	2018 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**15.7p**	(10.1)p	1.3p	2.5p	1.6p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**21.7p**	1.4p	16.7p	23.7p	27.8p
Dividend per share declared in respect of the year		**–**	–	3.9p	13.3p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	**–**	–	4.3x	1.8x	1.5x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	**3.5x**	2.0x	3.4x	3.6x	3.8x
Statement of financial position						
Net assets (£m)		**2,917.9**	2,285.8	3,708.5	2,469.2	2,954.2
Net debt[2] (£m)		**2,698.8**	3,515.9	3,950.6	3,981.5	1,827.5
Capital expenditure (£m)		**300.2**	146.9	332.0	294.5	300.5
Stores and space						
UK stores		**1,035**	1,037	1,038	1,043	1,035
UK selling space (m sq ft)		**16.7**	16.8	16.8	17.2	17.6
International stores		**452**	472	483	445	429
International selling space (m sq ft)		**5.0**	5.1	5.0	4.9	5.2
Staffing (full-time equivalent)						
UK		**42,550**	44,423	49,094	50,578	53,273
International		**4,558**	4,754	4,894	4,862	5,655

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.

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			
Sales	Revenue	Consignment sales	Sales includes the gross value of consignment sales (excluding VAT) before the impact of adjusting items.
Clothing & Home store/Clothing & Home online sales	None	Not applicable	Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. 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. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels.

	2021/22 £m	2020/21 £m	%
UK Clothing & Home			
Store sales[1]	**2,209.5**	1,088.9	102.9
Consignment sales	**(8.6)**	–	
Store revenue	**2,200.9**	1,088.9	102.1
Online sales[1]	**1,122.7**	1,109.7	1.2
Consignment sales	**(15.3)**	–	
Online revenue	**1,107.4**	1,109.7	(0.2)
UK Clothing & Home sales[1] – 52-week basis	**3,332.2**	2,198.6	51.6
Consignment sales	**(23.9)**	–	
UK Clothing & Home revenue – 52-week basis	**3,308.3**	2,198.6	50.5
Week 53	**–**	40.4	
Total UK Clothing & Home revenue	**3,308.3**	2,239.0	47.8

1. UK Clothing & Home store sales excludes revenue from "shop your way" and click & collect, which are included in UK Clothing & Home online sales.

There is no material difference between sales and revenue for UK Food and International.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures continued			
Like-for-like revenue growth	Movement in revenue per the income statement	Revenue 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.

	2021/22 £m	2020/21 £m
UK Food		
Like-for-like	**6,414.1**	5,831.1
Net new space[1]	**225.5**	163.7
Week 53	**–**	143.7
Total UK Food revenue	**6,639.6**	6,138.5
UK Clothing & Home		
Like-for-like	**3,218.3**	2,164.5
Net new space	**90.0**	34.1
Week 53	**–**	40.4
Total UK Clothing & Home revenue	**3,308.3**	2,239.0

1. UK Food net new space includes sales to Ocado Retail Limited.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Food ex hospitality and franchise	Movement in revenue per the income statement	Revenue from hospitality and franchise categories and sales to Ocado Retail Limited	The period-on-period change in Food revenue (before sales to Ocado Retail Limited) excluding the hospitality and franchise categories' revenue (excluding VAT). The hospitality category includes cafes, counters and marketplace. This measure is based on Food total revenue rather than like-for-like revenue which was presented in the 2020/21 annual report. This measure is used to provide consistency with other measures provided within this report.

	2021/22 £m	2020/21 £m	%
UK Food			
Revenue	**6,639.6**	6,138.5	8.2
Sales to Ocado Retail	**(32.1)**	(24.2)	32.6
Hospitality	**(167.0)**	(54.0)	209.3
Franchise	**(586.6)**	(438.4)	33.8
Food ex hospitality and franchise	**5,853.9**	5,621.9	4.1

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
M&S.com revenue/ Online revenue	None	Not applicable	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.
International online	None	Not applicable	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.

	2021/22 £m	2020/21 £m	%
International revenue			
Stores	**764.7**	613.6	24.6
Online	**172.5**	165.7	4.1
Week 53	**–**	10.1	
At reported currency	**937.2**	789.4	18.7

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures continued			
Revenue growth at constant currency	None	Not applicable	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.

