M&S is a British value for money retailer, focused on own label businesses, including Food, Clothing & Home, in the UK and internationally.

Today we operate a family of businesses, selling high-quality, great value own-brand products in the UK and in 62 countries, from 1,519 stores and 44 websites globally.

In the face of an unprecedented global crisis, the best has been brought out of our 78,000 colleagues – across our stores, our support centres, our warehouses and in our supply chain – who have worked tirelessly to deliver for our customers.

Together we have strived to secure the future of the business and, as we emerge, our “Never the Same Again” programme will accelerate our transformation and fulfil our potential to deliver long-term, sustainable and profitable growth for our investors, colleagues and wider communities.
GROUP OVERVIEW

£10.2bn -1.9%
Group revenue

£67.2m -20.2%
Group profit before tax

22.5% +1.8%
Percentage of UK Clothing & Home sales online

3.9p -70.7%
Total dividend paid for 2019/20

£403.1m -21.2%
Profit before tax and adjusting items

63% (18/19: 59%)
Food: Value for money perception

1.3p -48%
Basic earnings per share

£1.46bn -2.6%
Net debt excluding lease liabilities

68 (18/19: 68)
Stores: Net promoter score

16.7p -29.5%
Adjusted earnings per share

57 (18/19: 54)
M&S.com: Net promoter score

GO DIGITAL

Access to more detailed and interactive content

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

Reduces our carbon footprint and saves paper

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

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

Covid-19 response timeframe

On page 50 we set out the timeframe for the Company’s response to Covid-19, which extends beyond the 52 weeks to 28 March 2020 covered by this report. Within the strategic report ‘Our Action in Response to Covid-19’ is not confined to the reporting period but we have indicated where the financial impact of these actions relates to the 2019/20 financial year.

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1. Net promoter score (NPS) equals the percentage of ‘promoters’ minus the percentage of ‘detractors’.
2. Shareholder information forms part of the Directors’ Report.

ALTERNATIVE PERFORMANCE MEASURES

The report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards as adopted by the EU. We believe these APMs provide readers with important additional information on our business. We have included a glossary on pages 180-182 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.

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Dear Shareholder,

Although much of this report is about the results for the financial year 2019/20, these now seem to relate to a previous age. The Covid-19 pandemic has since swamped our lives and the way we operate the business.

At the time of writing we are in the midst of lockdown. Our focus has been first on the safety of our colleagues and customers and on supporting vulnerable people and healthcare workers. Second on securing our business, cash flow and liquidity and planning our way through the clearance and storage of surplus stock. And thirdly on ensuring we learn from the crisis and come out stronger, faster and more competitive when we emerge.

Very sadly, we have lost two colleagues to the virus and others are in hospital. Our thoughts and prayers have been with them and their families. More broadly, the M&S family of colleagues has rallied together magnificently in the crisis.

From a financial point of view, the 2020-21 year is likely to be a lost year. Although we have taken drastic measures to secure cash flow and maximise sales, it is inevitable we will emerge with more debt than we had planned and make losses for a large part of the year. Whilst it is a challenge to forecast the future, our scenarios are based on a prolonged period of social distancing, trading limitations and depressed demand. We have taken steps to obtain substantial concessions from our banks and secure liquidity for the likely duration of the Covid-19 crisis and to underpin the recovery strategy.

There is a saying sometimes attributed to Winston Churchill, “never waste a good crisis”. Our business is now operating in ways we have never operated before. Remote working is only a small part of it. Multi-tasking in stores, delegation of authority, fast decision-making, an action orientation irrespective of hierarchy, and brilliant communication direct to the front line. At the same time, the way our customers and colleagues have rallied together magnificently is an inspiration.

Archie Norman, Chairman

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Financial highlights

3.9p -70.7%

Total dividend paid for 2019/20

“We have drawn up our “Never the Same Again” programme to harness our new habits and use the lessons of this crisis to make what feels like three years progress in one.”

Archie Norman, Chairman
customers live and shop has changed beyond recognition and these behaviours will not fully revert any time soon. We are determined to make our ways of working permanent and accelerate the aspects of our transformation necessary to thrive in a new consumer landscape. The manner in which our colleagues have been galvanised to act with pace and agility gives us confidence we can emerge stronger, as a faster, more streamlined business. This is why we have drawn up our “Never the Same Again” programme to harness our new habits and use the lessons of this crisis to make what feels like three years progress in one.

The acquisition in the year of a 50% share in Ocado Retail, supported by shareholders through a rights issue, gives us access to the UK’s fastest-growing food channel and is a strategic driver of growth for our Food business. The crisis has created a step change in demand for online grocery and we will commence supply to Ocado in September, making the M&S food range of over 6,000 products available online for the first time.

We are now, after two and a half years of transformation, on the verge of completing a much stronger management team, most notably with the arrival of Eoin Tonge as Chief Financial Officer, Katie Bickerstaffe as Chief Strategy and Transformation Director, and Richard Price as Managing Director, Clothing & Home, together with many others.

I wanted to thank all our colleagues for their loyalty in one of the toughest years in our history, the leadership team for working flat out through the crisis, and the Board for being continuously engaged. Alison Brittain is standing down after over six years; she has been a major force for change and we will miss her. Katie Bickerstaffe is joining the executive team but with Tamara Ingram and Sapna Sood joining the Board, we will still have a very strong, diverse and engaged Board.

Finally, it has not been a happy year for our shareholders, including all those on the Board and management team who are heavily invested in the Company. To provide for an uncertain outlook, we have had to make difficult decisions to secure the future of your business. We appreciate your patience and are determined to accelerate the changes we committed to and make M&S the special business we know it can become.

Yours sincerely,

Archie Norman, Chairman

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Supporting our hardworking colleagues

Above We supported our hardworking colleagues, as well as customers and communities, during the crisis. All our frontline colleagues, including those working in our Castle Donington distribution centre, received a 15% additional pay reward.

Helping manage social distancing in store

Left Our colleagues greeted customers at the entrances of every store and managed the number of customers shopping during busy periods.
CHIEF EXECUTIVE’S STATEMENT

“I have never been prouder to work for this business. The care and commitment our colleagues have shown to our customers, their teammates and our communities has been inspiring to see.”

Steve Rowe, Chief Executive

Last year’s results reflect a year of substantial progress and change including the transformative investment in Ocado, outperformance in Food and some green shoots in Clothing in the second half. However, they now seem like ancient history as the trauma of the Covid crisis has galvanised our colleagues to secure the future of the business. The way our people have rallied to support our customers and communities has been awe inspiring. From the outset we recognised that we were facing a crisis whose effects and aftershocks will endure for the coming year and beyond: whilst some customer habits will return to normal others have changed forever, the trend towards digital has been accelerated, and changes to the shape of the high street brought forward. Most importantly working habits have been transformed and we have discovered we can work in a faster, leaner, more effective way. I am determined to act now to capture this and deliver a renewed, more agile business in a world that will never be the same again.

Good progress on transformation 2019/20

Prior to the Covid-19 impact, both major businesses were making good progress in implementing the transformation programme with Food outperforming the market and despite teething issues in changes to men’s clothing ranges, kids, womens, and lingerie starting to show sustained, improved performance.

In recent years, we have made a number of structural changes to the basic infrastructure of the business including closing 54 of our legacy shared stores, migrating off mainframe infrastructure to cloud-based systems and implementing new warehouse management systems. These changes have been instrumental in enabling the business to react effectively in the early weeks of the crisis.

To illustrate more clearly the family of accountable businesses operating model, for the first time we are breaking out the operating profit after relevant costs of three business streams: UK Food, UK Clothing & Home, and International. This demonstrates the strength and balance of the combined businesses which has been a major source of resilience in the crisis.

Outperformance in Food

The UK Food business outperformed the market as changes to range, value and customer communication took effect: revenue increased 2.1%, with like-for-like sales up 1.9% strengthening throughout the year, including an estimated 0.3% benefit from the effects of Covid-19 in March. Operating profit before adjusting items increased 11.2%. Value perception improved, resulting in growth in volume ahead of value at 3.3% and increased market share.

