AT A GLANCE

M&S IS A LEADING RETAILER with
A STRONG AND UNIQUE HERITAGE
OF BRAND VALUES,
EXTRAORDINARY
COLLEAGUES AND
CUSTOMERS WHO WANT
TO SEE IT SUCCEED AGAIN.

We operate a family of accountable businesses, including Food and Clothing & Home, using the M&S own-brand model, focused on delivering quality products at great value for money.

Although primarily based in the UK, we sell into 57 countries from 1,487 stores, and 35 websites around the world. We employ over 80,000 colleagues serving about 32 million customers.

We are committed to transforming our business to ensure that once again M&S can fulfil the potential of its brand and deliver long-term, sustainable, profitable growth for our investors, colleagues and the communities that we serve.

Read more on
p08
FOOD

Read more on
p10
CLOTHING
& HOME

Read more on
p23
FINANCIAL
REVIEW

Cover image
In January, we launched our Plant Kitchen range, a brand new collection of delicious plant-based products, like our Cashew Mac, to broaden our appeal to more customers looking for great tasting vegetarian or vegan ranges.
ANNUAL REPORT & FINANCIAL STATEMENTS 2019

OVERVIEW

GROUP REVENUE

£10.4bn -3.0%

TOTAL DIVIDEND*

13.9p -25.7%


BASIC EARNINGS PER SHARE

2.1p +31.3%

GROUP PROFIT BEFORE TAX

£84.6m +26.6%

PROFIT BEFORE TAX AND ADJUSTING ITEMS

£523.2m -9.9%

PERCENTAGE OF UK CLOTHING & HOME SALES ONLINE

22% +3.0%

FOOD: VALUE FOR MONEY PERCEPTION

59%

STORES: NET PROMOTER SCORE

68

M&S.COM: NET PROMOTER SCORE

54

WHY GO DIGITAL?

☐ Access to more detailed and interactive content

☐ The money saved on printing and postage will help lower our costs

☐ Reduces our carbon footprint and saves paper

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

To register, visit shareview.co.uk, a secure platform provided by our Registrar, Equiniti. From the home page, simply click 'Portfolio' followed by 'Open Portfolio Account' and follow the on-screen instructions. You will need your shareholder reference number to register.

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

1. Based on stores and online data from 2018 onwards following a reset in internal measurements.

2. Net promoter score (NPS) equals the percentage of 'promoters' minus the percentage of 'detractors.' This represents our total NPS score following a reset in internal measurements from which we will measure our future progress against.

ALTERNATIVE PERFORMANCE MEASURES

The report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 143-145 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.
In September 2017 I took over as Chairman of M&S in the belief that, despite years of decline, a far-reaching turnaround programme driven by a strong leadership team could revive one of the UK’s most special brands. This letter outlines my assessment of our progress in this turnaround.

I made clear at the time that the genesis of any turnaround starts with the unvarnished truth, setting aside corporate vanity to face the facts about the state of a business. Behind most financial failures sits an organisational failure and an inability to be self-critical and embrace the challenges ahead. In our case, a slowed, slow and hierarchical culture that has proved resistant to change.

As I made clear last year, the change needed is not one dimensional, not a touch on the tiller and not just a question of strategy. Highly capable management teams have come and gone with perfectly sensible plans and the long-term downward trajectory of the business has continued. Our failure to adapt, despite rapidly changing markets, means M&S now stands on a burning platform. So we are aiming to transform all the pieces of the jigsaw: the way we are organised, the way we work, our technology, our store base, our product, our supply chains and our value in the market.

In tackling this challenge, we can draw upon two exceptional qualities: a brand that customers want to succeed again, and fantastic colleagues in our stores who have a remarkable commitment to the business and are longing to be given the freedom to get M&S back to its best.

In November 2017 Steve Rowe, CEO, laid out our five-year transformation programme, Making M&S Special Again. The objective of this programme is not to “manage decline” but to return M&S to sustainable, profitable growth. Our progress against this plan is detailed within the Annual Report.

Despite considerable changes and progress in restoring the basics, we remain in the first phase of the transformation and our in-year performance reflects this. The last year has seen further declines in like-for-like sales in both our Food and Clothing & Home businesses. The drivers for this are many, as we identified at the start of the transformation. We are at the early stages of reshaping our store portfolio which has been allowed to decay over decades.

We have not reshaped our store estate in line with changing customer preferences as our competitors have done and we are paying the price. About 75% of our full-line stores are over 25 years old and many date from before the Second World War. Our store layouts are still often difficult and confusing to shop. In Clothing & Home, we have suffered from “range creep” over the years so our shape of buy is too wide, lacks depth and clarity of choice or scale. In Food, many of our stores lack car parking, scope and reach, our price perception is too high, and our facilities and equipment maintenance are not good enough.

Behind all of this, while parts of the organisation have dynamic, and sometimes new management, and have adopted a hands-on way of working, others remain slow, bureaucratic and hierarchical.

Whilst progress feels frustratingly slow, experience tells me this is typical in the first phase of transformation and, while it is right to be frustrated, it is also important to be patient. The majority of the leadership team are new to the business and we recently restructured the organisation to create accountable business units with their own boards to drive clarity of decision-making and pace of action. Some corporate functions have yet to adapt to this new structure which we are addressing. We have started to rekindle the “voice of the stores”, which had become disconnected from the centre to put the customer back into the heart of decision-making. Store managers have once again been given sight of their own profit and loss account and information to manage food waste. The drum beat of trading pressure and store feedback is starting to drive a faster pace in the centre. Store managers have been given tablets, therefore no longer bound to their desks and can spend more time on the trading floor with colleagues and customers, and HR is at last being modernised and digitised.

Already as a result of some fairly basic improvements to the online website and fulfilment, we are seeing strong online sales growth when product is available. The relatively small changes in clothing range and shape we have made have proved successful and these changes will accelerate this autumn. If our supply chain and merchandising systems had delivered the right quantity of buy and right size...
“We have started to rekindle the ‘voice of the stores’.”
BECOMING A DIGITAL FIRST RETAILER ACROSS M&S

In our digital operations, we began to address the basics of our website which has helped to deliver UK Clothing & Home online growth of 9.8% in FY 2018/19. Online now represents 22% of UK Clothing & Home sales compared with 19% last year.

Improvements in site speed, a redesigned homepage, enhanced product imagery, a simpler check-out and an improved delivery proposition have collectively contributed to over nine percent improvement in the conversion of website traffic to customer purchases. Navigation and personalisation on-site, as well as product marketing, remain a significant opportunity.

Castle Donington had its best peak season ever, with strong performance in all months. We have continued the streamlining of corporate functions. In-store Wi-Fi will be upgraded to deliver a universal “high speed anywhere” capability for our customers and store colleagues.

We will also improve the personalisation of our shopping experience. With the potential to develop one of the best customer data “lakes” in the UK, our Sparks loyalty programme needs substantial improvement and will be relaunched in the next year.

We have made good progress in pruning options where we aim to appeal to. However, where we have historically misaligned with the profile of the contemporary family age customer we aim to appeal to. Wherever we have made progress in pruning options and introducing slimmer fits and more mid sizes, the customer response has been very strong.

Creating a new range architecture in a business with weak processes, a slow supply chain and where buyers are building their business with weak processes, a slow supply chain and where buyers are building their

RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME

UK Clothing & Home revenue declined 3.6%, partly due to our store closure programme, with like-for-like revenue down 1.6%. Encouraging progress in Q3 was constrained by weak availability in Q4 as we sold out of fast selling lines and experienced supply issues.

Our range remained too wide in FY 2018/19 with multiple options splintering our buying scale and making our shops challenging to navigate. Our size ratios have been historically misaligned with the profile of the contemporary family age customer we aim to appeal to. However, where we have made progress in pruning options and introducing slimmer fits and more mid sizes, the customer response has been very strong.

Creating a new range architecture in a business with weak processes, a slow supply chain and where buyers are building their confidence has proven challenging, and our sales both in store and online have been frustrated by poor availability in Q4. Although we made good progress reducing overall stock levels, many popular lines have sold out prematurely because of the failure to buy in depth and the slowness of the stock flow.

Despite these teething problems the customer response to the initial changes has been very encouraging. On page 10 we look at the year ahead in Clothing & Home, where we expect to deliver a more marked reduction in options and range duplication. With the new range architecture, we will continue to shift to a “first price, right price” trading philosophy, and further reduce the percentage of Clothing & Home sold at discount, which remains too high.

Our new range architecture and presentation will be combined with a rationalised, more contemporary in-store environment. Progress on renewing the stores has been limited to date, although we have moved a lot of internal walls and sight barriers. A “renewal” brand format and a modernisation will be piloted in the year ahead.
We have reduced the complexity of our logistics network and are rolling out the first phase of our “Fuse” programme deploying new tools which will help us remove excess stock trapped in stores where it does not sell and holding it centrally, improving availability and making our stores easier to shop. We are still at the early stages of modernising our supply chain network, technology and processes and this remains a priority.

PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD

The Food business is showing good signs of progress in arresting the decline in like-for-like sales. UK Food revenue declined 0.6%, with like-for-like revenue down 2.3% reflecting the adverse impact of Easter timing in both Q1 and Q4. Adjusted for Easter timing, FY 2018/19 like-for-like revenue declined 1.5% with an improving trend in the second half of the year, and volume growth in Q4.

As set out in further detail on page 8, our Food brand remains very strong and our strategy is to “protect the magic” – based on our unique quality, freshness and innovation credentials – whilst reshaping our store estate, infrastructure, operating systems, cost management and supply relationships. The Ocado Joint Venture (JV) is a natural partner for the brand and, combined with our Food transformation plan, opens up the possibility of substantially increasing our grocery market share in the medium term.

Good progress has been made in restoring trust in our value at relatively little cost to margin. We have very nearly halved our dependence on short-term promotions and confusing multi-buys, reducing promotional participation by over 10 percentage points as a percentage of sales by year end, without significant loss of customers. This enabled us to invest in everyday prices, including reductions in over 400 lines, narrowing our price differential to the lowest it has been for some years.

We have strengthened the communication of value in stores and we began to see encouraging transaction and volume trends in Q4. In the current year, the shift to trusted value will be supported by a series of workstreams designed to simplify supply relationships, reduce costs and increase the pace of innovation.

CREATING A HIGH-QUALITY STORE PORTFOLIO FIT FOR THE FUTURE

We are making good progress with the reshaping of our full-line estate and have closed 35 full-line stores as part of our programme as at 30 March 2019, with sales transfer rates to nearby stores remaining above 20%. Reshaping the store portfolio means tackling the legacy issues, but also opening new full-line stores as well as Food stores. As part of our Food strategy we are concentrating on higher volume stores with good access and car parking to enable our customers to shop more of our range. Therefore, some of the low volume, higher cost Simply Food stores, mostly on short leases, will also be progressively relocated or rationalised. As we discuss in more detail on page 12, although we anticipate further net reductions in overall retail space, our strategy is as much about right sizing and relocating as it is about closures and we anticipate our owned store base is likely to remain broadly level.

REBUILDING PROFITABLE GROWTH IN INTERNATIONAL

The International business was already fully embarked on rationalisation and repositioning prior to the transformation programme and further good progress has been made. Our objective is to create a much more competitive localised version of M&S in those selected markets where we can attain a sustainable market share.

As we aim to build a scalable business internationally, we continue to localise our ranges for the market. This included a substantial increase to around 15% of locally designed clothing range including in our growing Indian joint venture, which now has 77 stores. In addition, we launched six country specific websites and re-platformed the website for our business in the Republic of Ireland.

COST SAVINGS OF AT LEAST £350M BY 2020/21

Last year we set out firm targets for cost savings as part of the first phase of transformation. We have made good progress in the year, delivering savings of c.£100m, in addition to the operating costs of stores that have closed, and are on the way to creating a leaner, more efficient cost base for the business.

Savings in 2018/19 derived from the retail management restructure, the IT transformation plan, property costs, depreciation and central costs enabled the business to offset inflation, new space and channel shift with the result that full year UK operating costs declined by 1.2%.

As we change the culture of the business, we are clear that challenging costs will become a core part of our philosophy. In 2019/20, we anticipate ongoing savings from the annualisation of current year initiatives and additional benefits in areas, including a new contract for store maintenance and in central costs, which should result in a further decline in total UK operating costs.

JOINT VENTURE WITH OCADO

In February 2019, we announced the creation of a new 50/50 JV with Ocado Group Plc, the UK’s leading pure play digital grocer, which will transform online grocery shopping for UK consumers.

Under the JV, M&S is acquiring a 50% share of Ocado’s UK retail business, which will be supported by Ocado Smart Platform technology, for an initial consideration of £562.5m and deferred consideration of up to £187.5m, plus interest. The Ocado JV is expected to be recognised by M&S as an associate applying the equity method of accounting, reflecting the significant influence that M&S will have over the entity.