	2021/22 £m	2020/21 £m	%
International revenue			
At constant currency	**937.2**	761.8	23.0
Impact of FX retranslation	**–**	17.5	
International revenue – 52-week basis	**937.2**	779.3	20.3
Week 53	**–**	10.1	
At reported currency	**937.2**	789.4	18.7

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	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.
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.
Net interest payable 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.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures continued			
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.
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 52 weeks ended 2 April 2022 with the comparative financial year being for the 53 weeks ended 3 April 2021. 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.

	2021/22 £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
Total UK Retail	*8,377.5*	*(184.1)*	*8,193.4*
International	789.4	(10.1)	779.3
Total Group	*9,166.9*	*(194.2)*	*8,972.7*
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			
Total Group	*50.3*	*(8.7)*	*41.6*
Loss before tax			
Total Group	*(209.4)*	*8.2*	*(201.2)*

FINANCIAL STATEMENTS

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), the spot foreign exchange component of 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. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 27) Lease liabilities (see note 20)	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.
Cash flow measures			
Free cash flow after shareholder returns	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow	Net cash inflow from operating activities	See Financial Review	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). 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.
Other measures			
Covid-19 scenario	None	Not applicable	As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan. 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. 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. This downside scenario was approved by the directors and is defined as the Covid-19 scenario.
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.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Other measures continued			
Return on capital employed ("ROCE")	None	Not applicable	Calculated as being EBIT[1] before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:

	2021/22 £m	2020/21 £m
EBIT before adjusting items	**709.0**	222.2
Net assets	**2,917.9**	2,285.8
Add back:		
Partnership liability to the Marks & Spencer UK Pension Scheme	**192.3**	193.5
Deferred tax liabilities	**187.2**	42.3
Non-current borrowings and other financial liabilities	**3,561.0**	3,659.9
Retirement benefit deficit	**5.7**	7.8
Derivative financial instruments	**–**	73.6
Current tax liabilities	**34.0**	–
Less:		
Investment property	**(15.0)**	(15.2)
Derivative financial instruments	**(61.4)**	–
Retirement benefit asset	**(1,043.9)**	(639.2)
Current tax assets	**–**	(35.4)
Net operating assets	**5,777.8**	5,573.1
Add back: Provisions related to adjusting items	**124.9**	100.8
Capital employed	**5,902.7**	5,673.9
Average capital employed	**5,788.3**	5,874.8
ROCE %	**12.2%**	3.8%

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.

1. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

FINANCIAL STATEMENTS

Important notice

NOTICE OF ANNUAL GENERAL MEETING 2022

Tuesday 5 July 2022 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 21ST ANNUAL GENERAL MEETING OF MARKS AND SPENCER GROUP PLC WILL BE HELD ON 5 JULY 2022."

Nick Folland, General Counsel and Company Secretary

ANNUAL GENERAL MEETING ("AGM")

As we have noted in our Annual Report, the AGM is a key date in the Board's calendar. Alongside presenting the Company's performance and strategy to shareholders, it is the Board's opportunity to listen and respond to your questions.

Last year's digital AGM once again received higher levels of shareholder engagement than the previous year's. As such, we heard views and received questions from far more of you than in recent years, and particularly when compared with our physically held meetings. We are therefore confident that our approach to a digitally-enabled AGM is far more accessible, engaging and democratic.

For this reason, the 2022 AGM will again be a fully digitally-enabled meeting, broadcast from M&S' Waterside House Support Centre at 11am on 5 July 2022.

I'm very pleased that we will also be joined by Anita Anand who will be acting as this year's shareholder advocate. Anita will be known to many of you as a leading radio and television broadcaster, journalist and author. As your shareholder advocate, she will ensure your views and questions are put to the Board.

For statutory and regulatory purposes, the place of meeting will be Waterside House, 35 North Wharf Road, London W2 1NW. Shareholders are invited to participate in the AGM electronically via the Lumi AGM platform, which you can access by logging on to **https://web.lumiagm.com/124-849-127**. On this website, you will be able to 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 page 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.

Shareholders are advised not to travel to the venue on the day, as the meeting will be fully digitally enabled. Board members will not be available for interaction with shareholders in person, as they will be taking part in the meeting broadcast under studio conditions. Any shareholders travelling to the venue against the Board's recommendation will be advised to join the meeting electronically, and will be provided with assistance to do so, if needed. Refreshments will not be provided.

YOUR VOTE COUNTS

Your vote is important to us. You can:

- Join the AGM live online and vote electronically via the Lumi AGM platform. Please see page 209 of this Notice for further details.
- 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, by calling the shareholder helpline on 0345 609 0810).