We set out the Food strategy 18 months ago, rebuilt the leadership team and started to reposition M&S Food to broaden its appeal and move to ‘trusted value’. The programme was picking up momentum before the crisis struck and the progress made is set out in the Food section of this report.

Ocado Retail positioned strongly for growth

The valuable purchase of 50% of Ocado Retail positions the business strongly for growth in online grocery, the UK’s fastest growing channel. We reported a first time net income contribution for Ocado Retail to group profit of £2.6m for the 7 months to 1 March 2020, with the early contribution reflecting the limited period since completion. This is the contribution to group results prior to switchover to M&S supply on 1 September, which we expect to drive volume growth for M&S Food.

We have been working closely with Ocado Retail to create a ‘one business’ mentality which includes common operating procedures, business plan, and shared talent. The value of the investment we have made has been further reinforced by the strong growth reported by Ocado Retail since lockdown, with growth for the most recent 9-week period of 40.4% reported at its AGM on 6 May.

Reengineering Clothing & Home

The UK Clothing & Home business experienced a year of substantial reshaping, resulting in some encouraging performance indicators in the second half. However, revenue declined 8.3% overall, with like-for-like revenue down 6.2%, including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue was level. Operating profit before adjusting items declined 37.0%, largely

1. APM as defined in glossary on page 180.
driven by lower sales, gross margin headwinds related to sourcing and promotional mix and the impact of the crisis.

First-half trading was affected by poor availability in Womenswear, and in the second half by teething issues with the move to a more contemporary style and fit in Menswear. However, as detailed in the Clothing & Home section of this report, towards the end of the year performance, prior to the effects of Covid-19, in Womenswear and Kidswear was encouraging, Menswear saw improving sales trends and Lingerie held its market leading share.

**Changing the model in International**

As detailed on page 14, the first phase of transforming the International business has been the move away from direct ownership to a franchise and joint venture model working with strong partners in high-potential territories. The focus now is on localising ranges and reducing prices, and will increasingly be on developing sales online globally. International revenue at constant currency decreased 2.5%. Operating profit before adjusting items declined 15.2% to £110.7m, largely as a result of trading conditions in March.

**ACTION IN RESPONSE TO COVID-19**

Over £1bn of actions including £500m of planned cost reductions and further actions to manage cash under scenario planning for Covid-19

The Covid-19 crisis started to have an impact on the business in the first week of March with reductions in UK Clothing & Home sales, which declined by 6.2% and 26.9% the week after. With the onset of lockdown, the effect on sales, colleagues and customers in both businesses has been dramatic. Clothing sales at the lowest point dropped to 16% of their level a year ago. Without the resilience of the combined food and clothing business model and the extraordinary loyalty of colleagues, the impact on the business would have been even more profound.

My belief has been from the outset that the direct impact of the crisis on sales and stock flow will last at least 12 months and that subsequent demand may be depressed. In a challenging environment to forecast accurately, the business is being managed against a “Covid-19 scenario” created in the early weeks of the crisis. We are pleased to note that in the first six weeks of the new year, trading has substantially outperformed the scenario.

The scenario has the following core assumptions relative to our original 2020/21 budget:

- UK Clothing & Home, 70% decline in revenue for the four months to July and only a gradual return to original budgeted levels by February 2021 impacting annual revenue by c.£1.5bn.
- UK Food, 20% decline in revenue for the four months to July, with revenue level thereafter, impacting annual revenue by c.£0.4bn.
- International – Clothing & Home revenue to follow a similar pattern to UK Clothing & Home with a significant decline in April due to closures, impacting annual revenue by c.£0.2bn.

The table below sets out the revenue assumptions in the scenario by quarter, showing the variance to the original budget.

**REVENUE AT CONSTANT CURRENCY**


<table>
<thead>
<tr>
<th>% change to budget</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Clothing &amp; Home</td>
<td>-74</td>
<td>-61</td>
<td>-40</td>
<td>-6</td>
<td>-46</td>
</tr>
<tr>
<td>Food</td>
<td>-20</td>
<td>-6</td>
<td>-</td>
<td>-</td>
<td>-6</td>
</tr>
<tr>
<td>International</td>
<td>-51</td>
<td>-20</td>
<td>-9</td>
<td>-9</td>
<td>-22</td>
</tr>
</tbody>
</table>

In the light of the prolonged partial or total lockdown envisaged in our Covid-19 scenario, we have taken actions totalling c.£1bn relative to the original budget to reduce costs and manage cash, while protecting our transformation plans and trading potential.

**Substantial cost reduction of c.£500m in 2020/21**

- Non-essential spending has been reduced at all levels. For instance, we expect Clothing & Home marketing to be down £50m for the year, pay levels and recruitment have been frozen, saving c.£40m, and technology costs will be down c.£40m.
- Costs which are largely related to sales volume are being managed down, for instance, Clothing & Home logistics down c.£60m, colleague costs post-lockdown saving c.£40m, and International costs saving c.£30m.
- Fixed property-related charges are expected to decline, with service charge reductions, rent costs and other occupancy cost savings down by c.£20m before any more far-reaching changes to the store portfolio.
- Government support measures, including business rates relief of c.£172m and the Coronavirus Job Retention Scheme of c.£50m, will further support this year’s outcome.

In addition to these savings, we are exploring the potential for other changes, including a more streamlined support centre, changes to leadership structure and negotiations with landlords on commercial terms on lease contracts.

**Actions to stabilise cash flow exceeding £500m**

In view of the steep increase in working capital resulting from unsold stocks we are experiencing a cash outflow during the lockdown period and expect to draw on our credit facilities in the months ahead. Under the Covid-19 scenario, drawings are estimated to peak in early autumn at c.£600m, although our current performance would suggest a lower figure. To reduce risk, maximise liquidity, and enable a return to growth in the future, steps have been taken to underpin cash flow and reduce working capital.

- Capital expenditure for the year has at this stage been reduced to c.£140m, saving c.£195m in cash outflow in the current year against budget. Only essential and short payback investment focused on growth has been retained, such as the new ambient food depot, investment in online fulfilment and site development, and the Digital & Data programme.
- Cash management initiatives including in-year deferral of corporation tax, VAT and duty payments and likely savings from lower corporation tax paid for 2020/21.
- As previously reported, there will be no final dividend for 2019/20 and the Board does not expect to pay a dividend for the current financial year, using the funds instead for balance sheet support in the region of £340m.

**Liquidity and additional headroom secured for 2020 and 2021**

It was an immediate priority for the company to secure its debt facilities to provide for the cash requirements modelled under the Covid-19 scenario described above and given the risk in an uncertain market to ensure there is downside protection under even more adverse sensitivities. Therefore:

- Formal agreement has been reached with the syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- We have confirmed that we are eligible to access funding under the government’s Covid Corporate Financing Facility and been allocated an issuer limit of £300m.
As a result of these actions, we expect to have considerable headroom under our available facilities in 2020/21. While we will experience a cash outflow in the first half of the year as sales reduce and we pay for our previous stock commitments, we would expect this to partly reverse in the second half of the year.

– Under the Covid-19 scenario, drawings against our available facilities would be in the range of £300m–£350m by the end of 2020/21.

– The cancellation of the final dividend of c.£130m will generate further cash savings after year end.

Experience to date has been ahead of the Covid-19 scenario against which we set strong cost and cash management plans and has outperformed the scenario by over £150m per year to date, with actions planned to further improve our cash flow. If sustained, this leaves the Group well positioned to exit the crisis with limited drawdown against its facilities in 2020/21, with a further saving of the final dividend in the early months of the next year. We intend to adopt a dynamic approach to investment using sustained cashflow outperformance to capitalise on strong investment opportunities under our ‘Never the Same Again’ agenda.