The JV combines the strength of M&S’s brand and its leading food quality and innovation with Ocado’s unique and proprietary technology, to create an unrivalled online offer for customers. In bringing the best together, the JV will benefit existing and new UK customers, colleagues and suppliers.

The JV will trade as Ocado.com but will benefit from access to M&S’s brand, products and customer database from September 2020 at the latest, following the termination of the current Waitrose sourcing agreement and migration of JV sourcing to M&S.

We anticipate synergies of at least £70m by the third full financial year following completion through increased buying scale, harmonised buying terms on branded products and improved efficiencies on new product development. We expect some churn in customers as the JV transitions from the previous sourcing arrangements; however following the ‘frictional’ transition we plan to accelerate growth in the JV. There is a significant opportunity to reduce customer acquisition costs in the JV by marketing directly to our customer data base.

LOOKING AHEAD

Whilst we have made progress, our priority in the year ahead must be to increase the pace of change. M&S has an extraordinary workforce of loyal colleagues and I am lucky and humbled to lead them. Unlocking this power to build a faster, more commercial culture will help us drive transformational change. I would like to thank all my colleagues for their passion, dedication and hard work over the past year in delivering our transformation. We are now well on the way to making M&S special again.

STEVE ROWE
CHIEF EXECUTIVE
Marks and Spencer Group plc is one of the United Kingdom’s leading retailers, with a unique heritage of brand values, extraordinary colleagues and strong and deep relationships with customers. We operate as a family of accountable businesses, bound together not only by a common consumer brand but also by shared sites, employment values and customer data.

**OUR CUSTOMERS**
M&S serves about 32 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services for our target customers, who we reach through a channel network of 1,487 stores and online services across 57 international markets.

**OUR COLLEAGUES**
We employ over 80,000 colleagues who demonstrate extraordinary passion for the business, deliver great customer experience through our channels, and bring extensive technical skills giving us strength in areas such as ingredients, sourcing, size and fit.

**A FAMILY OF ACCOUNTABLE BUSINESSES**
M&S generates revenue and delivers value for shareholders through a family of accountable businesses. Each is led by its own integrated management team, with functional accountability for their divisions, including marketing, supply chain, finance and technology. 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, fresh, convenient products of outstanding quality through five main categories: protein, dairy, produce, ambient and in-store bakery, meals, dessert and frozen, hospitality and ‘Food on the Move’.

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

**International:** M&S exports the best of M&S Food and Clothing & Home around the world in select target markets across Europe, the Middle East and Asia, and with an online presence in markets such as the United States and Australia.

**Services:** Through M&S Bank (operated by HSBC) we provide a range of financial services, including credit cards, current account and savings, insurance and mortgages. M&S Energy is a competitive fully renewable energy source provider (operated by Octopus).

**Property:** We are building an active property management team to maximise the value of our property assets through investment and development opportunities.

**DIGITAL AND DATA**
All of our businesses can draw from the same customer data. We are investing in our data analytics and digital capabilities to create a strong customer insight function, so we can better leverage our insight to build customer loyalty.

**THE GROUP**
Our lean central team includes Group Finance, Corporate Governance, Strategy and support functions such as Communications and HR. The Group supports the business as a whole, setting direction of its growth strategy, allocation of capital and overseeing cost efficiencies.
The objective of our transformation programme, Making M&S Special Again, is to restore the business to sustainable, profitable growth over three to five years.

Last year we set out the nine key pillars of our first phase of transformation – to restore the basics of our organisation and infrastructure to transform us into a faster, lower-cost, more commercial and digital business and provide the platform for growth in the later phases of our plan.

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**OUR STRATEGIC PRIORITIES**

The objective of our transformation programme, Making M&S Special Again, is to restore the business to sustainable, profitable growth over three to five years.

Last year we set out the nine key pillars of our first phase of transformation – to restore the basics of our organisation and infrastructure to transform us into a faster, lower-cost, more commercial and digital business and provide the platform for growth in the later phases of our plan.

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**STEP ONE**

**RESTORING THE BASICS**

2018 2019

1. TRANSFORMING OUR LEADERSHIP
   - Read more on page 04 & page 15

2. BUILDING GREATER ACCOUNTABILITY
   - Read more on page 05 & page 16

3. BECOMING A DIGITAL FIRST RETAILER
   - Read more on page 13

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**STEP TWO**

**SHAPING THE FUTURE**

2020 2021 2022

4. RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME
   - Read more on page 10 & page 11

5. PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD
   - Read more on page 08 & page 09

6. REBUILDING PROFITABLE GROWTH IN INTERNATIONAL
   - Read more on page 14

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**STEP THREE**

**MAKING M&S SPECIAL**

7. CREATING A HIGH-QUALITY STORE ESTATE FIT FOR THE FUTURE
   - Read more on page 12

8. MODERNISING OUR FOOD AND CLOTHING & HOME SUPPLY CHAINS
   - Read more on page 09 & page 11

9. COST SAVINGS OF AT LEAST £350M BY 2020/21
   - Read more on page 05
WHAT WE SAID LAST YEAR

In 2018 we acknowledged that our Food business had become too premium and lost some of its broader appeal. While customers still recognised us for quality, the competition had worked hard to match our success by copying our innovation and fresh product ranges and we hadn't kept up. The challenges were compounded by our outdated supply chain, with excessive waste, poor availability and high operating costs eroding our profits.

We were clear that we needed to protect the things that make M&S Food special: industry-leading quality, exceptional sourcing and famous innovation. But against the relentless rise of the discounters at one end, and supermarket price competition at the other, M&S had to become more relevant, more often – with great value, everyday prices and products that appeal to a family customer.

We outlined the action needed to address these challenges and restore like-for-like growth:

- Re-establish our value for money credentials.
- Accelerate the pace of relevant innovation to deliver commercial impact.
- Give more customers access to the full M&S Food range of c.6,500 SKUs.
- Fix our outdated supply chain.

WHAT’S HAPPENING

The Food business saw encouraging signs of progress with an improving trend in like-for-like revenue in the second half of the year as well as volume growth in the final quarter. However, the business continued to remain in decline with like-for-like revenue for the year down 2.3% overall. Our performance gains have continued to be offset by the deep-rooted challenges of our supply chain and systems resulting in disappointing levels of waste and availability.

We continued to perform well on special occasions, particularly Christmas, where we saw strong volume growth. Meat was one of our best-performing Christmas categories – with lamb and beef proving particularly popular with our customers. We are beginning to capture these core weekly shop categories all year round: 30% of customers’ baskets contain a meat, fish or poultry item and 34% include fresh produce.

Under the direction of our Food Managing Director, Stuart Machin, our new leadership team is injecting much needed pace and energy into our transformation. The team was strengthened by the arrival of our new Commercial Director, George Wright, who joined us from Tesco in April 2019, and the return of April Preston in November 2018 as Product Development Director, as well as other important leadership appointments.

We’re working hard to rebuild trust in our value credentials. Over the last 12 months we have reduced our dependency on short-term promotions and reduced promotional participation by over 10%. This has enabled us to maintain our quality and invest in better everyday value and reduce prices on over 400 of our most popular lines. For example, we invested in prices of staple products like our beef mince and saw a positive customer response with sales up 29% as a result.

We have also started to tackle value perception through our marketing calling out prices alongside product quality. M&S is no longer positioning itself as special and different, but instead special and relevant with stand out prices and the same renowned quality.

Above: We have started to tackle value perception through our marketing calling out prices alongside product quality. M&S is no longer positioning itself as special and different, but instead special and relevant with stand out prices and the same renowned quality.

Left: Our Best Ever Prawn Sandwich launched in August, having been developed in eight weeks from concept to shelf, and quickly became one of our bestselling sandwiches this year.
We are re-engineering our development pipeline to up the pace on delivering more relevant innovation with commercial impact. For example, in January we launched our Plant Kitchen range in response to the growing demand for a plant-based diet and sold over 4.8 million items from the range in its first three months. We are also working to improve our product development timeline from 24 weeks to 6 to make us more efficient in bringing products to market, as the case study on Our Best Ever Prawn Sandwich opposite explains.

Our end-to-end supply chain transformation programme is now well under way. With support of outside expertise, our ‘Fuse’ project team has pinpointed the causes and solutions to the most critical problems and identified a number of savings. We are determined to modernise and improve our waste and availability and open up our growth potential in Food. We have set up a number of Academy stores across the UK, so we can test and refine the new processes using the expert knowledge of our store colleagues.

While efforts have been focused on restoring the basics, we have taken the first major step in shaping our future growth with the announcement of our JV partnership with Ocado. Online food retailing is set to grow from an £11bn market in 2018 to £17bn in 2023 and, to date, M&S has not had a viable online grocery platform. Combining the quality of M&S Food with Ocado’s leading technology and award-winning service will enable us to build an unrivalled online offer for UK customers and provide M&S with immediate, scalable and profitable access to the fastest-growing channel in food retailing.

**WHAT’S STILL TO DO**

Our objective in phase one is to restore like-for-like sales growth, by driving frequency of shop and broadening our appeal beyond special occasions. We will continue to invest in price on key items to restore our value for money credentials. However, delivering trusted value is much more than lowering prices. It means offering easy to understand, simple price points and providing better value on large-size family packs. Confusing multi-buy offers have been stripped back and when we do run promotions, we need to ensure that they are relevant to a family customer’s specific needs and offer real value. For example, our Family Meal Deal for £8 provides an effortless solution to ‘dinner tonight or tomorrow’.

To fully unlock the volume opportunity, we need to enable customers to shop more of our range. From September 2020, our Ocado partnership will provide immediate access to our full range of 6,500 products and reach our 12 million food customers who account for one-third of online grocery market spend – none of which currently comes into M&S. But today, in the absence of an online offer, access is constrained by our portfolio of small food halls, with only a dozen stores able to stock the full range. Our property strategy looks to bigger and better located stores that offer the family-friendly facilities and experience our target customer wants. Our 2019/20 store-renewal programme will enable us to develop a blueprint with the potential to be applied cost-effectively to new and existing M&S sites.

This activity will be underpinned by a series of workstreams designed to lower costs and improve the quality of sourcing. Although M&S retains a core of very strong supplier relationships, over the years the uniqueness and commitment of our supply base has been eroded, as competitors seek to copy our recipes and emulate our quality. And in pursuit of innovation and promotional complexity, we have often become expensive to source. This programme will therefore mean restoring our sourcing capability, going back to livestock and field, and creating more joined up, vertically integrated programmes with selected strategic suppliers.

Our waste levels remain among the highest in the industry and availability has not significantly improved. However, the modernisation of our supply chain is taking shape, and the new ways of working and management information tools will be rolled out across stores and support teams in the year ahead. This is only the start and there is still much to do but there will be significant commercial gain in getting it right.

The UK food market is in the midst of seismic change and hard work lies ahead. But our strength in innovation, quality and time-saving fresh food, coupled with the evolution of customer shopping habits towards convenience and health, presents a real opportunity to significantly improve our market share in the medium term. Underpinned by our far-reaching plans, we are building a platform for like-for-like growth.

**REVENUE**

£5.9bn  
-0.6%

**CONTRIBUTION TO UK REVENUE**

62.5%  
+1.2%

---

**FINANCIAL HIGHLIGHTS**

**LIKE-FOR-LIKE SALES**

Like-for-like sales performance was down but we saw encouraging volume growth in the final quarter.

-2.3%  
-2.3%

**VALUE FOR MONEY PERCEPTION**

The proportion of customers who rated us highly on value for money. We have started to address our value for money perception through our marketing and price reductions.

59%

**AVAILABILITY**

Our availability is behind the industry average and we are tackling this through our “Fuse” programme.

92.6%  
+0.3%

**QUALITY PERCEPTION**

The proportion of customers who rated us highly on quality. Our Food strategy is to “protect the magic” including our unique quality, freshness, and innovation credentials.

85%

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1. Based on data covering stores from 2018 onwards following a reset in internal measurements.
RESTORING OUR REPUTATION FOR STYLE AND VALUE

WHAT WE SAID LAST YEAR

In 2018 we outlined the threats to our Clothing & Home business including the erosion of our style credentials, increasing pressure from new and existing competitors, an online business behind the curve, and a delivery service unable to meet customer demand at peak times. These factors had combined over many years to reduce our market share, resulting in a process of gradual decline and the ageing of our customer base. Restoring the brand and customer appeal requires far-reaching change in the range, shape of buy, supply chain and systems.

In addressing these challenges, we set out what we needed to do to deliver the change required:

- Restore our style and value credentials to broaden our appeal to a younger family age customer.
- Restructure our shape of buy, reducing breadth of range and focusing on backing winning lines in high volume.
- Build on our loyal customer base and strong customer franchise in denim, lingerie, suits and back to school.
- Target one-third of our sales online by 2022.
- Reform our supply chain and systems to improve availability and deliver for customers.