VOTING BEFORE THE MEETING

All shareholders are encouraged to vote either in advance or on the day. There are several ways to submit your voting instructions before the meeting, which are available from the publication date of this Notice:

(1) The Lumi AGM platform.
(2) Equiniti's Shareview website.
(3) The CREST or Proxymity electronic proxy appointment platforms.
(4) By completing and returning a paper proxy form.

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 1 July 2022. 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.

Paper proxy votes (option 4 above) must be received by no later than 11am on Friday 1 July 2022. 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.

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.

NOTICE OF MEETING 2022
CONTINUED

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 208 to 209 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 5 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 Anita Anand. Where we receive a number of questions covering the same topic, Anita 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. You will have the opportunity to ask a question live during the meeting by telephone; full details and instructions will be provided on the Lumi AGM platform on the day of the AGM.

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 **AGMquestionsubmission@marks-and-spencer.com**, to be received by no later than 5pm on Friday 1 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 5 July 2022, or as soon as reasonably practicable thereafter.

In 2021, all resolutions were passed at the meeting with votes ranging from 93.27% to 99.98% 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 201 to 202.

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 52 weeks ended 2 April 2022.

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 2 April 2022. In line with legislation, this vote is advisory and the directors' entitlement to remuneration is not conditional on it.

ELECTION OF DIRECTORS 3-13

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).

As announced on 10 March 2022, Steve Rowe will stand down as CEO on 25 May 2022 as part of a planned succession programme. Stuart Machin and Katie Bickerstaffe will both join the Board on 25 May 2022 as CEO and Co-CEO respectively. Stuart joined M&S as Food Managing Director in April 2018 with nearly 30 years' experience in the food, fashion and home retail sector, and was appointed joint Chief Operating Officer in May 2021. Katie previously served on the Board as a non-executive director from 2018, bringing extensive experience of digital, retail and operations and leading consumer-focused businesses. She joined the business as Chief Strategy and Transformation Director in April 2020 and was later appointed Chief Operating Officer in May 2021.

The Board notes that while Andy Halford has been a non-executive director for more than nine years, he is still considered to be independent in both character and judgement. He has no other significant links to the Company, and continues to make an effective and valuable contribution. The Board believes Andy's re-election will provide valuable continuity during the CEO transition. Further details on the Board's assessment of Andy's independence can be found in the Annual Report on pages 59 and 67.

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 60 and 61 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 14–15

On the recommendation of the Audit Committee, the Board proposes in resolution 14 that Deloitte LLP be reappointed as auditor of the Company.

Resolution 15 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

AUTHORITY TO MAKE POLITICAL DONATIONS 16

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 Investment Association ("IA"), this resolution is put to shareholders annually rather than every four years as required by the 2006 Act.

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 £6,529,881.95 (representing 652,988,195 ordinary shares of £0.01 each). This amount represents approximately one-third (33.33%) of the Company's issued ordinary share capital as at 24 May 2022, the latest practicable date before the publication of this Notice.

In line with guidance issued by the 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 £13,059,763.91 (representing 1,305,976,391 ordinary shares), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. This amount (before any reduction) represents approximately two-thirds (66.66%) of the Company's issued ordinary share capital as at 24 May 2022, the latest practicable date before the publication of this Notice.

The authorities sought under paragraphs (A) and (B) of this resolution will expire at the conclusion of the AGM in 2023 or on 1 October 2023, 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 DISAPPLY PRE-EMPTION RIGHTS 18-19

Resolutions 18 and 19 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 18, 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 £979,482.29 (representing 97,948,229 ordinary shares) 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 approximately 5% of the Company's issued ordinary share capital as at 24 May 2022, being the latest practicable date before the publication of this Notice.

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 19 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 £979,482.29 (representing 97,948,229 ordinary shares), being approximately 5% of the Company's issued ordinary share capital as at 24 May 2022, the latest practicable date before the publication of this Notice. 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 19 is used, the Company will publish details of its use in its next Annual Report.

The authority granted by resolution 19 would be in addition to the general authority to disapply pre-emption rights under resolution 18. The maximum nominal value of equity securities that could be allotted if both authorities were used would be £1,958,964.59, which represents approximately 10% of the Company's issued ordinary share capital as at 24 May 2022, being the latest practicable date before the publication of this Notice.

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 18 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.

NOTICE OF MEETING 2022
CONTINUED

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

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 2023 or on 1 October 2023, whichever is sooner.