Management of excess Clothing & Home stock

Like all fashion retailers, one of the biggest challenges arising from the crisis is the backlog of unsold stock for spring/summer 2020 and the forward pipeline ordered for autumn/winter. We closed 2019/20 with Clothing & Home stock of c.£500m and at that time had committed forward orders of £560m scheduled to arrive in the following six months. As the lockdown eases, a large proportion of current season stock will remain unsold and demand for many categories is likely to be weak. We have acted quickly to improve this position.

– We have cancelled late summer stock which will no longer be required, reducing forward commitment at cost by £100m.

– Of the balance of stock and forward orders, c.£400m is year-round basic product where M&S trades strongly and which will be carried forward at low risk.

– Of the unsold seasonal stock, we have made arrangements to hibernate around £200m until spring 2021, secured storage facilities and planned for the cost of these actions.

– We have therefore taken a charge of £145.3m in adjusting items to reflect the cumulative impact of the combined handling, clearance, hibernation and write-off of the stock.

The combined impact of lockdown, social distancing and depressed demand is likely to continue through the year.

Recent trading performance

The first six weeks trading has been ahead of the Covid-19 scenario particularly in Food and online.

– Store sales in UK Clothing & Home were reduced to a trickle due to the closure of space, running down 98.8% year on year at the lowest point. In-store sales of essentials increased from £252k per week in the first week of lockdown to £1.4m per week by week six.

– Although online Clothing & Home has traded throughout, demand in the initial weeks for clothing was very low with a gradual uplift since. In the last three weeks, online sales have been running c.20% up year on year.

– Standalone Simply Food stores have traded strongly, up on average 17% with a positive trend in many Retail park stores which typically have direct access. In the earliest weeks of lockdown this was offset by lower sales in travel franchise units (c.5% of revenue) and the closure of in-store hospitality and cafes (c.4% of revenue). In the last three weeks overall Food sales have on average been level.

– We also experienced an initial adverse margin mix as demand shifted towards ambient grocery sales, although this is now diminishing.

Never the Same Again

During the crisis, we have all had to work differently and consumers have rapidly changed shopping habits and may never shop in the same way again. We intend to use the learning from the crisis and, as set out on the opposite page, we have drawn up our Never the Same Again agenda to accelerate our transformation.

We have:

– Committed to never be the same again in culture, organisation and work habits.

– Taken immediate steps to ensure that the “change of gear” of the last few weeks endures.

– Started to bring forward the aspects of our transformation necessary to thrive in a changed consumer landscape and become an online winner in Clothing & Home and Food. As made clear on page 10, the Ocado relationship is an integral part of our strategy to bring M&S Food into the online and home delivery market, which we expect to be even more vibrant as a result of the crisis.

A significantly renewed management team will implement our Never the Same Again programme, and in the coming weeks this team will take shape with a number of important arrivals. Katie Bickerstaffe has joined as Chief Strategy and Transformation Director and Eoin Tonge arrives as CFO in June. Richard Price joins as Managing Director Clothing & Home in July, with new Head of Clothing & Home Supply Chain Paul Babbs and Head of Clothing & Home Online Stephen Langford both joining in May. Property Director Will Smith arrives in May and Helen Milford joins as Store Operations Director in June. Craig Lovelace joins as Finance Director of Food in June.

Our response to Covid-19 is explored throughout this report but in short, I have never been prouder to work for this business. The care and commitment our colleagues have shown to our customers, their teammates and our communities has been inspiring to see. M&S has faced this crisis in the same way we have met challenges throughout our history. Each member of the M&S family has pulled together and responded with agility and pace to show our customers that they can trust M&S to be there for them and their community in the ways that matter most, and I would like to extend my personal thanks to them all. They are what makes this business special.

While there are many uncertainties, we are confident we will emerge from this period in a strengthened competitive position. We have a strong Food business – soon to be stronger as our products become available on Ocado.com and, although there is some way to go, there is progress being made across every aspect of our Clothing & Home business. In a consumer environment that will never be the same again, we will accelerate parts of our transformation in response and learn from our crisis actions to ensure that M&S is changed for good.

Steve Rowe, Chief Executive
OUR STRATEGIC PRIORITIES

The aim of our transformation is to restore M&S to sustainable, profitable growth and this has not changed. However, in the new landscape – where the way we work and how customers shop may never be the same again – we are learning from the crisis to ensure that M&S is changed for good.

WHAT WE ARE LEARNING FROM THE CRISIS

The crisis illustrated how differently we can use technology, run stores, and make decisions fast. In a business with a history of slow cultural change we intend to use these lessons, to ensure that as lockdown eases, we are never the same again in culture, organisation and work habits. For instance:

- A smaller top team has made decisions faster and more efficiently, delegating trading and operating management to business unit heads. Working groups, committees and elaborate management processes have been disbanded.
- Support colleagues have learnt to improvise their routines at lower cost with no detriment to trading standards.
- Our strategic relationship with Microsoft has been highly effective supported by Teams.
- In stores, given the need to furlough and redeploy colleagues, valuable lessons have been learned about our ability to multi-task and increase the pace of work with no adverse impact to service.
- Online has for a period been our only significant clothing business and this has illustrated the need to be leaner, and more integrated to compete with online pure plays.
- The reduction in forward order volumes in clothing has forced the need to change ranges to buy more of less from fewer core suppliers.

WHAT WILL NEVER BE THE SAME AGAIN

The following steps have already been taken to ensure that the ‘change of gear’ of the last few weeks endures:

- On 14 May, we announced changes to the business leadership structure with the formation of a small executive board consisting of the operating MDs together with Katie Bickerstaffe, who has now started as Chief Strategy and Transformation Director, and Chief Financial Officer Eoin Tonge who is arriving in early June.
- Central support costs and headcount will be examined at all levels, delegating decisions to business unit and category heads.
- In stores, multi-tasking and more flexible management structures will be integrated into the way the business operates.
- Digital is being consolidated under a single transformation team bringing together data, online and technology.
- The direct-to-the-frontline, tech-enabled communication, combined with increased flexibility in working patterns, will become permanent.

ACCELERATING THE TRANSFORMATION PROGRAMME

We will accelerate aspects of the transformation to increase our relevance in a new consumer environment, including:

- The move to ‘trusted value’ in Clothing & Home and option count reduction and supplier concentration brought forward.
- The reduction in range and shift towards fast moving product at great value necessitated by the crisis will result in a permanent reduction of 20% in autumn/winter store option count.
- The role of the sourcing offices will be increased so that sampling, ordering and quality issues are dealt with offshore.
- A faster ‘near-sourcing’ supply chain will be developed, to enable a test and re-order of seasonal fashion lines, particularly for the online business.
- Establishing a store estate for the new world with the replacement of ageing stores already under way and shift in relationships with property providers to go faster.
- The longstanding issues in Food distribution will be tackled to capture value in our Food supply chain, with the roll-out of the Vangarde programme and addressing the contract and relationship with Gist.
- Turbocharging growth to become an online winner in Clothing & Home and Food. The sharp growth of online grocery during the crisis is evidence of this, as is the strengthening performance of our online Clothing & Home.
The retail industry has changed dramatically in a few short weeks, and has in some ways become unrecognisable from the one in which we traded for the vast majority of 2019/20.

In 2019 retail sales declined for the first time on record, with the British Retail Consortium reporting a 0.1% contraction across the sector due to political instability and increased consumer caution (Source: BRC-KPMG).

In contrast, early 2020 saw consumer confidence beginning to return, although this did not translate into significant sales for retailers.

An overview of the Food and Clothing markets in 2019/20, as well as a brief assessment of the Covid-19 impact that followed, is below.

FOOD MARKET

The grocery market returned growth of 2.7% for the 52 weeks ended 22 March 2020 to grow to £117.6bn (Source: Kantar) with Covid-19 impacting consumer spending in Q4. Home delivery and online maintained its position as the UK’s fastest growing channel at 5.5% year-on-year growth, versus 2.5% in store (Source: Kantar). M&S maintained a 3.4% market share across the year, with the four largest supermarkets together holding a 59.6% share, discount retailers capturing 11.4% and Ocado Retail a 1.2% share.