WHAT'S HAPPENING

Despite underlying progress this year, our transformation in Clothing & Home is yet to be reflected in like-for-like sales. While we saw a rise in customer numbers and growth in our online Clothing & Home sales ahead of the market, we remain at the early stages of our programme.

Our aspiration is to be famous for contemporary, wearable style at great value. Our efforts in restoring our style credentials and value perceptions made progress and saw some wins this year. Sales of our £15 women’s jeggings were up 30% over the campaign period. And when we got the product fit and price right for the contemporary, family-age customer we aim to appeal to – such as our denim campaign case study above – we saw product fly off the shelves. But all too often our initial tentative steps to buying in depth meant many of the most popular lines sold out prematurely and our sales were constrained by poor availability.

Our digital capabilities have historically been well behind the market. Our platforms have not offered an inspirational or effective customer experience and our digital marketing hasn’t kept pace with how our customers want to shop. This year we delivered important enabling improvements by redesigning and improving our homepage to become top quartile among our peers on page load speed. We have invested in better navigation and product imagery and are delivering a more mobile-first and feature rich experience, with new tools such as Style Finder visual search. Digital marketing of our Holly’s Must-Haves range generated 1.7 million clicks through to our website, with tools such as Instagram Shoppable, helping drive sales. As a result of these actions, we saw UK Clothing & Home online
growth of 9.8% and improved our online clothing market share. UK Clothing & Home sales online now stand at 22%, up from 19% last year.

We have begun to tackle our unwieldy supply chain operation, which hampers our speed to market, creates in-store handling costs and exacerbates our availability problems through slow-moving stock that sits trapped in the network. The opening of our new national Clothing & Home distribution centre at Welham Green and the closure of four regional sites has taken us a step closer to creating a more efficient and cost-effective single-tier network, where products are moved to stores via one single touch point. Alongside this, the improvements made at our national online fulfilment centre at Castle Donington resulted in increased peak capacity.

**WHAT’S STILL TO DO**

Over many years the M&S clothing range has widened and extended – resulting in a fragmented buy, reductions in buying power and stores that are confusing to navigate.

We have made a start in reducing option count in some areas. Our plan is to substantially increase the number of £1m high-volume great-value lines for which M&S should be famous.

However, repositioning the range architecture in a business that has been habituated to covering every option, and where buyers are building their confidence, is a difficult process. Our clunky systems and tools deepen this challenge, for example our size ratios have been weighted towards larger sizes and fit, rather than the mid to smaller sizes of our target customer – aggravating availability problems.

To address this, we plan to deliver a more marked reduction in options and range duplication. We will embed new range planning processes and size ratio tools, so we are set up to back more winning lines and target the family-aged customer.

This will be reinforced by the update of the sub brand strategy, including the Per Una range where we have seen positive initial customer reaction since it relaunched.

With the move to more volume and value, our intention is to switch to a “first price, right price” approach to help drive a more active trading mentality across Clothing & Home. If we are successful, this will remove our reliance on discounted sales and reduce the volume of goods we sell in clearance mode.

A deeper buying plan will also give us the scale to forge more strategic relationships with suppliers and improve the value we can offer our customers. We will uphold our quality and maintain a “good, better and best” pricing hierarchy, so that alongside great everyday prices, we can highlight the stunning value of designer-class products such as leather jackets and cashmere coats.

The changes we are making will improve the customer experience and make our range easier to shop by decluttering stores with fewer but better and more relevant product lines. Alongside this, work is under way to free up store colleagues from the unnecessary administration created by our out-of-date systems and allow them to focus on what they do best: serving our customers. As set out on page 12 of this report, we are radically enhancing the quality of our store space and a store renewal trial will commence this year.

In addition, we will treat our top 70 stores as flagships, which offer a destination shopping experience.

We will continue to accelerate our drive towards delivering one-third of our Clothing & Home sales online and improve our integration of digital and store sales.

Our delivery to customers still lags behind the market, both to home and in-store collections. Our intention is to extend our order cut-off point from 10pm to 11pm during 2019/20 and further improve our product presentation to reduce returns rates.

And finally, underpinning our transformation is the reformation of our supply chain. “Fuse”, our supply chain taskforce, has started to tackle our distribution network weaknesses, but modernisation of our technology and processes is at a very early stage.

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**FINANCIAL HIGHLIGHTS**

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>£3.5bn</th>
<th>-3.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONTRIBUTION TO UK REVENUE</td>
<td>37.5%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

**STRATEGIC KPIs**

<table>
<thead>
<tr>
<th>LIKE-FOR-LIKE SALES</th>
<th>-1.6%</th>
</tr>
</thead>
</table>

**VALUE FOR MONEY PERCEPTION**

The proportion of customers who rated us highly on value for money. We are focused on restoring our reputation for style and value.

- 65%

**CLOTHING & HOME SPACE**

We have made good progress in reshaping our Clothing & Home space, with a reduction of 4%.

- 11.3m sq ft 17/18
- 10.7m sq ft 18/19

**STYLE PERCEPTION**

The proportion of customers who rated us highly on style. We saw an encouraging customer response to some of our ranges this year such as our Denim Best Ever Fit.

- 58%

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1. Based on stores and online data from 2018 onwards following a reset in internal measurements.
WHAT WE SAID LAST YEAR

Last year we set out how a reluctance to close underperforming stores and years of chronic underinvestment in rotating and modernising our estate had become a drag on like-for-like performance and damaging to the M&S brand. This combined with the rapid migration of customers online left us with a store estate that required urgent transformation.

To make M&S fit for the future, our store estate needs reshaping to meet the changing shopping behaviours of our customers. We therefore committed to the following actions:

- Accelerate the reshape of our store estate programme to ensure that we have the right stores in the right locations for our customers.
- Reduce and redirect our opening programme in Food to focus on the highest-returning locations.
- Experiment with new “renewal” formats in both Clothing & Home and Food.

WHAT’S HAPPENING

Our store reshape programme, which is a combination of relocating, right sizing or closing stores, has made good progress through the year.

We have an estate of 1,043 stores in the UK which is older than those of our competitors with numerous legacy issues.

About three-quarters of our Clothing & Home stores were opened over 25 years ago and nearly 75 of these were before the Second World War. During the year we concentrated on addressing the legacy issues while also developing a forward pipeline of high-volume stores where we can better serve our target customer. Although we anticipate further net reductions in overall retail space, and we currently expect to close a further c.85 full-line stores and c.25 Simply Food stores in addition to the 35 full-line stores closed in FY18/19, we believe the current retail environment will allow us to secure some excellent sites for relocations.

What’s Still To Do

Looking ahead our three commitments from last year remain to be fulfilled. We plan to maintain the pace of our store estate reshape, opening bigger and better stores. Alongside this we will also expand the programme to include low volume, high cost Simply Food stores alongside larger store redevelopment planning, with our owned store base likely to remain broadly level.

We plan to continue maximising the value of our existing space alongside this, and can expect to announce a number of redevelopments in the year ahead.

As we shift our strategic focus from locations to formats, we know our in-store experience still requires improvement. Up to 50% of our store estate has not had major cosmetic refurbishment in the last 10 years. Our smaller stores lack authority and our larger ones are either too cluttered or have too much space to deliver inspiration. We have seen some progress on this front, such as our St Helens store, which last year was relocated to a larger format better suited to our target customer and has performed ahead of expectations.

For now our immediate priority is to continue restoring the basics and ensuring that we have stores in the right locations for our customers.

* Net promoter score (NPS) equals percentage of ‘promoters’ minus the percentage of ‘detractors’. This represents our total NPS score following a reset in internal measurements from which we will measure our future progress against.
WHAT WE SAID LAST YEAR

We have been clear that to make M&S special again we need an M&S.com platform that supports and inspires our customers, however they choose to shop, and end-to-end digital capabilities and skills across the business to fulfil this ambition.

Historically, M&S has been a business that has neglected our online offer to customers and last year we outlined the scale of the task that faced us.

Our digital platforms were well behind the best in market, which was rapidly moving away from us. Our speed and search capacities were slower than the best, and Castle Donington – our online distribution centre – was unable to meet peak demands. In addressing these challenges, we set out the following areas which required our urgent attention:

- Accelerating our journey towards becoming a Digital First retailer.
- Targeting one-third Clothing & Home sales online.
- Fixing our base platform capability.
- Improving the performance of Castle Donington.
- Creating better links for customers between stores and our website.
- Improving our M&S.com customer experience through technology and AI.

WHAT'S HAPPENING

We have seen improvements in M&S.com with site speed enhanced to rank in the top quartile among our peers on load speed, a redesigned homepage and better product imagery, and an improved checkout and delivery proposition. 

Alongside this we moved the website to the cloud to reduce performance issues and costs. This collectively contributed to over nine percent in the conversion of website traffic to customer purchases.

In our supply chain, following investment in reliability, efficiency and capacity, Castle Donington had its best peak performance since it opened. This combined to deliver UK Clothing & Home online growth of 9.8% improving our online clothing market share by 0.3 percentage points.

WHAT'S STILL TO DO

While we are seeing upward trends in the performance of our website as a result of addressing the basics, we still have much further to go to deliver a seamless and inspirational shopping environment for customers. We will improve our search functions and customer personalisation to get the customer to the product they want faster and enhance our end-to-end journey across the ranges.

We will also improve the customer experience across Click and Collect adding more collection points in stores, improve fulfilment times and free up time for our colleagues in stores to provide a better service. This requires significant re-engineering across many areas of the business but is critical to putting our customers’ needs at the heart of what we do.

Underpinnings all of this is the need to create a data-driven, digitally savvy culture. This means making M&S a much more attractive, fast-moving and less stuffy place for digital engineers and data analysts to work.

Our Sparks loyalty programme should be an integrated part of the way we deliver personalised marketing to customers and a combination of Sparks, online, the M&S credit card and Ocado would be one of the best customer data ‘lakes’ in the UK. But these customer data bases are currently disconnected and ineffective. Sparks needs substantial improvement and in the next year it will be repositioned, revamped and relaunched.

Underpinning all of this is the need to create a data-driven, digitally savvy culture. This means making M&S a much more attractive, fast-moving and less stuffy place for digital engineers and data analysts to work.

Our long-term partnerships with Microsoft, Decoded, Founders Factory and True Capital will also help give M&S the opportunity to access the best of digital innovation and entrepreneurial ideas and to become a data-driven digitally enabled workforce.

We have made improvements to M&S.com to bring us back to level and made improvements to better meet the needs of our customers. But there remains a long way to go if we are to become a truly Digital First business and be able to adapt to the continuously changing behaviours of our customers in future.
INTERNATIONAL, PROPERTY AND SERVICES

HIGHLIGHTS

INTERNATIONAL CUSTOMER SATISFACTION SCORE

77% +6%

Overall satisfaction score provided by customers from across the International business, including both owned and franchise stores.

RETIRED MARKET SALES

+1.1%

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

IMPACT OF MARKET RIGHT PRICING

<table>
<thead>
<tr>
<th>Country</th>
<th>Price</th>
<th>Volume</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>-11%</td>
<td>24%</td>
<td>11%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>-7%</td>
<td>16%</td>
<td>8%</td>
</tr>
<tr>
<td>India*</td>
<td>-3%</td>
<td>17%</td>
<td>13%</td>
</tr>
</tbody>
</table>

M&S is structured as a business with strong shared brand values. An update on the development of our wider family of businesses is outlined below.

INTERNATIONAL

Last year our International business made headway in its transformation, closing loss-making stores and changing the business model to focus on partnering with a limited number of strong local franchisees in large markets where we can build a significant market presence. With this, profits improved and we established a platform for growth ahead. We said, however, that we had much to do to improve our competitiveness, with our supply chain to local partners not yet flexible enough and pricing too high in local markets to enable our partners to compete with major fashion retailers.

We committed in the year ahead to continue to improve our supply chain arrangements, modernise and open stores in growth markets, further adapt our ranges in both price and style better to local markets, and provide effective online support for our franchise partners through “pay and play” local websites.

This year we saw revenue decline by 13.4%, driven primarily by store closures in loss-making markets. Excluding this, revenues grew by 1.1%.

We grew our presence in key strategic markets, opening 37 new stores and modernising a further 56. We launched six transactional websites during the year, increasing the number of international countries where customers can buy our products online to 35. We completed the roll-out of ‘market right pricing’, across markets in Clothing & Home with average price reductions of 10% to improve our relevance to local customers, resulting in sales up 8% and volumes up 20%. These results give us confidence that we are moving in the right direction.

We strengthened the management of our international supply chain to increase fulfilment rates in both Clothing & Home and Food. These improvements ensured a better service for our partners and helped deliver more impactful seasonal launches in market.

In the year ahead we will continue to improve how and when we get product to market, improving our speed and reducing costs. We will continue to substantially localise our ranges for our target markets, as well as continuing to build our online offering, better adapting to how our international customers want to shop.

As a result of the decisive early action taken in implementing our transformation strategy, the outlook remains positive for our International business unit and demonstrates the potential for the wider business.