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES 20

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 110.1 million ordinary shares, representing 5.62% of the Company's issued ordinary share capital as at 24 May 2022, the latest practicable date before the publication of this Notice.

If the existing authority given at the 2021 AGM and the authority now being sought by this resolution were to be fully used, these options would represent 6.25% of the Company's ordinary share capital in issue at that date.

NOTICE OF GENERAL MEETING 21

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 21 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.

SHARE INCENTIVE PLAN RENEWAL 22

Authority is sought to approve the renewal of the existing Marks and Spencer Group plc Share Incentive Plan ("SIP"), which is currently operated to enable employees to buy shares in the Company from their pre-tax salary (ShareBuy). The SIP is a share incentive plan which was originally approved by shareholders in 2000 and was renewed by shareholders at the Company's Annual General Meeting in 2012. The Company is seeking shareholder approval to amend and renew the SIP to allow awards to continue to be made under it for a further 10 years. The main terms of the SIP are summarised on pages 206 to 207 of this Notice.

SECTION 190 TRANSACTION 23

Authority is sought for the Company's subsidiary, Marks and Spencer plc ("M&S plc"), to purchase 565,952 A Ordinary Shares in The Sports Edit Limited ("TSE"), amounting to 4.8% of TSE's issued share capital from Mr. Justin King (the "JK TSE Shares").

M&S plc acquired 77.7% of TSE's issued share capital in February 2022 as part of the Company's third-party brands strategy for Clothing & Home, and agreed simultaneously a timetable for acquiring another 17.5% from TSE's owner/founder with the ultimate aim of acquiring 100% of TSE's issued share capital.

The final 4.8% of TSE's issued share capital is currently owned by Mr. Justin King, a Non-Executive Director of the Company. As a result, purchase of the JK TSE Shares is conditional on the passing of this resolution under Section 190 of the Act, as it is a substantial property transaction as defined in the Act.

The Board believe that the 100% acquisition of TSE is a strategic investment and learning opportunity; the brand is well positioned in the growing activewear market and has proven capability in customer segmentation, brand curation and emerging brand identification. Mr. Justin King has been a minority shareholder in TSE since 2018, which pre-dates his appointment as a Non-Executive Director of the Company, declared his interest in TSE upon appointment as a Non-Executive Director of the Company and did not participate in any decision-making regarding the acquisition of TSE.

Subject to shareholder approval, M&S plc will acquire the JK TSE Shares from Mr. Justin King within five business days of the AGM at a total purchase price of £279,582. This price amounts to £0.4904 per share, and is the same price per share at which M&S plc acquired its current 77.7% holding of TSE pursuant to a share purchase agreement in February 2022.

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

Nick Folland General Counsel and Company Secretary

London, 24 May 2022

NOTICE OF MEETING 5 JULY 2022

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 208, on Tuesday 5 July 2022 at 11am (the "AGM") for the purposes set out below.

Resolutions 1 to 17 and 22 to 23 will be proposed as ordinary resolutions, and resolutions 18 to 21 will be proposed as special resolutions.

1. To receive the Annual Report and Financial Statements for the 52 weeks ended 2 April 2022.

2. To approve the Directors' Remuneration Report for the year ended 2 April 2022, as set out on pages 95 to 107 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. Eoin Tonge

5. Evelyn Bourke

6. Fiona Dawson

7. Andrew Fisher

8. Andy Halford

9. Tamara Ingram

10. Justin King

11. Sapna Sood

To elect the following directors appointed to the Board since the last Annual General Meeting:

12. Stuart Machin

13. Katie Bickerstaffe

14. 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.

15. To resolve that the Audit Committee determine the remuneration of the auditor on behalf of the Board.

To view our Board biographies go to the Investors section of our corporate website, **marksandspencer.com/thecompany**

16. 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 2023 or on 1 October 2023, 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.

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 £6,529,881.95 (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 £13,059,763.91 (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 2023 or on 1 October 2023, 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. 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 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 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;

NOTICE OF MEETING 5 JULY 2022 CONTINUED

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 £979,482.29;

and shall expire at the conclusion of the AGM to be held in 2023 or on 1 October 2023, 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.

19. 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 18 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 £979,482.29; 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 2023 or on 1 October 2023, 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. 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 £0.01 each, such power to be limited:

(A) to a maximum number of 195,896,459 ordinary shares;

(B) by the condition that the minimum price which may be paid for an ordinary share is £0.01 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 2023 or until 1 October 2023, 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.