Key consumer trends included the rise of environmental awareness driving consumer choice and spend, with our own research revealing 75% of consumers were actively seeking to reduce their use of plastic packaging. We trialled a refillable grocery initiative in response, which was well received by our customers. Vegan food also continued to become a more popular choice among UK consumers, with 86% of plant-based meals eaten by non-vegans.

Covid-19 impact

March 2020 was the biggest month of grocery sales on record (Source: Kantar) as the impact of Covid-19 drove consumers to increase spend on grocery prior to the UK commencing lockdown on 22 March. Immediately following the government’s measures, spend and frequency of visits dropped as consumers followed guidance to stay close to home. The market experienced unprecedented levels of demand for online grocery deliveries at the height of the crisis with the country impacted by lockdown, and retailers needed to be increasingly agile in launching and executing food delivery online in a short space of time. In the absence of an online offer, M&S rolled out several quick solutions – including online food box deliveries and a temporary partnership with Deliveroo – to help isolated customers access essentials (see Food section on page 10).

As we look ahead, we expect the crisis-driven change in behaviours of customers such as the rapid adoption of online food shopping, and fewer, bigger shopping trips to continue at least as long as the Covid-19 crisis remains. The switchover of our products onto Ocado Retail’s platform from September 2020 will mean we are competitively positioned to service accelerating demand in the UK’s fastest growing grocery channel.

CLOTHING & HOME MARKET

The clothing market declined by 5.7% year-on-year for the 52 weeks to 05 April 2020 to a total value of £33.3bn (Source: Kantar). Consumers spent less on clothing throughout the year – with disposable spend focused instead on experience. As a result, the sector experienced a move towards spend on activewear and athleisure, reflecting a consumer shift towards casual dressing and focusing on healthy everyday lifestyles. We launched Goodmove, a new athleisure range, to access this growing trend, which delivered encouraging results.

Online continued to be the fastest growing channel against declining spend offline, growing 2% points to account for 29.9% share of total clothing sales across the market (Source: Kantar), with purchases on laptops the largest online channel and mobile the fastest growing, particularly in womenswear spend. M&S continues to be the UK’s largest clothing retailer, maintaining our market-leading position across Womenswear and Menswear, closely followed by Next and Primark.

Covid-19 impact

Covid-19 rapidly accentuated the headwinds and spending habits the clothing sector experienced through FY19/20. Bricks and mortar retailers were required to shut stores and operations in response to government measures, including our outlet stores and C&H sections of larger stores, resulting in greater numbers of consumers making purchases online. Additionally, consumer spend was concentrated on different categories reflecting life at home and changing behaviours, such as loungewear, babywear, and bedding products, and away from formal and suiting. The market broadly reacted to the closure of UK stores by heavily discounting items, peaking in w/e 29 March where over half of the UK online clothing market was discounted, the largest proportion, outside of Black Friday in 2019, for at least eight years. For M&S our online operations continued to trade as robust social distancing measures to help keep our colleagues well were implemented, and customers continued to purchase essential products required during this time (see Clothing & Home section on page 12).

The outlook for the UK’s clothing sector remains uncertain at present, but we fully anticipate consumer behaviour to follow the recently established trends for the coming months ahead and limited customer appetite. Online purchasing activity will only continue to grow, with the impact of social distancing likely to linger on. We are boosting our online relevance to meet that demand by rolling out brands on M&S.com and an additional 850 Clothing & Home products on Ocado from September.
**BUSINESS MODEL**

**M&S serves about 31 million customers every year from across the UK.**

We operate a family of accountable businesses of Food, Clothing & Home, International, Services and Property, and the strength and balance of our combined business model has been a major source of resilience during the Covid-19 crisis.

**OUR CUSTOMERS**

M&S serves about 31 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 ‘family age’ customers and beyond, who we reach through a channel network of 1,519 stores and online services in the UK and across 62 international markets.

**OUR COLLEAGUES**

We employ over 78,000 colleagues across our office, operations and international teams, 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 operates a family of parallel businesses each trading value for money ranges. Each is led by its own integrated management team, with functional accountability for their divisions, including marketing, supply chain, finance and online.

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 deli and dairy; produce; ambient and in-store bakery; meals dessert and frozen; hospitality and ‘Food on the Move’.

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

**International:** M&S exports the best of M&S Food and Clothing & Home around the world in select target markets across Europe, the Middle East and Asia. Customers purchase our products through a network of mainly partner-led or owned businesses in territories with growth potential, or through online-only channels in growing markets such as Australia and the United States.

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

**OCADO**

M&S holds a 50% investment in Ocado Retail, a relationship between M&S and Ocado, which from September 2020 will roll out M&S Food and Clothing products across the platform for customers to purchase online, enabling access for the Group into the UK’s fastest-growing grocery sales channel.

**DIGITAL & DATA**

Our Digital & Data central function provides support across the business, ensuring a seamless customer experience, improving customer personalisation, embedding digital across our stores and shopping missions, revamping our loyalty proposition and ensuring that we are at the forefront of the latest innovation and trends.

**THE GROUP**

Our 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.
In 2018, we outlined our far-reaching improved value perception, without M&S Food more price competitive and during the year, we worked to make with a profitable, scalable presence in Ocado Retail, which will provide M&S with a detailed line-by-line review of the existing c.4,000 Waitrose products and, from 1 September, we will launch with a compelling range of over 6,000 M&S lines, complementing the 55,000 Ocado branded products, leveraging our unique capabilities in sourcing and new product development.

ACTIONS IN RESPONSE TO COVID-19: HELPING TO FEED THE NATION
Throughout the crisis, we have taken decisive action to mitigate supply chain disruption, respond to changes in consumer shopping behaviour, support the vulnerable and health and social care workers, and play our part in feeding the nation. The Food business experienced strong trading in standalone Simply Food stores – particularly those with car parking – but this was offset by the closure of cafés and the stores located in travel hubs.

Responding to changing customer shopping behaviours: In line with government restrictions, customers embraced a ‘shop local’ mentality and we temporarily closed franchise stores in travel locations and a small number of owned stores, and redeployed M&S colleagues to busier Foodhalls. Store manager-led local communication via social media helped highlight the M&S renowned quality. Our sponsorship of ITV’s Britain’s Got Talent took M&S Food into over eight million homes each week, while in July our Little Shop campaign helped attract more family customers.

We opened five ‘test and learn’ renewal stores across different formats to encourage bigger basket shops by showcasing more of the M&S Food offer. Within each store, we extended the square footage of Food trading space and created a fresh market feel, with a sharper focus on our value, and the categories that support a fuller family shop, such as frozen, bakery and household goods. Early performance has been encouraging with strong sales, and we are now optimising the concept in order to support further roll-out with a more efficient renewal model.

The Vangarde end-to-end supply chain programme has been rolled out to 90 stores and the team has demonstrated scope for reducing waste, improving availability and running stores more efficiently.

Since completion in August, we have worked closely with Ocado Retail to create a one-business mentality and, even through the crisis, continued a laser focus on preparations for launch in September 2020 to drive faster growth. We completed a detailed
Rapid introduction of new online solutions to help serve-isolated customers: To provide customers with essential groceries, we introduced a temporary partnership with a delivery app provider, initially at 120 BP franchise stores, and in May, we extended the service to selected town and city centre sites and included a broader product range. Alongside this, we quickly introduced online M&S Food Boxes, as explained opposite.

Supporting our suppliers: At its core, protecting the magic is about protecting the quality and provenance of our food through the strength of our supplier partnerships. Our 10,000 British M&S Select Farmers have been put under immense pressure following the collapse of hospitality sales, labour shortages and increased absence. M&S stood by its longstanding commitments to British sourcing and paying a fair price for milk, and introduced new initiatives and promotions on products like steak to help M&S Select Farmers manage excess stock. In addition, we extended our funding platform for smaller Food suppliers to access immediate payments from our banking partners to support cash flow.