PROPERTY

M&S owns a portfolio of £1.8bn of property at alternative use value and it is important we manage this to safeguard its value, as well as support the retail business. Many of the larger legacy properties have significantly underutilised space, and scope for more management. We have therefore appointed a Property Development Director, accountable for active management of our property assets and maximisation of value.

SERVICES

Through M&S Bank (managed by HSBC) we provide financial services to our customers, including credit cards, savings accounts, mortgages, and personal loans, online and at our in-store branches and bureaux. M&S Bank income before adjusting items was down £12.7m to £276m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £67.7m.

M&S Energy

We launched our strategic partnership with Octopus, an energy industry disruptor with strong digital capabilities, in September 2018 following the end of our relationship with SSE earlier in the year. We selected a new partner, despite the challenges that this presented, to align with a company that closely mirrors our transformation ambitions.

We are at an early stage of this relationship and in FY19 M&S Energy represented 0.1% of the Group’s total operating profit. However, the compelling combination of our brand strength and the digital capabilities and customer service focus of Octopus, underpinned by a fully renewable energy offer, gives us confidence that we can grow M&S Energy into a digital, progressive and commercially competitive part of the family of businesses.
Our People and Culture

We believe it can be too easy for businesses to treat culture in a formulaic way: talking in generic terms about business purpose and values that are hard to disagree with but are meaningless to its employees. At Marks & Spencer we know our culture has great historic depth but it also has flaws that we need to address if we are to succeed in our transformation.

Culture is made up of how people feel about a business, think and act at work, and how that translates into how things get done. Our culture is a function of process, governance and strategy implemented with good intent by recent boards and we seek to measure these. But it is also informed by 135 years of history and a business that has filled people’s lives in a powerful and emotional way. The M&S culture today is traceable back to the “glory years” under past leadership, and our people yearn to see it reincarnated in a modern, up-to-date way, whilst staying true to those core beliefs and values.

At its heart the M&S of the past believed strongly in people, product and value for money and was a vibrant energetic place where the leadership was close to the front line and acted with pace and responsibility. People at M&S believed instinctively in acting with high integrity, in building close trusted relationships with suppliers, and taking a long term view of innovation and business investment. That is why our leadership today is very focused on bringing back the best of the M&S spirit but creating a more involving and engaging organisation.

Most importantly, and unusually at that time, Marks & Spencer fostered a strong culture, which placed great emphasis on caring for its people. At the heart of this was a deeply held commitment to treat every colleague in the business with equal respect: to listen to them, value them and help them to develop. As Marcus Sieff remarked as Chairman, a business is only as good as its people, and the work led by Flora Solomon in the early 1930s in introducing chiropody, dentistry and doctors for colleagues, as well as new training schemes, was truly revolutionary and created a highly motivated workforce with specialist skills.

This focus on creating a supportive and caring environment was not borne of a patriarchal philanthropic view of society; the Marks & Spencer leadership were highly commercial, entrepreneurial traders. It came from a singular focus on the customer and a belief that only by supporting and empowering each and every colleague would you recruit the best people and create a culture where the customer was king. By association, this meant that the voice of store colleagues – the front line to the customer – drove the business and Simon Marks famously paid more attention to feedback from customer assistants than anyone else. As he remarked, it is easier to buy than sell. It also drove a clarity of communication and plain speaking – the eponymous phrase that “good goods will sell arse upwards” is indicative of this – and an unremitting focus on data with detailed trading figures and store performance reviewed in depth at the start of every week. Putting the customer at the heart of the business also kept buyers honest; goods were to be of the highest quality but sold at the most competitive price to give the customer the best value, and this was delivered through forming partnerships with suppliers built on mutual trust, as well as listening keenly to the store managers.

Altogether, this created an involving, fact-driven culture, where everyone was worthy of equal respect and had a voice, stores were the centre of the business, with an “operator knows best” philosophy which empowered stores to lead on execution, and all colleagues, regardless of role, viewed their role as serving customers. It created a business much loved by its employees, customers and suppliers, which we are fortunate to continue to enjoy and our staff turnover remains lower than the industry average.

Right: Store colleagues are shaping the changes in our academy stores this year.
Some of the founding tenets of the business remain visible today at least in intent. We remain committed to helping all of our colleagues to develop, and continue to offer some specialist skills such as bra fitting. We try to recruit on attitude and make efforts – through our Marks and Start programme – to help people further from the workplace into employment.

To give colleagues a voice and access to the leadership, the business recently created a powerful way to listen to colleagues’ views and ideas through the Business Involvement Group (BIG), which is made up of over 3,000 colleagues from across stores, operations and offices. We offer a broad package of measures to support health and wellbeing, including breast screening for colleagues aged 40-49, time off for events such as fostering, having a grandchild and adoption, and we have pledged to make a positive difference to mental health at work.

However we are very clear that much of the power of the original culture has been lost. Once the direct line of leadership from Simon Marks through Marcus Sieff down to Rick Greenbury had gone, the drum beat of energy and authentic personal leadership was dissipated. The driving, plain-speaking, sometimes authoritarian, style was replaced with a by the creation of complex corporate hierarchies with an almost deferential attitude so the feedback loop was lost and decision-making was slow and often based on consensus or corporate politics not data. This cultural failure has been the root cause of the underperformance of the business and transforming the business and transforming the culture of Marks & Spencer are indivisible tasks.

Over the last 20 years, successive talented leadership teams overseen by accomplished boards have grappled with the problems facing the business but struggled to arrest the decline. In many cases, their strategies are not so different from those we are pursuing today. However, what never changed was the slow corporate culture, the lack of accountability, hierarchy and sense of corporate vanity. It was against the rocks of these intractable problems that the well-intended plans of our predecessors floundered. Today, as a result, we have a legacy store portfolio, weak systems and infrastructure. But despite all this, we still have great people in our stores, passionate store management and on the front line the spirit of the original M&S is still alive. That is why transforming the culture of Marks & Spencer is critical to phase one of our transformation plan.

Our objective is to make M&S a special place to work again by drawing on the principles of the past to create a renewed and reinvigorated workplace. Product, value for money, innovation and choice will be at the heart of our marketplace mission, underpinned by high levels of service and quality. That has always been our customer promise when we are at our best and it is what we need to get back to.

Organisationally, we aim to create a fast-moving environment, where people take responsibility and make things happen in a commercially responsible way, safeguarding shareholders’ money. In place of the old-fashioned hierarchy, we will embrace an attitude of equal respect, humility and involvement. We are approaching this in a holistic way as the change required is total.

To break down the old attitudes of corporate vanity and defensiveness, we have, from the inception of the transformation plan, adopted a different tone of voice, “facing the facts” and being willing to talk openly about the business failings and the challenges ahead. By expressing through the leadership what colleagues on the shop floor feel, we have helped release energy and invite
a new willingness to challenge. That spirit is, we hope, also reflected in this Annual Report and we believe humility and the ability to be open about our mistakes is critical to corporate learning.

To shift the driving force away from the corporate functions we have fractured the old structure: we have created a new operating model recognising that we manage not one business but several ones operating in different markets with different operating requirements. They are joined by common systems, brand philosophy and infrastructure. But they need their own management teams and ability to deliver without referring to the corporate bureaucracy. We have therefore given functional accountability to the Food business and separately to the Clothing & Home business. Bank and International also report separately. We have brought in leaders for business. We have therefore given functional management teams and ability to deliver-

on how to improve the business to the CEO and expect a response to be given and action to be taken. We will make far-reaching improvements to our colleague engagement survey, making an integral part of line management looking not only at how engaged colleagues are but how empowered and enabled they feel. To put the store voice back at the heart of the business, we have initiated weekly trading calls chaired by Steve Rowe between buyers and sellers. A focus on data as a driver of decisions rather than position in the hierarchy and gut feel has also begun with the appointment of a Chief Digital and Data Director, partnerships with digital data-driven start-ups and the introduction of NPS as a customer measure across the business.

To bring back the idea that the store manager is a critical position in the business and “the operator knows best”, we are embracing the principle of academy stores and systematic piloting of change. For instance, the “Fuse” supply chain programme has been rolled out through the academy stores and the store labour scheduling programme was suspended last year while we invited the leading implementation stores to feed back on the programme, as a result of which it was substantially improved. In the year ahead, we are investing significant capital to give store managers the tools and data they need to run their businesses with the roll-out of tablets and store-level profit and loss accounts. As a result, they will have the information to be businessmen or women in their own right and we are freeing up their time from sitting in the office to walking the shop floor.

Our ambition is to make M&S the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat organisational structure. Because by good fortune we have great colleagues in our stores and a brand people profoundly believe in, we truly believe our people can be a source of competitive advantage again. We recognise that we are in the foothills of this project today and there are many colleagues who have yet to climb on board with the change. Transforming a deeply entrenched culture, reinforced by years of retreat in the marketplace, will take the life of the transformation programme at least. But the foundations of change have been laid and we have a substantially new leadership team who have joined the business because they believe that we can turn it around and who are determined to live the change.

** Updated from Board level diversity to Senior Managers in 2019 to better reflect internal measurements.

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**Employee diversity as at 30 March 2019**

**Updated from Board level diversity to Senior Managers in 2019 to better reflect internal measurements.**
Plan A is a multi-year sustainability transformation plan that has been updated several times (2010, 2014 and 2017) to reflect the evolution of our business and the risks and opportunities that social and environmental issues pose for us.

As we go through our business transformation we are currently updating Plan A to reflect our new structures and commercial priorities. This process is not yet complete but as in previous years we are publishing datasets on our most material issues in our 2019 Plan A Performance update.

These datasets show a mixed performance this year, reflecting a period of considerable change across the business. We also offer an audit trail where we highlight existing commitments that we know already we will not be pursuing in the future. Leadership on social and environmental issues remains central to our promise to our customers and colleagues. Once our current comprehensive review of Plan A is completed we will publish our new approach.

Our actions are aligned in support of the United Nations Sustainable Development Goals (symbols shown). Further details about Plan A, our policies, performance and activities can be found online at:

1. marksandspencer.com/plana

**OUR HIGHLIGHTS**

**PLACES**

To help transform 1,000 communities.

**BEING PART OF THE COMMUNITY**

This year we completed the first phase of our programme to help positively transform 1,000 communities by 2025. We supported over 230 activities which benefited an estimated 2,800 people.

**PEOPLE**

To help 10 million people live happier, healthier lives.

**PLANT KITCHEN RANGE**

As part of our mission to provide sustainable diets, we launched our extensive Plant Kitchen range in January 2019, with prepared meals, snacks and drinks suitable for customers who want to adopt a vegan diet or just eat less meat and dairy.

**PLANET**

To become a zero-waste business.

**PRINCIPLES ON PLASTIC**

To take a lead in responding to the global concerns over pollution from plastic we’ve developed a set of five Plastic Principles (Re-use, Re-design, Re-duce, Re-turn and Re-cycle). We’re working on projects to eliminate 1,000 tonnes of plastic packaging usage and our plastic-free fruits and vegetables trial has just been extended to a further two stores.
RAISING MONEY FOR CAUSES THAT MATTER TO OUR CUSTOMERS
During the year, we worked with our customers and employees to help raise a total of £11.5m for causes close to their hearts. This included £1.6m for Macmillan Cancer Support and £1m for Breast Cancer Now.

RAISED WITH OUR CUSTOMERS AND EMPLOYEES
£11.5m -5%

TACKLING FOOD WASTE
During the last year, we’ve reduced our UK retail food waste by 24%. We also used surplus food to distribute 2.8 million meals to a range of charities.

REDUCTION IN UK RETAIL FOOD WASTE
24%

SUPPLY CHAIN CONFIDENCE
Last year it was beef, this year we’ve added information on our sourcing of seafood, wool, and tea and coffee to an interactive digital map.

PROMOTING DIVERSITY AND INCLUSION
We supported Purple Tuesday accessible shopping day on 13 November 2018 and provide accessibility information for UK stores through our partnership with AccessAble. For colleagues we hold an annual diversity festival, celebrated Pride events throughout the year and recognised International Women’s Day, Black History Month and the International Day of Disability.

Our employee-led diversity networks help us find ways to be more inclusive and collectively involve over 3,000 colleagues.

EASY TO RECYCLE PACKAGING
In the next 12 months we’re aiming to have collection points for difficult to recycle plastic packaging in a selection of stores across the UK. The plastic collected will be recycled into more recycling bins, furniture and playground equipment.

SUSTAINABLE COTTON CLOTHING
As part of our wider approach to ethical clothing, we’re now committed to sourcing all the cotton used to make M&S clothing from sustainable sources such as the Better Cotton Initiative.