21. 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.

22. RENEWAL OF SHARE INCENTIVE PLAN

To resolve that the amendment and renewal of the amended Marks and Spencer Group plc Share Incentive Plan (the "SIP"), the principal terms of which are summarised on pages 206 to 207 of this Notice and the amended rules of which are produced to this meeting, be approved and the directors of the Company authorised:

(A) to continue to operate the SIP and do all acts and things they consider necessary or desirable to implement and give effect to the SIP; and

(B) to establish further plans based on the SIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SIP.

23. SECTION 190 TRANSACTION

To resolve that the purchase by the Company's subsidiary, Marks and Spencer plc, of 4.8% of The Sports Edit Limited's issued share capital for the sum of £279,582 from Mr. Justin King, being a Non-Executive Director of the Company, be approved in accordance with Section 190 of the Companies Act 2006.

By order of the Board

Nick Folland General Counsel and Company Secretary

London, 24 May 2022

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 60 and 61, 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/124-849-127**. Instructions are available on page 209 of this Notice. Alternatively, you can submit your instruction by visiting **shareview.co.uk**. All advance proxy votes regardless of how they are cast are to be returned by 11am on Friday 1 July 2022. If you return paper and electronic instructions, those received last by the Registrar before 11am on Friday 1 July 2022 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 1 July 2022.

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. You must inform the Company's Registrar in writing of any termination of the authority of a proxy.

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 1 July 2022 (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 Articles of Association of the Company.
- **(v)** A copy of the amended rules of the Marks and Spencer Group plc Share Incentive Plan.

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. A copy of (v) above will also be available for inspection on the National Storage Mechanism at **https://data.fca.org.uk/#/nsm/nationalstoragemechanism** from the publication date of this document.

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.

14. As at 24 May 2022 (the latest practicable date before the publication of this Notice), the Company's issued share capital consists of 1,958,964,586 ordinary shares carrying one vote each. No shares are held in treasury. Therefore, the total voting rights in the Company as at 24 May 2022 are 1,958,964,586.

NOTICE OF MEETING 5 JULY 2022 CONTINUED

NOTES CONTINUED

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 1 July 2022. 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 1 July 2022 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 24 May 2022 from the General Counsel and Company Secretary on pages 199 to 200 for further explanatory notes.

SUMMARY OF PRINCIPAL TERMS OF MARKS AND SPENCER GROUP PLC SHARE INCENTIVE PLAN

1.1 GENERAL

The Marks and Spencer Group plc Share Incentive Plan (the "SIP") was originally approved by shareholders in 2000 and subsequently adopted by the Company in 2003. Shareholder approval was obtained at the Company's Annual General Meeting on 10 July 2012 to renew the SIP and the Company is seeking shareholder approval to amend the rules of the SIP to allow awards to be made under the SIP until 5 July 2032, being the tenth anniversary of the Annual General Meeting to be held on 5 July 2022.

The SIP has been designed to meet the requirements of a tax advantaged share incentive plan under Schedule 2 of the Income Tax (Earnings and Pensions) Act 2003 so that shares in the Company can be provided to UK employees in a tax efficient manner. The Company currently operates the SIP to provide employees with the opportunity to buy shares from pre-tax salary under the SIP (ShareBuy), although it may decide to operate other elements of the SIP in the future.

1.2 OPERATION

The SIP operates in conjunction with a trust and contains three elements. The Company will decide which (if any) of these elements will be offered to employees, provided that awards of shares may not be made under the SIP after 5 July 2032. The three elements are:

(A) **'Free Shares'**, which may be allocated to an employee by the Company. The market value of Free Shares allocated to an employee in any tax year may not exceed £3,600 or such other limit as may be permitted by the relevant tax legislation. Free Shares must be allocated on the same terms, although they may be provided on the basis of remuneration, length of service or hours worked, or on the basis of the performance targets, within the limits specified by the relevant legislation.

(B) **'Partnership Shares'**, which an employee may purchase out of their pre-tax earnings. The market value of Partnership Shares which an employee can agree to purchase in any tax year under current tax legislation may not exceed £1,800 (or 10% of an employee's salary if lower). Partnership Shares are purchased on behalf of an employee by the trustees of the SIP (the "Trustees"). The funds used to purchase shares will be deducted from the employee's salary. Funds deducted from salary will be held on the employee's behalf until they are used to buy Partnership Shares. The funds may be used to buy Partnership Shares shortly following deduction, or accumulated for up to 12 months before they are used to buy Partnership Shares in which case shares may be acquired at the lower of the market value of the shares at the beginning or end of the accumulation period.