NEVER THE SAME AGAIN PRIORITIES

The impact of Covid-19 has affirmed our strategy to create an even better value, differentiated Food business and grow the volume opportunity by enabling more customers to shop our full range. While the shape of trading has been affected by the change in customer shopping patterns during Covid-19, we maintain our belief that we have an opportunity to double the size of the M&S Food business in the medium term. To achieve this we will:

- Develop a winning online Food business through the successful delivery of the Ocado switchover which is critical to bring M&S Food into home and online delivery. The value of the investment we have made has been further reinforced by the strong growth reported by Ocado Retail, since lockdown, with growth for the most recent 9 week period of 40.4% reported at its AGM on 6 May.
- Continue working with Ocado Retail to ensure a compelling offer at the switchover on 1 September through:
  - Adding over 6,000 M&S lines to Ocado from September compared with c.4,000 Waitrose lines. In all cases, we believe M&S product, quality, date life and price will be equivalent or better than the current offer.
  - Finalising product data sets for online trading, supply chain processes for direct to Customer Fulfilment Centre deliveries and switchover procedures for September.
  - Delivering synergies for M&S starting this year and building to not less than £70m in 36 months from inception of supply.
- Agreeing through Ocado new supply agreements with major branded suppliers to improve M&S competitiveness in branded sourcing.
- We will accelerate our end-to-end supply chain transformation by resolving our Gist relationship and through the roll-out of the Vangarde programme. This will reset our operating model to help deliver a positive step change in our waste and availability levels, through better forecasting and allocation, depot process changes, more timely delivery windows, fill processes and stock counts. Having begun at our York Vangarde store, we rolled out the principles to 90 stores and the programme will be delivered nationwide, enhanced by a new ambient food depot. We expect this to open ahead of Christmas 2020 to improve availability during this peak trading quarter.

Annual Report & Financial Statements 2020 11

<table>
<thead>
<tr>
<th>STRATEGIC KPIS</th>
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<tbody>
<tr>
<td><strong>Like-for-like sales</strong></td>
</tr>
<tr>
<td>Like-for-like sales performance improved and strengthened through the year as we outperformed the market.</td>
</tr>
<tr>
<td>+1.9%</td>
</tr>
<tr>
<td><strong>Value for money perception</strong></td>
</tr>
<tr>
<td>The proportion of customers who rated us highly on value for money. We reduced the price of over 500 lines by 10% this year to ensure ‘trusted value’.</td>
</tr>
<tr>
<td>63% (18/19: 59%)</td>
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<tr>
<td><strong>Availability</strong></td>
</tr>
<tr>
<td>We continued our drive to improve availability and reduce waste through the Vangarde programme, designed to improve the running of our stores.</td>
</tr>
<tr>
<td>93.3% (Level)</td>
</tr>
<tr>
<td><strong>Quality perception</strong></td>
</tr>
<tr>
<td>The proportion of customers who rated us highly on quality. Our Food strategy of protect the magic includes maintaining the quality our Food products are famous for.</td>
</tr>
<tr>
<td>86% (18/19: 85%)</td>
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</table>
Financial highlights

<table>
<thead>
<tr>
<th>Metric</th>
<th>Amount</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Clothing &amp; Home revenue</td>
<td>£3.2bn</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Operating profit before adjusting items</td>
<td>£223.9m</td>
<td>37.0%</td>
</tr>
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PERFORMANCE THIS YEAR

Last year, we set out plans to address the historical challenges of our Clothing business and the action required to start the reversal of its declining performance. We outlined how we would build a more confident Clothing business focused on contemporary, wearable stylish clothes, underpinned by great quality and value. To do this, we said we would:

- Restore style and value credentials and broaden appeal to a family age customer.
- Reduce the proliferation of range and options.
- Substantially increase high-volume wardrobe staples in key categories such as denim and school wear.
- Target one third of sales online by 2022.
- Modernise our end-to-end supply chain.
- Trade more effectively in season – with a first price, right price mentality.
- Continue to reduce the quantity of sale merchandise.

In 2019/20, UK Clothing & Home sales decreased by 8.3%, with like-for-like revenue down 6.2% including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue remained level. Operating profit before adjusting items declined 37.0%, largely driven by lower sales and gross margin and also the impact of the crisis. Following a challenging start to the year, we made up for lost time through the second half, taking decisive action to trade the ranges through shorter clearance periods and improving availability. For the 8 weeks ended 22 February UK Clothing & Home like-for-like revenue increased 0.3%, driven by stronger trends at M&S.com, up until the beginning of the crisis.

In Womenswear, we took action to simplify our ranges; the number of options was reduced by 11% and we increased volume on our top 100 lines resulting in strong uplifts. We focused on hero categories and saw what is possible when we back our best-performing categories with contemporary fits, clear price architecture, supportive marketing aimed at our family customers and relevant innovation. In Denim, we increased our market-leading position and have seen a sales uplift of 10% across two years. We also launched Goodmove – a great-value, stylish activewear range developed on M&S’s strength in performance fabrics and sports bra innovation – designed to broaden appeal and capitalise on the fast-growing athleisure category. Early sales were strong resulting in an improved 16% growth in this category in the first three months.

Lingerie held its leading market share at 27%, including our highest ever Bra market share, with a strong performance from Collection, and an increased rate of sale as option count marginally reduced. In Kidswear, under a new leadership team, the shift away from ‘Sunday best’ to more casual ranges at better value resulted in like-for-like sales growth in the second half.

Teething issues held us back in Menswear as we transition to a more contemporary style, but we do not expect these issues to be repeated. Hero categories started to see improving trends after Christmas, and knitwear like-for-like sales grew by 5.6%, following a strong marketing effort, in contrast to further declines in formal clothing experienced alongside the broader market.

As set out on page 17, M&S.com performance was level, with our percentage of UK Clothing & Home sales online at 22%. Issues in Clothing & Home availability and conversion as more customers chose to shop on mobile impacted the first half of the year. Performance improved somewhat in the second half as initial steps were taken to improve the customer proposition and Search Engine Optimisation (SEO) prior to the adverse trading impact of Covid-19. M&S.com is to be re-organised under new leadership as part of the post-Covid programme.

Supported by the new mezzanine, our distribution centre Castle Donington had a strong Christmas performance – including its biggest day on record – sending 417,000 customer parcels. Within our stores logistics network we continued to make changes – announcing the closure of the final two regional distribution centres. This move will help improve flow of product through the supply chain and therefore availability nationwide for customers shopping in store. We know our performance remains held back by limitations in supply chain capability and our current processes still add cost and complexity. Led by Paul Babbs, our new Head of Clothing & Home Supply Chain, we will act at pace to improve the planning, flow, visibility and complexity of deliveries.

ACTIONS IN RESPONSE TO COVID-19

Following the lockdown announcement on 22 March, our Clothing & Home store operations were packed down within 24 hours. This, combined with subdued customer demand, resulted in store sales being reduced to a trickle. Although online Clothing & Home traded throughout, demand in initial weeks for clothing was very low with a gradual uplift afterwards. The following actions were implemented to mitigate risk and support our operations.

Supporting online distribution at Castle Donington: We acted quickly to implement hygiene measures and support for colleagues at our online distribution centre. The high levels of automation at the site have been beneficial for the implementation of social distancing so that we can help keep our fantastic distribution centre colleagues well and maintain service and redivert capacity to support Food operations.