COMMITMENT TO SUSTAINABLE COTTON FOR M&S CLOTHING
100%
## PLAN A MEASUREMENTS

### PLACES

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TRANSFORMING COMMUNITIES</strong></td>
<td>10</td>
<td>The number of communities engaged as part of our Helping to Transform Communities initiative. In 2019/20, we’ll be starting to extend the programme to the next 100 locations.</td>
</tr>
<tr>
<td><strong>VOLUNTEERING HOURS</strong></td>
<td>+54%</td>
<td>We provided 47,218 hours of work-time volunteering across the UK and Republic of Ireland.</td>
</tr>
<tr>
<td><strong>WORK PLACEMENTS</strong></td>
<td>-12%</td>
<td>2019 marks 15 years since we launched our Marks &amp; Start programme. This year, we offered 2,554 work placements to people from disadvantaged groups in the community, so that they could gain key skills leading to employment. 63% went on to find employment.</td>
</tr>
</tbody>
</table>

### PEOPLE

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EMPOWERMENT</strong></td>
<td>83%</td>
<td>Of our colleagues feel that they are trusted and have the freedom to perform their role effectively.</td>
</tr>
<tr>
<td><strong>ENGAGEMENT</strong></td>
<td>81%</td>
<td>Of our colleagues feel proud to work at M&amp;S and enjoy what they do.</td>
</tr>
<tr>
<td><strong>ENABLEMENT</strong></td>
<td>76%</td>
<td>Of our colleague feel that they have the right processes, support and tools to do their job well.</td>
</tr>
</tbody>
</table>

### PLANET

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PACKAGING RECYCLED</strong></td>
<td>70%</td>
<td>70% of all M&amp;S product packaging that ends up with our customers is classified as being widely recycled in the UK. We’re aiming to make it all widely recycled or recycled in store as soon as possible.</td>
</tr>
<tr>
<td><strong>WASTE SENT TO LANDFILL</strong></td>
<td>0</td>
<td>This year, the total amount of waste generated by our stores, offices and warehouses in the UK and ROI was down by 7% on last year. For the seventh consecutive year, the amount sent to landfill was zero.</td>
</tr>
<tr>
<td><strong>M&amp;S GREENHOUSE GAS EMISSIONS (CO2e)</strong></td>
<td>-16%</td>
<td>The gross carbon dioxide emissions from M&amp;S stores, offices, warehouses and vehicles worldwide was down 16% on last year and 75% on 2006/07.</td>
</tr>
</tbody>
</table>
Safe and healthy working environment

Employees in the UK and overseas with a responsible. This includes providing our successful and socially and environmentally business that is both commercially

We are committed to driving a sustainable environments for our colleagues.

principles which ensure outcomes of achieve this we adhere to set policies and

workplace to be free from discrimination, harassment and victimisation. In order to achieve this we adhere to set policies and principles which ensure outcomes of responsible operations and supportive environments for our colleagues.

Read more about our responsibilities towards people at marksandspencer.com/plana

- People principles
- Code of Ethics and Behaviours
- Responsible Marketing Principles
- Equal Opportunities Policy
- Inclusion strategy
- Inclusion networks

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 Ethics and Behaviours and, for all suppliers and business partners, in our Global Sourcing Principles. We are also a signatory to the principles of the United Nations Global Compact. We strive to be a fair partner by paying a fair price to suppliers, supporting local communities and ensuring good working conditions for everyone working in our business and supply chains. We are committed to building our employee and supplier knowledge and awareness on human rights, 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.

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

M&S is committed to the highest standards of ethics, honesty and integrity. Our Anti-Corruption and Anti-Bribery Policy outlines the expected standards of conduct that employees, contractors, suppliers, business partners, and any other third parties who act for and on behalf of M&S, are obliged to follow. The policy also includes detailed procedures 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. For colleagues who work in areas that may pose a higher risk, we provide 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. The outcomes of this are that any potential incidents reported internally or to the confidential whistleblowing hotline are followed up and full investigations launched where such action is deemed appropriate following preliminary enquiries. All investigations are subsequently reported to the Audit Committee.

Read more on our commitment to anti-corruption and anti-bribery at marksandspencer.com/plana

- Anti-Corruption and Anti-Bribery Policy
- Code of Ethics and Behaviours
- Whistleblowing Policy

### M&S GREENHOUSE GAS EMISSIONS 2018/19

This table shows the Group’s greenhouse gas emissions against a 2006/07 baseline.

<table>
<thead>
<tr>
<th></th>
<th>2018/19 000 tonnes</th>
<th>2017/18 000 tonnes</th>
<th>2006/07 000 tonnes</th>
<th>% change on 2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (scope 1)</td>
<td>167</td>
<td>182</td>
<td>246</td>
<td>-32</td>
</tr>
<tr>
<td>Indirect emissions from energy (scope 2)</td>
<td>193</td>
<td>248</td>
<td>394</td>
<td>-51</td>
</tr>
<tr>
<td>Total gross/location-based emissions (scope 1 and 2)</td>
<td>360</td>
<td>430</td>
<td>640</td>
<td>-44</td>
</tr>
<tr>
<td>Carbon intensity measure (per 1,000 sq ft of salesfloor)</td>
<td>19</td>
<td>23</td>
<td>40</td>
<td>-42</td>
</tr>
<tr>
<td>Green tariffs and bio-methane procured</td>
<td>202</td>
<td>273</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Remaining market-based emissions</td>
<td>158</td>
<td>157</td>
<td>640</td>
<td>-75</td>
</tr>
<tr>
<td>Carbon offsets</td>
<td>158</td>
<td>157</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Total net operational emissions</td>
<td>0</td>
<td>0</td>
<td>640</td>
<td>–</td>
</tr>
</tbody>
</table>

Emissions are from operationally controlled activities in accordance with the IWR/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2018 BEIS conversion factors. As these emissions account for less than 10% of M&S’s total carbon footprint we also engage with suppliers to address the most significant sources. M&S has an approved Science Based Target for reducing emissions. Full disclosure in accordance with Task Force on Climate Disclosure guidance can be found at cdp.net.

### REDUCTION IN EMISSIONS (AGAINST 2006/07)

<table>
<thead>
<tr>
<th></th>
<th>75%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET EMISSIONS</strong></td>
<td><strong>Zero</strong></td>
</tr>
<tr>
<td><strong>AFTER OFFSETTING</strong></td>
<td></td>
</tr>
</tbody>
</table>

---

ANNUAL REPORT & FINANCIAL STATEMENTS 2019

STRATEGIC REPORT

NON-FINANCIAL INFORMATION STATEMENT

PEOPLE

We are committed to driving a sustainable business that is both commercially successful and socially and environmentally responsible. This includes providing our employees in the UK and overseas with a safe and healthy working environment and having an organisational culture which promotes diversity, inclusivity, personal development and respect. We know it’s our people who make M&S successful. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. In order to achieve this we adhere to set policies and principles which ensure outcomes of responsible operations and supportive environments for our colleagues.

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HUMAN RIGHTS

INFORMATION STATEMENT

PEOPLE

INCLUSION STRATEGY

– Inclusion strategy

– Equal Opportunities Policy

– Responsible Marketing Principles

– Code of Ethics and Behaviours

– People principles

INCLUSION NETWORKS

– Inclusion networks

ANTHI-CORRUPTION AND ANTI-BRIBERY

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ethics, honesty and integrity. Our Anti-Corruption

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– Modern Slavery Statement

M&S has an approved Science Based Target for reducing emissions. Full disclosure in accordance with Task Force on Climate Disclosure guidance can be found at cdp.net.
## KEY PERFORMANCE INDICATORS

### GROUP REVENUE

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>£10.4bn</td>
</tr>
<tr>
<td>16/17</td>
<td>£10.6bn</td>
</tr>
<tr>
<td>17/18</td>
<td>£10.7bn</td>
</tr>
<tr>
<td>18/19</td>
<td>£10.4bn</td>
</tr>
</tbody>
</table>

Group Revenue decreased, adversely impacted by store closures in Clothing & Home, Easter timing and our investments in trusted value in Food. International revenue also declined largely due to the closure of stores in exit markets and the sale of the Group’s business in Hong Kong.

### GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>£523.2m</td>
</tr>
<tr>
<td>16/17</td>
<td>£613.7m</td>
</tr>
<tr>
<td>17/18</td>
<td>£580.9m</td>
</tr>
<tr>
<td>18/19</td>
<td>£523.2m</td>
</tr>
</tbody>
</table>

Profit before tax and adjusting items was down year-on-year principally due to the reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

### RETURN ON CAPITAL EMPLOYED (ROCE)

<table>
<thead>
<tr>
<th>Year</th>
<th>ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>14.1%</td>
</tr>
<tr>
<td>16/17</td>
<td>14.0%</td>
</tr>
<tr>
<td>17/18</td>
<td>13.7%</td>
</tr>
<tr>
<td>18/19</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

The increase in ROCE largely reflects the reduction in the carrying value of property, plant and equipment outweighing the decrease in EBIT.

### ADJUSTED EARNINGS PER SHARE (EPS)

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/15</td>
<td>34.8p</td>
</tr>
<tr>
<td>15/16</td>
<td>30.4p</td>
</tr>
<tr>
<td>16/17</td>
<td>27.8p</td>
</tr>
<tr>
<td>17/18</td>
<td>25.4p</td>
</tr>
</tbody>
</table>

Adjusted basic earnings per share decreased due to lower adjusted profit year-on-year. The weighted average number of shares in issue during the period was 1,624.1m (last year 1,624.0m).

### DIVIDEND PER SHARE

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>13.9p</td>
</tr>
<tr>
<td>16/17</td>
<td>18.7p</td>
</tr>
<tr>
<td>17/18</td>
<td>18.7p</td>
</tr>
<tr>
<td>18/19</td>
<td>13.9p</td>
</tr>
</tbody>
</table>

Announced final dividend of 7.1p per share, resulting in a total dividend of 13.9p.

### FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>15/16</td>
<td>£399.3m</td>
</tr>
<tr>
<td>16/17</td>
<td>£585.4m</td>
</tr>
<tr>
<td>17/18</td>
<td>£417.5m</td>
</tr>
<tr>
<td>18/19</td>
<td>£584.1m</td>
</tr>
</tbody>
</table>

The business generated an increase in free cash flow year-on-year primarily as a result of working capital inflow, lower capital expenditure and lower interest and taxation payments.

---

FULL YEAR REVIEW

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>£m</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Mar 19</td>
<td>31 Mar 18</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>31 Mar 18</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>Group revenue</td>
<td>10,377.3</td>
<td>10,698.2</td>
<td>-3.0</td>
</tr>
<tr>
<td>Food</td>
<td>5,903.4</td>
<td>5,940.0</td>
<td>-0.6</td>
</tr>
<tr>
<td>Clothing &amp; Home</td>
<td>3,537.3</td>
<td>3,671.0</td>
<td>-3.6</td>
</tr>
<tr>
<td>UK</td>
<td>9,440.7</td>
<td>9,611.0</td>
<td>-1.8</td>
</tr>
<tr>
<td>International</td>
<td>936.6</td>
<td>1,087.2</td>
<td>-13.9</td>
</tr>
<tr>
<td>Group operating profit</td>
<td>601.0</td>
<td>670.6</td>
<td>-10.4</td>
</tr>
<tr>
<td>UK</td>
<td>474.0</td>
<td>535.4</td>
<td>-11.5</td>
</tr>
<tr>
<td>International</td>
<td>127.0</td>
<td>135.2</td>
<td>-6.1</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(77.8)</td>
<td>(89.7)</td>
<td>13.3</td>
</tr>
<tr>
<td>Profit before tax &amp; adjusting items</td>
<td>523.2</td>
<td>580.9</td>
<td>-9.9</td>
</tr>
<tr>
<td>Adjusting items</td>
<td>(438.6)</td>
<td>(514.1)</td>
<td>14.7</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>84.6</td>
<td>66.8</td>
<td>26.6</td>
</tr>
</tbody>
</table>

1 Prior year revenue has been restated for the reclassification of cards & gift wrap from Clothing & Home to Food. For further detail please see Note 2 to the financial statements.

UK: FOOD

Food revenue decreased 0.6%, with like-for-like revenue down 2.3%, or 1.5% when adjusted for the timing of Easter Revenue reflected the effects of price investment and a change in product mix as we reduced promotions. However, during the second half, we saw an improving trend with volumes up 1.8% in the fourth quarter, adjusted for Easter. We opened 48 new stores during the year in line with our plan to focus new store expansion on only the highest returning locations, although the contribution from space diminished through the year as our full-line closure programme progressed.

Gross margin was down 15bps year-on-year at 31.1%. The benefit of promotional savings and our cost reduction programmes largely offset the effects of cost inflation and price investment.

UK: CLOTHING & HOME

UK Clothing & Home revenue declined 3.6%, partly driven by our store closure programme, with LFL sales down 1.6%. Discounted sales decreased, as a result of the planned reduction in stock-into-sale. UK Clothing & Home online revenue grew 9.8%, which was ahead of the clothing market, with strong growth in womenswear, as we made improvements to our website and delivery proposition and focused on key categories such as dresses in our ‘Must Haves’ campaign.