(C) **'Matching Shares'**, which may be allocated to an employee by the Company following a purchase of Partnership Shares. Matching Shares are additional free shares. The maximum number of Matching Shares which the Company can allocate to an employee following a purchase of Partnership Shares by the employee is two Matching Shares for every one Partnership Share purchased by the employee, or such higher limit as may be permitted by the relevant legislation. There is no minimum ratio of Matching Shares which the Company must provide following a purchase of Partnership Shares. The same ratio will apply to all employees who purchase Partnership Shares under the SIP at that time. Benefits provided under the SIP are not pensionable.

1.3 ELIGIBILITY

When it operates the SIP, the Company must offer all UK tax-resident employees of the Company and subsidiaries participating in the SIP the opportunity to participate in the SIP and may extend the invitation to other employees meeting the legislative requirements. The Company may require employees to have completed a minimum qualifying period of employment before they can participate but that period must not be more than, broadly, 18 months prior to shares being awarded.

1.4 SOURCE OF SHARES

The Trustees may either subscribe for new shares, acquire treasury shares or purchase shares in the market for the purposes of the SIP. The money to buy shares will be provided either by the employee's employing company or, in respect of the acquisition of Partnership Shares, by the employees. No new shares will be issued under the SIP where such issue would cause the number of shares which have been or may be issued pursuant to awards made (including options granted) under all employee share plans adopted by the Company over the preceding 10-year period to exceed 10% of the Company's issued ordinary share capital from time to time. Treasury shares will count as new issue shares for the purpose of this limit unless institutional investor bodies decide that they need not count. Options or awards which lapse are excluded from this limit.

1.5 RETENTION OF SHARES

The Trustees will initially hold all Free Shares or Matching Shares allocated to employees and any Partnership Shares acquired on the employees' behalf. Employees can withdraw Partnership Shares from the SIP trust at any time. Free Shares and Matching Shares held by employees will be subject to a requirement that the shares are held by the Trustees for a period after the initial allocation. This period will be notified to employees at the time of allocation and will not normally be for less than three years or more than five years. The SIP may provide that if an employee ceases to be employed by a Group company within three years of being allocated Free Shares or Matching Shares (or such other period as the Company may specify), their rights to those shares will be forfeited. However, in certain circumstances, for example death, injury, redundancy, transfer of the employing business or company or retirement, employees will retain any Free Shares and Matching Shares. The SIP may similarly provide that Matching Shares will be forfeited if the corresponding Partnership Shares are withdrawn within up to three years. Special provisions apply in accordance with the relevant legislation in the event of certain corporate transactions.

1.6 DIVIDENDS ON SHARES HELD BY THE TRUSTEES

Where ordinary shares are held by the Trustees for participants in the SIP, the participants will be treated as the beneficial owners of the shares. Some or all of any dividends received in respect of shares held by the Trustees may be used to acquire additional shares for employees which must normally be held in the SIP for a period of three years or otherwise dividends may be distributed to employees.

1.7 ALTERATIONS TO THE SIP

The SIP may at any time be altered by the directors in any respect, provided that the prior approval of shareholders is obtained for alterations to the advantage of participants to the rules governing eligibility, the individual limits on participation, the overall limits on the issue or shares or transfer of treasury shares, the basis for determining a participant's entitlement to, and terms of, shares provided under the SIP and any adjustments which may be made in the event of a variation of capital, except for minor alterations to benefit the administration of the SIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies.

As previously authorised by shareholders, the Company may also establish plans based on the SIP to take account of local tax, exchange control and securities laws in overseas jurisdictions provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SIP.

NOTICE OF MEETING 5 JULY 2022 CONTINUED

INFORMATION FOR THE DAY

TIMINGS

Date: **Tuesday 7 June 2022**
9:00am Registration opens for vote casting and question submission in advance of the meeting.

Date: **Friday 1 July 2022**
11:00am Opportunity to submit votes and questions in advance of the meeting closes.

Date: **Tuesday 5 July 2022**
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 continued success of the Company's digital AGMs, 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 guide provided on page 209 for details of how to join and participate in the meeting electronically.