Decisive action on stock management, supporting long-term suppliers: We took fast action to manage stock and costs to secure the business for the future. We cancelled all late summer stock production from 24 March. Around £400m of remaining stock and forward orders is year-round ‘essentials’ product, and this will be carried forward into future seasons. Of the unsold seasonal stock, we made arrangements to hibernate a proportion until Spring 2021 and secured storage facilities. We adjusted supplier payment terms to improve our working capital position. However, with the impact of Covid-19 felt acutely across the garment industry, we put in place measures to support our long-term suppliers, who remain as important to our business as ever and we will continue to work in partnership with them through the crisis. We paid for all shipped products and offered pre-payment for the vast majority
of orders and committed fabric – the most expensive cost for a supplier. We continued to offer vendor finance and letters of credit enabling suppliers to get immediate access to cash. We continue to work with the Ethical Trading Initiative, the InternationalLabour Organization and remain committed to our community projects.

Adapting the M&S.com journey to reflect customer behaviour: We were agile to customers’ needs and updated the site architecture to make it easier to shop popular categories such as leisurewear and kids’wear. As set out on page 17, we optimised site performance and set up a dedicated SEO working party to improve search rankings. To drive longer-term customer loyalty and engagement during the lockdown phase, we highlighted the benefits of the M&S app resulting in three times as many weekly downloads of the app by new customers.

Adapting our customer propositions: We introduced contactless delivery as standard and made changes to customer service to reflect lockdown, including extending our returns policy to 90 days and lengthening the collection widow for Click & Collect orders. We kept customers updated on service changes through a dedicated Covid-19 page on M&S.com.

Adjustment of our logistics network: Following the suspension of store deliveries, around 3,000 logistics network colleagues were furloughed. We worked with our third-party logistics providers and offered wage support while they waited for support from the government’s Coronavirus Job Retention Scheme. The number of furloughed colleagues was reviewed weekly as we progressed into the new financial year to ensure cost-saving was balanced with the need to support online trading and food operations.

NEVER THE SAME AGAIN PRIORITIES

The crisis has rapidly altered customer behaviour for the future, with sharp growth in online channels. This will likely continue at least in the coming months ahead, and to respond and adapt:

- We will broaden relevance and increase online growth by introducing complementary guest brands to M&S.com and large store formats. Additionally, we have agreed with Ocado Retail that around 850 core Clothing & Home products – such as school wear and underwear – will be available on the site from September and around 1,600 core Clothing & Home lines per year will be available on the site.
- The move to more trusted value will be accelerated with an opportunity to further reshape our buy and permanently reduce Autumn/Winter store option counts by 20%. Supplier concentration activity will be brought forward ensuring more strategic commercial partnerships. The reduction in forward order volumes has forced the need to change ranges and buy more of less from fewer core suppliers.
- The role of the sourcing offices will be increased so that sampling, ordering and quality issues are dealt with offshore and we will bring forward the implementation of a fast ‘near sourcing’ supply chain to enable a test and re-order approach to seasonal fashion lines.
- The strengthening of our leadership team with the arrival of Richard Price (Clothing MD), Stephen Langford (Head of Online) and Paul Babbs (Head of Supply Chain) will help us fulfil our priorities at pace. Through delivering these actions we believe we will emerge from the crisis with a much more focused and relevant range offering substantially better value.

Like-for-like sales

Like-for-like sales for 2019/20 were adversely impacted by availability in H1. However, before the impact of Covid-19, the eight weeks ended 22 February showed encouraging signs of improvement with like-for-like sales increasing 0.3%.

-6.2%

Value for money perception

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

67% (18/19: 65%)

Style perception

The proportion of customers who rated us highly on style. We are reengineering our Clothing & Home business towards more contemporary fit and style as well as improvement to our core ranges.

63% (18/19: 58%)

Clothing & Home space

We continue to make good progress in reshaping our store estate for customers.

-2.3%

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## INTERNATIONAL & SERVICES

### PERFORMACE THIS YEAR

Last year, we said that the actions we had taken in closing loss-making stores and changing the business model to focus on working with partners in select markets with the potential for growth - had resulted in us making headway in our transformation. However, we were clear we had further to go to improve our local relevance and competitiveness. We said we would do this through:

- Expanding in strategic, scale markets.
- Modernising our store estate in a low-cost way to improve our customer experience.
- Strengthening market right pricing and further localising ranges to become more competitive and grow volume.
- Continue the roll-out of our international online channels.

Over the past year, the International business has faced significant headwinds including stock efficiency management by franchise partners resulting in reduced shipments, political unrest in Hong Kong and France, and — most significantly — Covid-19. This disruption, combined with weak performance in Ireland, resulted in revenues for the year declining at constant currency by 2.5%. Trading conditions deteriorated significantly in March with a number of markets or stores unable to trade due to the virus, resulting in operating profit (before adjusting items) declining 15.2% to £110.7m.

In line with our priorities, throughout the year we drove local relevance through market right pricing in select markets, with average selling prices dropped by -12%, boosting sales by +2% and volumes by +15%. Alongside this, we continued to drive greater localisation of our products to meet the needs of our customers in key markets, such as in India where 25% of Womenswear and Menswear is now specifically designed for the market.

We expanded and modernised our store estate to 481 stores, opening 47, 18 in owned and 29 in franchise markets, as well as modernising 24 and closing 10.

Our international e-commerce channels are divided into direct shipments from the UK, sales on third-party marketplaces and sales fulfilled by franchise partners on their own websites. This year, in line with our strategy, we launched an additional five transactional websites, including our flagship website in India — our key owned market — and now sell online to customers in 44 different countries. Our e-commerce sales channels performed strongly with online retail sales growing +26% on last year to £103m, and we saw further growth in online sales following store closures in markets as a result of Covid-19.

### ACTIONS IN RESPONSE TO COVID-19

The impact of Covid-19 has mirrored the spread of the virus from China and South East Asia, where we have a presence in Hong Kong, Singapore and Malaysia, to the Middle East, impacting operations in the UAE, Saudi Arabia and Dubai and then Europe. By the end of the financial year, it had resulted in 382 stores closures, almost 80% of the estate.

We took a number of actions to support our International colleagues, partners and customers:

- **Supported our partners:** Established partner and operational support teams with daily crisis calls and identified alternative ways to deliver our products to customers while meeting local government guidance, including the launch of a Deliveroo partnership in France.
- **Reinforced our online sales channels for customers:** Optimised our existing e-commerce sales channels in key markets like in Czech Republic where we supported the acceleration of customers shopping online through promoting both our own flagship website, and the leading local e-supermarket, for customers to continue purchasing M&S products.
- **Responded to increased product demand:** Worked with suppliers and partners to maintain supply of fresh food products in our Asian markets through sourcing alternative delivery routes to market.
- **Boosted operational support for partners:** Delivered international buying fairs for partners, which are usually attended by over 100 people in the UK, online for the first time so partners were able to continue reviewing and selecting products to sell in their markets for the year ahead despite restrictions on travel.

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1. Net promoter score (NPS) equals percentage of promoters minus the percentage of detractors.
Provided colleague training and support: Ran online training for colleagues affected by locally enforced lockdowns in visual merchandising and store management courses to upskill with high engagement and participation rates.

NEVER THE SAME AGAIN PRIORITIES
The double-digit growth in International online sales achieved since Covid-19 signals that we have potential to achieve a step change in this area, as well as continuing to improve and develop the localisation of M&S internationally. Our priorities will be:

- Turbocharge our international e-commerce proposition as the crisis drives more customers to shop online, which we have begun with improvements in our online service for customers through Covid-19, and attain faster growth rates in these channels, which operate attractive contribution margins.

- Adapt to changing customer behaviours, with social-distancing measures encouraging less contact, by prioritising efficient store modernisations, such as our One Raffles Place store in Singapore. In this store we have digitally enhanced operations which now include features such as Mobile Pay Go for a contact-free shopping experience for customers.

- Reduce costs and improve support for further growth in 2020/21 by prioritising investment in the Hemel Hempstead export centre to avoid inventory being double handled through the UK network and deliver a more accurate and efficient service for our international partners.