Gross margin increased 20bps to 57.1%. Buying margin was down 20bps as adverse currency headwinds more than offset sourcing gains across the year. Discounting reduced by 40bps, largely as a result of the 14% reduction in stock into sale.

UK OPERATING COSTS

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>£m</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Mar 19</td>
<td>31 Mar 18</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>Store staffing</td>
<td>1,044.7</td>
<td>1,070.6</td>
<td>-2.4</td>
</tr>
<tr>
<td>Other store costs</td>
<td>950.4</td>
<td>992.1</td>
<td>-4.2</td>
</tr>
<tr>
<td>Distribution &amp; warehousing</td>
<td>564.6</td>
<td>538.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Marketing</td>
<td>155.1</td>
<td>151.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Central costs</td>
<td>694.8</td>
<td>698.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Total</td>
<td>3,409.6</td>
<td>3,450.3</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

UK operating costs decreased 1.2%. Store closures more than offset the cost of new space and channel shift. Cost savings across the business outweighed inflation related increases.

Store staffing costs reduced, as savings from store management restructuring, closures and other efficiencies more than offset pay inflation. Other store costs reduced driven by lower depreciation, due to our closure programme and as a number of assets have reached the end of their useful life, which more than offset rent and rates inflation in the year.

The growth in distribution and warehousing costs was largely driven by inflation and the costs of channel shift, as well as costs associated with the closure of an equipment warehouse, with some offset achieved from improved efficiencies at Castle Donington.

The increase in marketing costs reflected investments in our Food brand and the planned increase in costs in the second half of the year due to the timing of campaigns.

Central costs reduced as lower incentive costs year-on-year, the benefits of technology transformation programmes and other cost efficiencies more than offset system investment write offs and expenditure on the Fuse programme.

M&S BANK

M&S Bank income before adjusting items was down £12.7m to £276m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up, as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £6.7m.
### INTERNATIONAL

<table>
<thead>
<tr>
<th></th>
<th>52 weeks ended</th>
<th>Change</th>
<th>CC %</th>
<th>Change CC % excl.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>409.1</td>
<td>360.6</td>
<td>-13.4%</td>
<td>-13.3%</td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>660.2</td>
<td>620.8</td>
<td>-10.1%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Total Retained</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>936.6</td>
<td>1,020.8</td>
<td>-8.2%</td>
<td>-8.7%</td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>1,087.2</td>
<td>1,173.8</td>
<td>-8.0%</td>
<td>-8.5%</td>
</tr>
</tbody>
</table>

Table 1: International revenue

**Net Operating Profit Before Adjusting Items**

<table>
<thead>
<tr>
<th></th>
<th>52 weeks ended</th>
<th>Change</th>
<th>CC %</th>
<th>Change CC % excl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>72.2</td>
<td>86.1</td>
<td>-16.1%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>52.7</td>
<td>53.1</td>
<td>-0.8%</td>
<td></td>
</tr>
<tr>
<td>Total Retained</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>124.9</td>
<td>139.2</td>
<td>-10.3%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>120.7</td>
<td>135.2</td>
<td>-6.1%</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Net operating profit before adjusting items

### NET FINANCE COST

<table>
<thead>
<tr>
<th></th>
<th>52 weeks ended</th>
<th>Change</th>
<th>CC %</th>
<th>Change CC % excl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Payable</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>82.0</td>
<td>95.4</td>
<td>13.4</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>76</td>
<td>80</td>
<td>5.3%</td>
<td></td>
</tr>
<tr>
<td>Net Interest payable</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>74.4</td>
<td>89.4</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>76</td>
<td>80</td>
<td>5.3%</td>
<td></td>
</tr>
<tr>
<td>Pension net finance income</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>25.8</td>
<td>17.7</td>
<td>8.1%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>19.0</td>
<td>17.7</td>
<td>8.1%</td>
<td></td>
</tr>
<tr>
<td>Unwind of discount on Scottish Limited Partnership liability</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>8.8</td>
<td>10.9</td>
<td>21.1%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>8.8</td>
<td>10.9</td>
<td>21.1%</td>
<td></td>
</tr>
<tr>
<td>Unwind of discount on provisions</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>17.3</td>
<td>19.2</td>
<td>22.7%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>19.2</td>
<td>21.1</td>
<td>22.7%</td>
<td></td>
</tr>
<tr>
<td>Ineffectiveness on financial instruments</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>3.1</td>
<td>3.4</td>
<td>11.3%</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>3.4</td>
<td>3.7</td>
<td>11.3%</td>
<td></td>
</tr>
<tr>
<td>Net Finance Cost</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>30 Mar 19</td>
<td>77.8</td>
<td>89.7</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>31 Mar 18</td>
<td>66.4</td>
<td>75.4</td>
<td>13.9%</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Net finance cost

### PROFIT BEFORE TAX AND ADJUSTING ITEMS

Profit before tax and adjusting items was £232.2m, down 9.9% on last year. The decrease was principally due to a 2.3% reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

### ADJUSTMENTS TO PROFIT BEFORE TAX

The Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. Further material charges relating to our strategic programmes are anticipated as programmes progress. For further detail on these charges and the Group’s policy for adjusting items please see Notes 1 and 5 to the financial statements.

<table>
<thead>
<tr>
<th></th>
<th>52 weeks ended</th>
<th>Change</th>
<th>CC %</th>
<th>Change CC % excl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic programmes</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>- UK store estate</td>
<td>(222.1)</td>
<td>(231.1)</td>
<td>99.0</td>
<td></td>
</tr>
<tr>
<td>- Organisation</td>
<td>(51.8)</td>
<td>(50.7)</td>
<td>(21.1)</td>
<td></td>
</tr>
<tr>
<td>- Operational transformation</td>
<td>(16.4)</td>
<td>-</td>
<td>(16.4)</td>
<td></td>
</tr>
<tr>
<td>- IT Restructure</td>
<td>(15.6)</td>
<td>(15.5)</td>
<td>(1.0)</td>
<td></td>
</tr>
<tr>
<td>- UK logistics</td>
<td>(14.3)</td>
<td>(13.1)</td>
<td>(1.2)</td>
<td></td>
</tr>
<tr>
<td>- Changes to pay and pensions</td>
<td>(6.2)</td>
<td>-</td>
<td>(6.7)</td>
<td></td>
</tr>
<tr>
<td>- International store closures and impairments</td>
<td>(5.3)</td>
<td>(5.0)</td>
<td>(0.3)</td>
<td></td>
</tr>
<tr>
<td>UK store impairments and other property charges</td>
<td>(62.1)</td>
<td>(63.4)</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>M&amp;S Bank charges incurred in relation to the insurance mis-selling provision</td>
<td>(20.9)</td>
<td>(34.7)</td>
<td>13.8</td>
<td></td>
</tr>
<tr>
<td>CMP and other pension equalisation</td>
<td>(20.5)</td>
<td>-</td>
<td>(20.5)</td>
<td></td>
</tr>
<tr>
<td>Establishing the Ocado JV</td>
<td>(3.4)</td>
<td>-</td>
<td>(3.4)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>(177)</td>
<td>17.7</td>
<td></td>
</tr>
</tbody>
</table>

Table 4: Adjustment items

We have recognised a number of charges in the period relating to the implementation of our strategic programmes including:

- A charge of £221.8m in relation to our accelerated and expanded store closure programme, which has been expanded to include a number of Food stores. This charge includes accelerated depreciation, impairment of assets, estimated onerous leases and other closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change through-out the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges before the adoption of IFRS 16 are expected to be incurred predominantly in the next two years and are anticipated to be £100m, bringing total programme costs to £680m;

- A charge of £51.8m largely in relation to costs associated with centralising and rationalising our London office functions as well as redundancy costs related to the review of the retail organisational structure;

- A charge of £16.4m in relation to the transformation and simplification of our supply chain and operations across Clothing & Home and Food. This includes initiatives to reengineer the end to end supply chain, remove costs and complexity and working capital;

- A charge of £15.6m in relation to our technology transformation programme which we began in the prior year, and
In 2016/17 we announced our intention to close owned stores in ten international markets. A net charge of £5.3m has been recognised in the period reflecting the actualisation of previously estimated closure costs.

In response to the ongoing pressures impacting the retail industry, as well as reflecting our strategic focus towards growing online market share, we have revised future projections for certain UK stores. As a result, UK 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 £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. The charge has been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group. Additional detail is in note 15 and 22 to the financial statements.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a charge of £20.9m during the year. The deadline for any claims to be brought by customers expires on 29 August 2019. The estimated liability continues to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

We have recognised a non-cash charge of £20.5m in respect of the Group’s defined benefit pension liability arising from equalisation of guaranteed minimum pensions (“CMP”) and other pension equalisation costs following a High Court ruling in October 2018. Additional detail on the Group’s CMP assessment is detailed in Note 11 to the financial statements.

In February 2019 we announced the creation of a new 50/50 Joint Venture with Ocado, the UK’s leading pure play digital grocer. Transaction costs of £3.4m were incurred in the year.

Group capital expenditure remains tightly controlled resulting in a 5.3% reduction year-on-year, before disposal proceeds.

UK store environment spend was slightly down reflecting investment in store layout in the prior year, partially offset by investment in improved visual merchandising and click and collect facilities in a number of stores. Spend on UK store space was lower as we opened 15 fewer owned Food and full-line stores than the prior year. International expenditure remains focused on the store opening and modernisation programme.

Supply chain expenditure increased due to our investment in the Welham Green distribution centre as we moved towards a single tier network for Clothing & Home, and in improvements to our capabilities in Castle Donington. Spend in IT and M&S.com was driven by the migration from our mainframe system, investment in the Welham Green distribution centre and website enhancements to optimise user experience. Spend was slightly lower than last year due to the on-going move towards more cloud-based solutions and following the Technology transformation programme. Property maintenance spend largely relates to investment in our stores as well as investment in energy efficiency projects and reconfiguring our central London office building to rationalise the use of office space.

Proceeds from property disposals relate to the closure of six stores and the sale and leaseback of eight Food stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £2,680.9m at the year end, a decrease of 9.3% on last year.

CASHFLOW & NET DEBT

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>30 Mar 19 £m</th>
<th>31 Mar 18 £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating profit</td>
<td>601.0</td>
<td>670.6</td>
<td>(69.6)</td>
</tr>
<tr>
<td>Depreciation and amortisation before adjusting items</td>
<td>544.9</td>
<td>580.6</td>
<td>(35.7)</td>
</tr>
<tr>
<td>Working capital</td>
<td>59.1</td>
<td>(96.8)</td>
<td>155.9</td>
</tr>
<tr>
<td>Defined benefit scheme pension funding</td>
<td>(37.9)</td>
<td>(41.4)</td>
<td>3.5</td>
</tr>
<tr>
<td>Capex and disposals</td>
<td>(264.8)</td>
<td>(346.0)</td>
<td>81.2</td>
</tr>
<tr>
<td>Interest and taxation</td>
<td>(184.7)</td>
<td>(200.5)</td>
<td>15.8</td>
</tr>
<tr>
<td>Investment in Joint Venture</td>
<td>(2.5)</td>
<td></td>
<td>(2.5)</td>
</tr>
<tr>
<td>Non-cash share based payment charges</td>
<td>19.2</td>
<td>18.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Share transactions</td>
<td>(4.9)</td>
<td>(3.0)</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Free cash flow before adjusting items</td>
<td>729.4</td>
<td>582.4</td>
<td>147.0</td>
</tr>
<tr>
<td>Adjusting items cash outflow</td>
<td>(145.3)</td>
<td>(164.9)</td>
<td>19.6</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>584.1</td>
<td>417.5</td>
<td>166.6</td>
</tr>
<tr>
<td>Ordinary dividends paid</td>
<td>(303.5)</td>
<td>(303.4)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Free cash flow after shareholder returns</td>
<td>280.6</td>
<td>114.1</td>
<td>166.5</td>
</tr>
<tr>
<td>Opening net debt</td>
<td>(1,827.5)</td>
<td>(1,934.7)</td>
<td>107.2</td>
</tr>
<tr>
<td>Closing net debt</td>
<td>(1,545.1)</td>
<td>(1,827.5)</td>
<td>282.4</td>
</tr>
</tbody>
</table>

The business generated free cash flow before adjusting items of £729.4m, up £147.0m on last year primarily as a result of working capital inflow, lower capital expenditure and lower interest and taxation payments. The working capital inflow was driven by the planned reductions in Clothing & Home inventory levels and the timing of creditors at year end.
Lower interest and taxation payments reflect both the repayment of a bond in December 2017 and lower taxable profit in the prior year.

Defined benefit scheme pension funding in the year of £379m largely reflects the second limited partnership interest distribution to the pension scheme in the year.