ELECTRONIC PARTICIPATION

Shareholders are encouraged to view and participate in the 2022 AGM electronically. This can be done by accessing the AGM website: **https://web.lumiagm.com/124-849-127**

ACCESSING THE AGM WEBSITE

Lumi AGM can be accessed online using most well-known internet browsers such as 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/124-849-127** on the day.

LOGGING IN

Go to **https://web.lumiagm.com/124-849-127** where 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 7 June 2022 until 11am on 1 July 2022. Access to the AGM website will reopen to participate **on the day** from 9.30am on 5 July 2022.

QUESTIONS

You are able to submit questions live during the meeting on the Lumi website by clicking on the "Messaging" button. There will also be details and instructions on the Lumi website if you would like to ask a question live by telephone.

Alternatively, you can submit questions in advance via Lumi – a step-by-step guide to voting and question submission in advance and on the day is on page 209.

As noted in the Company Secretary's letter on pages 199 to 200 of this Notice, Anita Anand 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 1 July 2022. 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. 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".

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 7 June 2022, and details on the different methods for voting in advance are set out in the Company Secretary's letter on pages 199 to 200 of this Notice.

A step-by-step guide to voting via the Lumi website live on the day, and in advance, is on page 209.

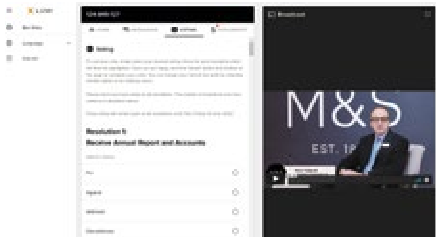
PROXIES & CORPORATE REPRESENTATIVES

If you are a duly appointed proxy or corporate representative, please contact the Company's Registrar, Equiniti, before 11am on Monday 4 July 2022 by emailing **hybrid.help@equiniti.com**, 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 199.

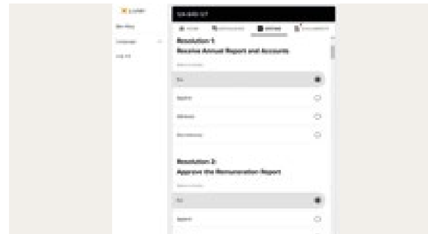
Mailboxes are monitored 9.00am to 5.00pm Monday to Friday (excluding public holidays in England & Wales).

LUMI AGM PLATFORM GUIDE: BEFORE THE AGM

1 Go to **https://web.lumiagm.com/124-849-127.** You will be prompted to enter your Shareholder Reference Number ("SRN") and PIN, both of which can be found on your Notice of Availability. If you do not have your SRN, please contact Equiniti by emailing **hybrid.help@equiniti.com** quoting your full name and address. When successfully authenticated, shareholders will be taken to the Home Page.

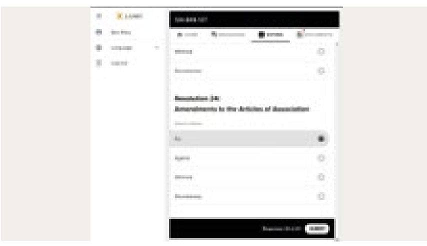


2 To cast a proxy vote, select the voting button at the top of the screen. The resolutions and voting choices will be displayed within the navigation bar. Further instructions on how to vote can be found on the Home Page and at the top of the voting page.

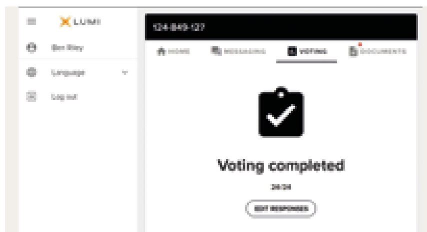


3 To vote, select your voting direction from the options shown on screen. To change your mind, simply select a different option.

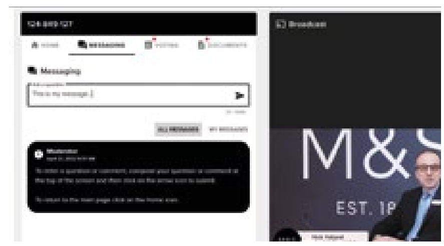
Note: Proxy voting will close at 11am on Friday 1 July 2022.



4 Scroll down the full list of resolutions and vote on each. Once completed, at the bottom of the page, select the "Submit" button to send your vote.