SERVICES
We continued to provide our customers with a range of services through our wider family of businesses, including financial services through M&S Bank (managed by HSBC) and fully renewable electricity via M&S Energy (in partnership with Octopus). M&S Bank & Services income before adjusting items was down £10.2m to £16.8m. This was predominantly the result of an increase in bad debt provisioning due to a higher risk of customer default. M&S Bank income after adjusting items decreased £1.9m to £4.2m.

Following the onset of Covid-19 our Services businesses also continued to support customers through measures such as introducing priority access for NHS and emergency services on our telephone lines, or offering guidance on fraud protection during this time.

Above: We modernised 24 additional stores across our international estate this year, including One Raffles Place in Singapore, which features a range of digital services for customers.

Left: We are looking to expand our international online channels as more of our international customers choose to shop for the best of M&S online through our flagship sites, such as in Greece.
 Footfall (average per week)  
18.0m (18/19: 18.6m) 

Transactions (average per week)  
11.9m (18/19: 11.4m) 

Net promoter score1  
73 (18/19: 68) 

STRATEGIC REPORT

CHANNELS

STRATEGIC KPIS

PERFORMANCE THIS YEAR

Last year, we said we had made progress in reshaping our store estate to reflect rapidly changing customer habits and address years of underinvestment. But we had further to go and would continue to focus our attention on:

- Accelerating the pace of our store estate reshape.
- Expanding our reshape programme to include redeveloping sites to make the most of our existing space.
- Beginning to look at our new store formats.

Good progress was made on the store reshape programme, with 54 of our legacy shared stores closed to date out of 110. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Our transformation requires well-located stores reflecting how customers want to shop today. An example of this would be the move of our Rochdale store to the new Riverside development, an area that is family-focused, in a convenient location with a great mix of leisure and retail facilities plus car parking.

We empowered store colleagues and increased efficiency through industry-leading technology. In partnership with Microsoft, we rolled out our Teams platform to deliver more seamless communication between stores and support centres. The move has given store managers greater access to data to run insight-driven stores and bring the voice of the stores back into the heart of M&S.

As outlined on page 10, we saw encouraging early sales results from the five renewal ‘test and learn’ Food stores opened in the year.

Our Property Development team began proactively researching ways to unlock and maximise value out of our property portfolio through active management of the estate and using space effectively.

NEVER THE SAME AGAIN PRIORITIES

Addressing our ageing store estate to meet the rapidly changing customer behaviours remains an important part of our transformation programme and to accelerate this we will:

- Progress the emphasis of our store reshape programme towards the relocation of ageing stores as the downturn creates opportunities for new sites.
- Maintain our dialogue with landlords on commercial terms on lease contracts.
- Prioritise capital expenditure to focus on essential and short payback investments focused on growth as we move towards extension of the food renewal formats and redevelopment proposals for a few of the older, larger city centre stores.
- Fast-forward the expansion and integration of technology into our store environments to support our colleagues in stores.

STORES & PROPERTY

- Introduced a range of social-distancing and hygiene measures in stores to help keep our customers and colleagues well, including regular handwashing breaks, perspex screens at checkouts, additional cleaning of trolleys and baskets.
- Introduced dedicated shopping hours for elderly and more vulnerable customers, as well as NHS, emergency services, and health and social care workers.
- Began engaging landlords with the aim of introducing flexibility on property costs to help us manage our overall cost base.
- Deferred closure of two stores to later in the year to support communities and continue to provide our customers access to our full range of Food products.
- Reduced facilities and equipment activity to mirror an anticipated decline in upcoming new store activity – including permanently removing substantial costs from storage and maintenance of our equipment.

ACTIONS IN RESPONSE TO COVID-19

- Quickly responded to government guidance, closing all Clothing only outlets, packing down our Clothing & Home sections in 24 hours and suspending M&S Bank Bureaux, cafés and other in-store services in our large stores.
We're All In This Together

Challenge: With many customers unable to shop in a store while self-isolating, M&S wanted to provide a way to help volunteers shop on behalf of the most vulnerable customers in their community.

Response: We created the M&S 'We're All In This Together' E-Gift Cards so customers – or their family or friends – can purchase online and email the barcode to volunteer shoppers to use as payment in our stores – removing the need to exchange cash or payment transfers. This was a simple way for volunteers to pay without cash or a payment card and we received over 1,000 orders for the E-Gift Cards within the first two weeks of launch.

Online revenue growth for the year was level and was showing improvements in the second half before Covid-19 significantly impacted performance in Q4, particularly across Clothing & Home. Digital is being re-organised under a single transformation team, bringing together data, online and technology as part of the post-Covid programme.

Operationally, we improved aspects of the online customer experience, such as extending order cut-off time to 11pm for Click & Collect and midnight for next day delivery. Our online distribution centre at Castle Donington delivered our best performance over Christmas with peak week despatch up 18% overall, including the biggest ever despatch day, with no operational issues.

However, we have yet to harness the growth a digitally enabled organisation can create. To rectify this, we established a central Digital & Data function to provide support across the business, ensuring a seamless customer experience and improving personalisation, embedding digital across our stores and shopping missions, revamping our loyalty proposition and ensuring we are at the forefront of the latest innovation and trends. We also continued to work with our external partners, such as Microsoft and Founders Factory, to act as a catalyst for change and drive our aim to become a Digital First business forward.

Percentage of UK Clothing & Home sales online

22.5% +1.8%

Traffic (visits per week)

9.5m +8.0%

Net promoter score

57 (18/19: 54)

Last year, we said improvements had been made to M&S.com to bring us back to level, but were clear there was more work to do to become a Digital First business. We outlined the required changes to enhance the operational performance of our digital channels and address the slow progress towards creating a Digital First culture. These included:

- Improving search functions and enhancing the end-to-end journey to get the customer to the product they want faster.
- Creating a joined-up operation between M&S.com and stores by adding more collection points and improving fulfilment times on Click & Collect and giving colleagues on the shop floor the technology they need (e.g. ordering product and checking stock for customers on the shop floor using tablets).
- Engaging customers with a more personalised experience across digital products and marketing communications.
- Fast-forwarding progress to become a data-driven digitally enabled workforce and leverage our external partnerships to help get us there.

NEVER THE SAME AGAIN PRIORITIES

As a result of the crisis, we must take the opportunity to accelerate the construction of M&S.com into a winning online proposition, as Covid-19 forces more customers than ever to permanently shift shopping preferences to online. The crisis resulted in M&S.com trading for a period as our only significant online competitor.

Our new post-Covid ambition for the Group will therefore be to drive at least one third of sales online and our priorities will be to:

- Reorganise M&S.com under new leadership to drive improvements.
- Fracture the old ‘stores first’ mindset and treat M&S.com as our biggest and best store.
- Roll out well-known brands across our M&S.com and large store platforms as a start in broadening our appeal.
- Unlock the potential of our colleagues by accelerating our Digital First behaviour changes across the business.

M&S.COM AND DIGITAL & DATA

PERFORMANCE THIS YEAR

- Prioritised the wellbeing of our colleagues and quickly revised our M&S.com operations and supporting services, such as our distribution centres, to follow government social-distancing and hygiene guidelines (see further detail in Clothing & Home section on page 12).
- Adapted M&S.com journey to reflect rapidly changing customer behaviours, including trading our site with refreshed architecture focused on the required goods most searched for by customers such as kidswear, bedding, towels, loungewear.
- Temporarily suspended event-focused elements of our Food to Order to enable greater operational focus on customer fulfilment and new initiatives such as the launch of contactless delivery across Clothing, Home, Food and flower orders.
- Adjusted delivery timeframes as needed for the extra measures in place to keep all colleagues and customers well.
- Expanded our Mobile Pay Go payment facility to a further 100 stores to further help minimise contact during payment process.

Actions in response to COVID-19

Traffic (visits per week)

22.5%

Percentage of UK Clothing & Home sales online

22.5% +1.8%

Adjusted delivery timeframes as needed for the extra measures in place to keep all colleagues and customers well.