Adjusting items in cash flow during the year were £145.3m. These included £27.3m in relation to our store closure programme, £24.9m in relation to organisational change, £20.9m for M&S Bank, £12.7m relating to the closure of stores in international markets and £11.1m in relation to our technology transformation programme. Total adjusting items in cash flow are anticipated to be a similar amount in 2019/20, prior to the implementation of IFRS 16.

After the payment of our final dividend from FY 17/18 and interim dividend from H1 18/19, net debt was down £282.4m on last year.

DIVIDEND
On February 27th we announced the Board’s decision to reset our dividend per share by 40% to a sustainable level, which we aim to grow in line with earnings over time. We are declaring a final dividend of 7.1p (full year dividend 13.9p). This will be paid on 12 July 2019 to shareholders on the register of members as at close of business on 31 May 2019, subject to approval of shareholders at the Annual General Meeting, to be held on 09 July 2019. The 2018/19 final dividend per share and prior dividends per share will be restated in future accounts to reflect the bonus factor adjustment resulting from the Rights Issue in due course. The bonus factor adjustment arises due to the Rights Issue involving an element of bonus shares because the Rights Issue price is below the Closing Price of 271.2 pence per share.

PENSION
As indicated at our Interim Results, M&S plc (the Company) reached an agreement with the Trustee of its UK Defined Benefit Pension Scheme with regards to the triennial actuarial valuation as at 31 March 2018. This resulted in a statutory surplus of £652m and 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 and which are included in the calculation of the statutory surplus – see Note 12). At 30 March 2019, the IAS 19 net retirement benefit surplus was £914.3m (last full year £948.2m). The IAS 19 surplus includes the first partnership interest in the scheme assets, valued at £278.5m (Note 12). The decrease in the surplus is largely due to a decrease in the discount rate partially offset by a change in mortality assumptions and by the return on scheme assets.

In April 2019, following the year-end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for around two thirds 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 Company’s exposure to changes in longevity, interest rates, inflation and other factors.

IFRS 16
IFRS 16 ‘Leases’ is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019. The financial statements for the 52 weeks ending 28 March 2020 will be the first prepared under IFRS 16. The Group has decided to adopt using the fully retrospective transition approach meaning the comparative period will also be restated at this time.

There will be a significant impact on the balance sheet as at 31 March 2019. It is expected on a pre-tax basis that a right of use asset of approximately £1.7bn and lease liability of approximately £2.6bn will be recognised, along with the derecognition of onerous lease provisions of approximately £0.2bn and other working capital balances (including lease incentives) of approximately £0.4bn, which results in an overall adjustment to retained earnings of approximately £0.3bn.

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the maturity of the lease.

Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

- Profit before tax when applying IFRS 16 is c.£10m higher than that reported in these financial statements under current accounting standards, including IAS 17 Leases;
- Profit before tax excluding adjusting items is c.£10m lower, and,
- Operating profit before tax and adjusting items is c.£130m higher.

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral.

For further detail on IFRS 16 please see Note 1 to the financial statements.

BREXIT
The continued delay in agreeing the nature and timing of the UK’s exit from the European Union creates uncertainty that could impact the performance of our business. Whilst an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact. Either outcome is expected to place increased pressure on how our business performs.

The potential impacts include:

- A continued deterioration in customer sentiment
- Operational complexity and costs due to restrictions on the movement of goods and stricter border controls
- Costs passed through from our suppliers
- Continuity of supply and supplier viability
- The impact of import and export duties
- Volatility in currency and corporate bond rates
- Tightening of the labour market
- Additional regulatory responsibilities and costs
- Increased complexity and cost in our international operations, including our franchise partners.

The Board continues to monitor the ongoing negotiations between the UK and the EU to assess the potential impact and any transitional arrangements that may be agreed.

The Strategic Report, including pages 27-33, was approved by a duly authorised Committee of the Board of Directors on 21 May 2019, and signed on its behalf by

HUMPHREY SINGER CHIEF FINANCE OFFICER
21 May 2019
## Approach to Risk Management

Our approach to risk management is simple and practical. The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including the identification of principal risks facing M&S. An overview of the process and the principal risks and uncertainties is summarised on the following pages.

Our risk management process fully reflects the M&S operating model with each business and functional area being responsible for the ongoing identification, assessment and management of their risks. This includes:

- Risks consistently identified, measured and reported against a set criteria considering the likelihood of occurrence and potential impact to the Group.
- Risk added to the agenda for the business boards established during the year. This creates a forum to align risk activities with business performance and enables senior oversight and challenge.
- Periodic Audit Committee updates on risk by business leadership teams.
- A formal half-yearly review of all risk registers with the Group Risk Team.

This is overlaid with a Group-wide review of risk to combine top-down and bottom-up perspectives and create a consolidated view in the Group Risk Profile. In compiling the Group Risk Profile, an assessment is made of changes in the external environment, our strategy and transformation programme, core operations and our engagement with external parties. This also includes consideration of emerging risks.

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

The directors’ assessment of the long-term viability of the Company is also reviewed annually, mindful of the principal risks faced. M&S’s approach to assessing long-term viability can be found on the following page.

The risks and uncertainties that we face as a business evolve. M&S recognises that effective risk management is an essential tool to support the achievement of our strategic and operational objectives.

### Our Approach to Risk Management

<table>
<thead>
<tr>
<th>Parties involved in the process:</th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ Audit Committee</td>
</tr>
<tr>
<td>➔ Business and functions</td>
</tr>
<tr>
<td>➔ Group Risk team</td>
</tr>
<tr>
<td>➔ Business boards</td>
</tr>
<tr>
<td>➔ Operating Committee members</td>
</tr>
<tr>
<td>➔ Business and functions</td>
</tr>
<tr>
<td>➔ Group Risk team</td>
</tr>
<tr>
<td>➔ Audit Committee</td>
</tr>
<tr>
<td>➔ Executive Directors</td>
</tr>
<tr>
<td>➔ Group Risk team</td>
</tr>
<tr>
<td>➔ M&amp;S Board</td>
</tr>
<tr>
<td>➔ Audit Committee</td>
</tr>
<tr>
<td>➔ Executive Directors</td>
</tr>
<tr>
<td>➔ Group Risk team</td>
</tr>
</tbody>
</table>

### Current Issues & Areas of Change

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

### Business & Functional Risk Registers

- Development and ongoing maintenance of risk registers by the business and functional leadership teams
- Review and challenge of risk content and quality of mitigation plans by Group Risk
  - Review and challenge of risks at business boards

### Group Risk Profile

- Consolidation of significant risks from underlying risk registers
  - Review and agreement of the Group Risk Profile by the executive directors
  - Review and approval by the Audit Committee

### Principal Risks

- A summarised version of the Group Risk Profile
  - Review and approval by the Board and Audit Committee
KEY AREAS OF FOCUS

We believe that the quality of risk management improves as business accountability and embedding increases, with review and challenge at senior levels of M&S. To drive this, we have focused on the following activities over the past year:

- Realigned our risk reporting process with the changes in our operating model.
- Reinforced accountability and ownership for risk management across the underlying business leadership teams.
- Completed a full review of all risk registers to confirm relevance and linkage of risk to the transformational changes under way.
- Improved visibility of risk at business boards and at the Audit Committee to allow enhanced challenge.

The UK Corporate Governance Code requires us to issue a “viability statement” declaring whether we believe the Company 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.

The Board is required to assess the Company’s viability over a period greater than 12 months. The increased levels of uncertainty within the global economic and political environment and the macro-economic challenges being experienced within the retail sector mean the Board continues to believe a three-year period is appropriate for business planning, measuring performance and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

The process adopted to assess the viability of the Company involves collaborative input from a number of functions across the business to model severe but plausible scenarios in which a number of the Group’s principal risks and uncertainties materialise within the period of the three-year plan.

We have modelled scenarios focused on both external factors, such as Brexit and lower than expected market growth, and internal factors, such as strategic programmes delivering lower than expected benefits. None of these scenarios individually threatens the viability of the Company, therefore the compound impact of these scenarios was reviewed against the current and projected liquidity position to conclude on the Company’s viability.

The assessment also took account of additional potential mitigations available in the event of further downside factors, including a reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board.

In assessing viability, the Board considered a number of key factors, including our business model (see page 6), approach to risk management (see page 27) and our principal risks and uncertainties (see pages 29-33). These have been reviewed in the context of our financial plans, especially the annual budget and three-year plan, the rights issue and the proposed creation of a new 50/50 joint venture with Ocado Group plc. The directors 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.

In making the statement, the directors have applied the following assumptions in preparing the scenarios:

- Bonds maturing during the assessment period will be repaid through our existing bank facilities.
- The actions included in our plan to improve sales performance are not fully realised or are offset by lower than expected market growth.
- The actions included in our plans to mitigate expected input cost increases are not delivered in full or the input cost increases are greater than expected.
- The expected benefits from the proposed creation of a new 50/50 joint venture with Ocado Group plc are not delivered in full.
- The UK’s exit from the European Union will have adverse financial impacts, including input cost inflation from increased tariffs and a weakening in sterling, as well as reduced UK consumer spending.

The Board’s assessment is that M&S is a viable business. The Viability Statement can be found on page 79.
PRINCIPAL RISKS AND UNCERTAINTIES

The details of our principal risks and uncertainties and the key mitigating activities can be found below and on the following pages. We disclose those risks that could have the greatest impact on our business at this moment in time. This risk profile has also been reviewed at recent Board and Audit Committee meetings. As our transformational journey continues and we undergo significant changes to our business, our principal risks and uncertainties also evolve to reflect this.

As such, we have included four new risks relevant to our business. These include the implications of the UK’s decision to leave the European Union and the risks associated with our intention to enter into the recently announced joint venture with Ocado.

In addition to the risks that we have disclosed below, we actively monitor and manage a wide range of other risks that M&S is exposed to.

PRINCIPAL RISKS & UNCERTAINTIES

<table>
<thead>
<tr>
<th>RISK</th>
<th>DESCRIPTION &amp; CONTEXT</th>
<th>MITIGATING ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 N</td>
<td>BREXIT An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business. The continued delay in agreeing the nature and timing of the UK’s exit from the European Union (EU) creates uncertainty that will impact the performance of our business. While an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact. Either outcome is expected to place increased pressure on how our business performs. The potential impact includes:  - A continued deterioration in customer sentiment.  - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls.  - Costs passed through from our suppliers.  - Continuity of supply and supplier viability.  - Import and export duties.  - Volatility in currency and corporate bond rates.  - Tightening of the labour market.  - Additional regulatory responsibilities and costs.  - Increased complexity and cost in our international operations, including our franchise activities.</td>
<td>- A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive “day 1” requirements.  - An Operational Brexit Team has been established.  - Updates are provided to the Board and Audit Committee outlining risks and actions being undertaken.  - We are engaged with the government and industry bodies to represent M&amp;S’s views, including the UK Border Development Group with access to the Department for Environment, Food and Rural Affairs (Defra), HM Revenue and Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning.  - Specific mitigation plans have been developed and are being refined for our core businesses. For example:  - In Food, plans are in place to build additional stock cover in ambient and frozen in anticipation of a projected period of disruption. We have secured additional ambient warehouse capacity to hold product, extended our warehouse management systems and put plans in place with our fresh suppliers to build raw material stocks in key areas. We have also mapped the processes to import goods from the EU, including certification and import notification, and continue to maintain regular dialogue with our Top 30 food suppliers to track readiness.  - While most Clothing &amp; Home product is sourced from outside the EU, we have engaged with suppliers to ensure trade flows are maintained and are modelling the impact of changes to tariffs and border processes. We have also accelerated delivery of certain stock lines from key countries.  - For International, we have developed plans to minimise operational and supply chain disruption to serve overseas operations. This includes building additional food stock cover in EU markets and setting up an ambient warehouse outside Paris. We have modified aspects of our supply chain for exporting from UK warehouses and to prepare for potential new customs requirements. We have also worked with our franchise partners and owned businesses to set up new import systems and evaluated options to maintain the flow of products across our operations in Ireland.</td>
</tr>
</tbody>
</table>
IMPROVING TRADING PERFORMANCE

A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment would adversely impact business performance.

The retail industry is highly competitive, both on the high street and online. M&S competes with a diverse range of retailers in both Food and Clothing & Home. These operate different models and formats through a variety of physical, digital and integrated distribution channels and offer a range of distinct product propositions, from the premium to the value end of the market, in the various markets in which we operate.

Continued cost and pricing pressures, the migration of customer activity online and the consumer impact of the UK’s departure from the European Union, as well as broader macroeconomic conditions, are all contributing to the challenges that lie ahead.

A failure to successfully reshape the Clothing & Home and/or the Food business would have an adverse effect on business results.

BUSINESS TRANSFORMATION

A failure to execute our business transformation activities with pace and agility could impede our ability to improve operational efficiency and competitiveness.