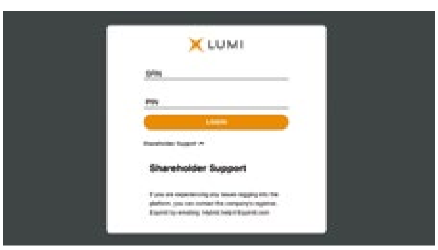


5 If you would like to change your mind, you can do so by clicking "Edit Responses".

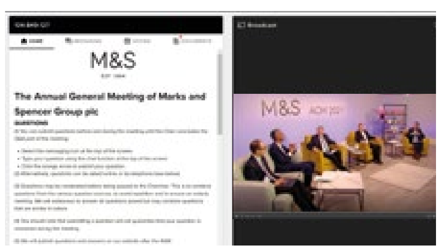


6 During the proxy voting period, shareholders can submit a question by typing it into the "Messaging" feature.

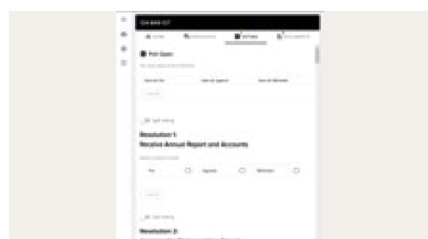
LUMI AGM PLATFORM GUIDE: ON THE DAY



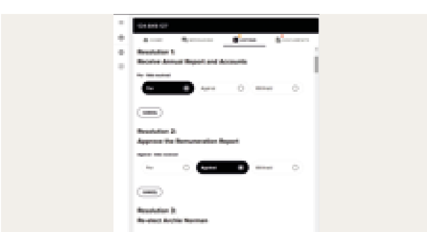
7 The AGM will commence at 11am on Tuesday 5 July 2022. It can be accessed through the same platform: **https://web.lumiagm.com/124-849-127**. You will be prompted to enter your SRN and PIN, both of which can be found on your Notice of Availability.



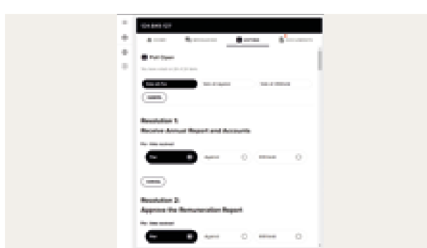
8 The meeting presentation will begin at the start of the AGM, when the Broadcast Panel will automatically appear at the side of the screen. You can expand and minimise the screen by pressing the Broadcast arrow at the top of the page.



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, select the choice corresponding with the way in which you wish to vote. When selected, a confirmation message will appear. To change your mind, simply press the correct choice which will override your previous selection. To cancel your vote, press "Cancel".



11 You can vote for all motions at the same time by clicking on the "Vote All" direction button at the top of the page. You will still be able to change your mind on individual motions if using this feature.

12 If you would like to ask a question, select the messaging option in the navigation bar at the top of the page. Type your message within the chat box at the top of the messaging screen. Click the send button to submit.

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 2 April 2022, the Company had 141,039 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	74,666	52.94	13,733,929	0.70
501-1,000	25,919	18.38	19,330,681	0.99
1,001-2,000	20,501	14.53	29,273,286	1.49
2,001-5,000	14,115	10.01	43,036,371	2.20
5,001-10,000	3,679	2.61	25,240,066	1.29
10,001-100,000	1,687	1.20	37,776,214	1.93
100,001-1,000,000	297	0.21	112,756,675	5.75
1,000,001-Highest	175	0.12	1,677,758,122	85.65
Total	**141,039**	**100**	**1,958,905,344**	**100**

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	137,808	97.71	152,855,826	7.80
Institutional and corporate	3,231	2.29	1,806,049,518	92.20
Total	**141,039**	**100**	**1,958,905,344**	**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/annualreport2022**.

Additionally, the Annual Report (which contains the Strategic Report) is available for download in pdf format at **marksandspencer.com/annualreport2022**.

General Counsel and Company Secretary

Nick Folland

2021/22 FINANCIAL CALENDAR AND KEY DATES

5 July 2022	Annual General Meeting (11am)
9 November 2022*	Results, Half Year†
12 January 2023*	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 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. 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 10 November 2021 and again on 13 January 2022, the Board will not be making a final dividend payment for the 2021/22 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 20 7930 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 5 July 2022. The meeting will start at 11am.

The 2022 AGM will be fully digitally enabled once again and will 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/124-849-127**. Further details can be found on page 208 of the Notice of Meeting and in the user guide on page 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.

FINANCIAL STATEMENTS

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®.

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