The business is undertaking a number of projects connected to the five-year transformation programme. The first phase of the programme is enabling the organisation and infrastructure to be fit for the future. Key activities include (although not limited to):

- Reshaping, modernising and managing the UK store estate (at a time when external factors such as falling property values and other retailers also exiting space create further complexity).
- Modernising our supply chain and logistics activities to improve speed, operational effectiveness and reduce costs.
- Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business (discussed further in the Technology, Capability and Talent, Culture and Capability risks below).

Underlying activities are significant in their own right but the level of interdependency and volume of change create additional delivery risk.

Any delays in delivery of the transformation plan, or a key component, could adversely impact the planned improvements in business performance.

FOOD ONLINE JOINT VENTURE

A failure to effectively plan for and execute the go-live of the proposed joint venture with Ocado on time would hamper achievement of our food online objectives.

The proposed joint venture (ocado.com) with Ocado Group Plc will enable us to take our food online in a profitable, scalable and sustainable way, operating as a fully aligned partnership with complementary skills and assets. Completion is scheduled for Autumn 2019, with our commitment to provide M&S product ranges and establish development capabilities to the proposed joint venture from September 2020 at the latest. Delivery of this commitment is overlaid upon and critical to the overall transformation plan.

Activities to be completed include:

- Satisfaction of all contractual completion conditions.
- Successful separation of the joint venture operations and establishment of associated services arrangements.
- Creation of an effective oversight and governance framework.
- Mobilisation of resources.
- Development of appropriate M&S range and interfaces to ensure that M&S products are ready to go live in September 2020.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED
### PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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<th>RISK</th>
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<td>5</td>
<td><strong>FOOD SAFETY &amp; INTEGRITY</strong>&lt;br&gt;Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.</td>
<td>- Clearly defined requirements through Terms of Trade, Codes of Practice, Standard Operating Procedures and Specifications “from farm to fork”, including in-store processes.&lt;br&gt;- Maintenance of a qualified and capable technical team. Professional status is maintained through training and an independently validated Continuing Professional Development Programme.&lt;br&gt;- Clear accountabilities for policy and standard development at technical leadership level, coupled with individual accountability for product safety at technologist level.&lt;br&gt;- Long-established store, supplier and depot auditing programmes are in place, including unannounced visits and raw material testing.&lt;br&gt;- Quarterly review of our control framework by the technical leadership through established governance procedures and the Customer Brand Protection Committee.&lt;br&gt;- Established processes for the development and legal sign-off for product packaging.&lt;br&gt;- Clear and tested crisis management plan to respond to future incidents.&lt;br&gt;- Membership of the Food Industry Intelligence Forum at both Board and Operating Committee level.&lt;br&gt;- Periodic Internal Audit reviews to consider process design and operating effectiveness.</td>
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<td>6</td>
<td><strong>CORPORATE COMPLIANCE &amp; RESPONSIBILITY</strong>&lt;br&gt;Failure to deliver against our legal, regulatory or social commitments undermines 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.</td>
<td>- Clear policies and procedures in place, including on human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health &amp; safety, food safety, cyber and data security.&lt;br&gt;- Immediate response to new requirements, such as for minimum alcohol pricing in Scotland, implemented during the last financial year.&lt;br&gt;- Mandatory induction briefings and annual training for relevant colleagues on key regulations.&lt;br&gt;- Oversight from committees and steering groups where necessary, including on data protection, fire &amp; health &amp; safety, food safety and human rights.&lt;br&gt;- In-house regulatory legal team, including specialist solicitors, with external expertise available as needed.&lt;br&gt;- Dedicated non-legal regulatory specialists and advisers in place across the business responsible for driving compliance.&lt;br&gt;- Ongoing engagement with regulators, legislators, trade bodies and policy makers.&lt;br&gt;- Published, monitored and reported commitments in relation to environmental and social issues.&lt;br&gt;- Established auditing and monitoring systems in place.&lt;br&gt;- Customer contact centre insight and analysis of live social media issues.&lt;br&gt;- Continuous improvement initiatives such as in-store trials of plastic-free fruit and vegetable lines or launch of an initiative where customers can drop non-recyclable plastic at our stores, to be re-used in making equipment for use in stores and schools.</td>
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<td>7</td>
<td><strong>TECHNOLOGY CAPABILITY</strong>&lt;br&gt;Failure to rapidly improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably.</td>
<td>- A technology transformation programme is ongoing, supported by project governance principles, to enable the Digital First ambitions and to deliver improved customer experience.&lt;br&gt;- An established Technology Operating Model to drive clear accountabilities and efficiencies, including the adoption of industry standard agile methods.&lt;br&gt;- Appointment of a leading technology company as our principal partner, coupled with consolidation of the technology supplier base.&lt;br&gt;- Simplification of IT infrastructure through clearly defined technology roadmaps for all business areas, including the migration from an ageing mainframe environment and improvements to our website, such as the completed platform of our web sales site to the cloud.&lt;br&gt;- Improvements to our in-store technology.&lt;br&gt;- Development of strategic partnerships, such as with Microsoft and Founders Factory.&lt;br&gt;- Establishment of Decoded – an externally developed and delivered training and qualification programme to improve digital people skills.&lt;br&gt;- Cross-channel technology investment strategy in place and aligned to the family of businesses to mutually agreed priorities.&lt;br&gt;- Quarterly reviews to track benefits realisation.</td>
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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 stakeholder confidence, and/or loss of information for our customers, employees or business.

- The increasing sophistication and frequency of cyber-attacks, coupled with the General Data Protection Regulation (GDPR), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties to host and hold data also means the risk profile of our information security is changeable.
- This risk is more pronounced due to the pace at which our business is changing and the volume of activities under way, both of which add to the complexity of maintaining a secure environment.
- We recognise the importance of challenging our existing capabilities, supporting the education of our teams and maintaining vigilance across the business. This holistic approach is needed to reduce the likelihood of attack or breach in an environment that is undergoing significant change and facing an external threat that is changing at pace.

BUSINESS CONTINUITY & RESILIENCE

Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders.

- The effective operation of the Castle Donington distribution centre is vital as it is the sole fulfilment centre for our online Clothing & Home business. A major incident leading to a sustained period offline, while unlikely, would not only impact current sales but potentially also hinder the growth of the M&S.com business and achievement of the one-third online target.
- Operational risks also exist in other parts of the business, such as the high volumes of goods sourced from Bangladesh, and at the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK.
- Our ability to develop effective continuity plans, build resilience in our networks and capabilities to manage associated risks remains an area of focus.

THIRD-PARTY MANAGEMENT

An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, may have an impact on delivery of transformational initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.

- Our business is increasingly dependent on significant third-party relationships. These span M&S and include products and services, franchise relationships, our joint ventures and our banking partner.
- To fully leverage these relationships we continue to focus on developing clear and consistently applied processes to track performance, ensuring that commercial expectations and outcomes are met and to put in place plans to manage potential business interruption risk created by such dependencies.

- A Data Governance function, overseen by the Data Governance Steering Group.
- Mandatory data protection training for colleagues, including responsibilities for the use of personal data in compliance with GDPR.
- Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security.
- Dedicated Cyber Security function, comprising a multi-disciplinary team of cyber security specialists, with 24/7 monitoring and defence tools.
- Established security controls, including policies and procedures and adoption of security technologies, subject to periodic independent testing and improvement.
- Completion of a comprehensive maturity review by an independent consultancy during the last financial year covering network security, identity and access management, security software development, and project and programme assurance.
- Third-party cyber maturity assessments performed and periodically refreshed. Targeted reviews of third-party control compliance.
- Ongoing monitoring of developments in cyber security threats, engaging with third-party specialists as appropriate.
- Periodic penetration testing by Internal Audit.
- Corporate Security team with ongoing focus on improving the physical security environment.

- A dedicated Business Continuity team.
- A Group Crisis Management team is in place and subject to periodic testing.
- Business continuity plans for key areas of the business and critical points of failure, including offices, depots and IT sites, are developed and tested.
- Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties.
- Insurance cover to mitigate the impact of remediation and business interruption.
- Participation in the Retail Business Continuity Association, which provides insight across the sector.
- Regular participation at government-led exercises at key locations.
- Membership of the National Counter Terrorism Information exchange.
- Mechanisms for checking that suppliers have appropriate business continuity plans in place.
- Ongoing contingency planning for Brexit.

- Clear procurement and supplier management policies in place, including specific requirements for strategic suppliers with dedicated relationship ownership.
- Defined service level agreements and key performance indicators in place for key contracts.
- Established franchise governance and management processes with regular relationship meetings with partners for the UK and International businesses.
- Integrated business planning processes to support franchise and joint venture reviews in International.
- Customer satisfaction surveys introduced for franchise partners with agreed performance targets.
- Regular review of franchise and joint venture markets.
- Engagement of in-house legal and procurement teams.
- Key supplier business contingency planning, selectively subject to review by our Business Continuity team.
PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

**RISK**

11 **TREASURY & FUNDING**

An inability to maintain short and long term funding to meet business needs or to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rates, may have an adverse impact on business viability.
- Availability of, and access to, appropriate funds is crucial in supporting core business operations and the successful and timely delivery of our transformation plan. The Group’s indebtedness primarily consists of bonds, bilateral facilities, and finance leases. The Group’s ability to make payments on its debt and to fund working capital, capital expenditures and other expenses will depend on the Group’s future operating performance and ability to generate cash from operations and to refinance its existing debt.
- Brexit adds a further dimension to this financial risk because of the potential impact on currency movements, corporate bond rates, changes in credit regulations and the extent of government support of credit markets.
- Additionally, we have a pensions fund commitment that requires active management and regular monitoring.

**MITIGATING ACTIVITIES**
- A £1.1bn undrawn committed credit facility in place until April 2023 and £285.4m of cash on deposit.
- Treasury executes forward buying of currency requirements and is 90% hedged for FY2019/20.
- Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics, in line with our performance actuals and outlook.
- Regular dialogue with the market and rating agencies.
- Review of counterparty credit risk and limits in line with our risk appetite and treasury policy.
- Pension funds assets fully offset pension scheme liabilities. At the last triennial review in March 2018, the fund had a surplus of £652m.

12 **TALENT, CULTURE & CAPABILITY**

A failure to attract, develop and motivate the right talent could slow down our ability to achieve operational and strategic objectives, including successful cultural and business transformation.
- As we transform our business, the calibre of our people is integral to delivering operational and strategic objectives and is especially important in our drive to be Digital First.
- Attracting, developing and retaining quality individuals is influenced by many factors, a number of which are outside our control such as labour availability and the challenges facing the UK retail sector.
- Our focus, however, cannot solely be outward looking – our existing workforce is one of our greatest assets. We need to ensure that our colleagues and culture are developed to drive a Digital First and customer-centric mindset and ensure that colleagues feel empowered to drive change at pace.
- Building cross-functional experience for high-potential colleagues to accelerate their development and to better prepare them for more senior roles, as well as expanding our focus on early careers is important in helping us build a bigger pool of future potential talent.

**MITIGATING ACTIVITIES**
- Talent is identified as a critical component of our people strategy and a key enabler in the delivery of our overall business strategy.
- Targeted external hires to strengthen capability including in Womenswear and Menswear, Food transformation and logistics, digital, Bank & Services and cyber.
- People key performance indicators are in place supported by talent reviews at all levels of the organisation.
- Established biannual employee engagement survey, enhanced during the year to provide additional insight.
- Clear focus and transparent action on fair pay, including gender, ethnicity, disability and age.
- A dedicated forum to lead the inclusion and diversity agenda on behalf of the Operating Committee.
- Simplified, outputs-focused framework for performance management.
- Ongoing culture assessment and roll-out of revised M&S Behaviours.
- Active engagement with our Business Involvement Group.
- Employee suggestion process directly overseen by the Chief Executive’s office.

13 **BRAND, LOYALTY & CUSTOMER EXPERIENCE**

An inability to successfully evolve our brand, customer experience and loyalty in line with expectations and innovations in the retail environment could have an impact on our ability to attract and retain customers and result in a decline in our market share.
- Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment.
- We are proud of our strong brand recognition, but external pressures make it more difficult for all businesses to drive brand relevance and attract and retain customers, especially in our target markets. Failure to do so creates the risk of a decline in market share.
- Our organisational design and operating model need to support our aim to be a customer-centric, Digital First business and our Sparks loyalty programme, marketing strategies and cross-functional ways of working will be key enablers in achieving this, supported by meaningful measurement of customer experience.

**MITIGATING ACTIVITIES**
- Brand and marketing teams aligned with the operating model to better address the specific needs of our family of businesses.
- Chief Digital & Data Officer in post to head Insights and Loyalty programmes.
- Investment in capability to measure customer experience through introduction of an end-to-end and multichannel net promoter score programme, supported by third-party expertise.
- Established Customer Insight Unit and focus groups in place.
- Review of our Sparks loyalty programme.
- Increasing our presence and proactive monitoring of social media to observe and respond to trends in customer experience with initiatives such as Try Tuesday.
- Targeted use of celebrity engagement.