Adapted M&S.com journey to reflect rapidly changing customer behaviours, including trading our site with refreshed architecture focused on the required goods most searched for by customers such as kidswear, bedding, towels, loungewear.

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Expanded our Mobile Pay Go payment facility to a further 100 stores to further help minimise contact during payment process.
A year ago we set out our culture that we want to create as part of the transformation, drawing on the values of the past in a modern way to establish a renewed and reinvigorated workplace. We were clear that we want to make M&S the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat organisational structure. Our plan was based on:

- Transforming our organisational design to a family of accountable businesses to drive ownership, pace and commerciality.
- Creating empowered, responsive and commercial leaders who are close to the frontline.
- Putting the voice of the stores back at the centre of the business.
- Creating a culture of plain speaking.
- Moving away from hierarchy to an organisation that welcomes argument and challenge and respects all colleagues equally.

**TRANSFORMATION PROGRESS**

**Transforming our organisational design**

In the past year, we have halved the number of our central offices in London and Manchester and moved to segmental reporting for each business unit in line with our model of accountable business units supported by a smaller corporate centre.

**Creating a team of empowered, responsive and commercial leaders**

We have continued to attract world-class talent and have built a strong team over the past year. Katie Bickerstaffe joined the executive team as Chief Strategy and Transformation Director, Eoin Tonge will start as Chief Financial Officer in June and Richard Price will be taking up his role as Clothing & Home Managing Director.

We have also welcomed new leaders into key positions. Will Smith joined as Property Director in May from Asda, Helen Milford joins as Store Operations Director from J Sainsbury on 1 June, Paul Babbis is soon to arrive as Head of Clothing & Home Supply Chain from Adidas, Stephen Langford arrived from George at Asda to be Head of Clothing & Home Online in May and Craig Lovelace joins the Food team as Finance Director from N Brown. These new leaders make up c.40% of the leadership team – providing diverse experience and a mix of fresh eyes and talent we have promoted from within M&S.

We have made initial progress in building a wider leadership team, moving from a ‘senior leadership group’ to a ‘transformation leadership team’, but we have more to do to devolve accountability and create a sense of shared mission.

**Putting the store voice at the heart of the business**

Trading areas of the business have begun to work more closely with the stores. There are now weekly buyers and sellers calls where store and the commercial teams review the prior week’s trading and develop action plans, and a weekly store feedback call on how plans are landing. Business-wide programmes now begin in stores rather than being developed centrally. The Vangarde supply chain efficiency programme is named after the York store where it was developed before being rolled out by operators themselves in a test and learn approach.

The roll-out of the Microsoft Teams communication platform has been transformational in connecting colleagues, to each other and to the centre. Teams has launched across all UK stores and 800 digital champions have been trained to support colleagues with the transition. Teams is available for all colleagues on their personal devices and 43,000 are now using Teams to work more closely with the stores. There are now weekly buyers and sellers calls where store and the commercial teams review the prior week’s trading and develop action plans, and a weekly store feedback call on how plans are landing. Business-wide programmes now begin in stores rather than being developed centrally. The Vangarde supply chain efficiency programme is named after the York store where it was developed before being rolled out by operators themselves in a test and learn approach.

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**About**

Our colleagues’ commitment to our customers, communities and each other in the crisis has been phenomenal.

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**An involving, engaging culture where everyone can get on**

This year, we launched new clear behaviours, after extensive collaboration with colleagues. They are ‘talk straight’, ‘own it and get it done’, ‘make every penny count’ and ‘all in for the customer’. Talk straight really resonated, reflecting the need to encourage plain speaking, and the business tone of voice has started to become more direct.

Our colleague representative body BIG (Business Involvement Group) attends the PLC Board and Operating Committee regularly, providing a link between the business and frontline. However, despite its strengths, the organisation and culture of BIG has been overly formal. Over the past six months, BIG has begun to transform so it can better engage and involve colleagues and partner the business on its transformation.

To better track sentiment, we have moved from an annual colleague survey to a monthly digital pulse. The results are shared with colleagues and give a regular read on morale. Ownership has moved from HR to leaders and an easy-to-use online action planning tool has been introduced to help managers respond to results and embed tracking of action plans into performance management. Every quarter, there is a ‘deep dive’ to look at cross-business unit patterns, and after the first full quarter of results in Q4,
engagement levels were at 81% and colleague Net Promoter Score (NPS) was at 12 – providing a baseline for the next quarter.

Developing our people has moved on this year. The Food business introduced Academies to develop core technical skills and courses to support behavioural and leadership skills such as resilience and emotional intelligence. However, progress has been too patchy and more needs to be done to standardise and improve our approach.

We have continued with the Marks & Start programme, which has supported 20,000 people on their journey to work. It benefits us in many ways, including the diversity of our workforce with 25% of participants having a disability and 20% from the BAME community. This year saw our biggest ever level of PRIDE support, and we became the first UK retailer to introduce sunflower lanyards into all stores, which helps customers and colleagues with hidden disabilities. We retained our recognition as a Times Top 50 Employer for Women for our promotion of gender equality. However, we need to do more on our approach to diversity and inclusion and this is an area of focus.

Data-driven decision-making

Becoming a data and digitally enabled business is at the core of our transformation and is covered on page 17. Tablets have now been rolled out to every store management team so they can access the information they need to run their stores – including store-level profit and loss accounts.

**COLLEAGUE REPRESENTATION MEASUREMENTS**

<table>
<thead>
<tr>
<th>Total employees</th>
<th>Female</th>
<th>53,219 (59%)</th>
<th>Male</th>
<th>22,286 (23%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total senior managers</td>
<td>Female</td>
<td>52 (41%)</td>
<td>Male</td>
<td>74 (59%)</td>
</tr>
<tr>
<td>Total Board</td>
<td>Female</td>
<td>3 (37.5%)</td>
<td>Male</td>
<td>5 (62.5%)</td>
</tr>
</tbody>
</table>

**SENIOR MANAGERS FROM ETHNIC MINORITIES**

8% (18/19: 5%)

We remain firmly committed to our target of having 50% women and 15% BAME colleague representation in our senior management team by 2022, and we continued to expand and support our range of colleague diversity networks across the business this year.

**ENGAGEMENT**

81% (18/19: 81%)

The proportion of our colleagues who feel proud to work at M&S and enjoy what they do.

**GENDER PAY GAP**

12.9% (18/19: 12.5%)

Our Gender Pay Gap, the percentage difference between average hourly earnings for men versus women, increased this year but remained lower than the UK average.

**COLLEAGUE NET PROMOTER SCORE**

12

The first full quarter results of our new monthly digital colleague pulse, following the move away from an annual colleague survey to better track colleague sentiment throughout the year. We will continue to report against these revised measurements in future.

**ACTIONS IN RESPONSE TO COVID-19**

- Our colleagues’ commitment to our customers, communities and each other in the crisis has been phenomenal. There has been a positive acceleration in our culture change and we have captured the lessons to ensure that old habits aren’t reverted to.
- The business has taken care to support all colleagues. Every colleague who has needed to self-isolate, including those required to shield themselves for 12 weeks, has been able to do so on full pay. Store colleagues remaining at work supporting the business have been rewarded with 15% bonus pay for the duration of the lockdown period.
- Colleagues have shown great flexibility and teamwork with 4,500 colleagues moving overnight from hospitality and C&H operations to our Foodhalls, and 25,000 store colleagues voluntarily being furloughed in under a week. Colleagues have multitasked and taken on different roles and we will look to embed this way of working permanently.
- The focus on costs has driven clarity – commerciality, and teams have been empowered to act and deliver plans regardless of hierarchy. Office-based colleagues have worked effectively from home and the roll-out of Teams has been accelerated so that most business units are now at over 90% usage and colleague events have been hosted virtually.
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- Digital communication direct to the frontline has driven high levels of engagement and created a dialogue and momentum that we do not want to lose.

**NEVER THE SAME AGAIN PRIORITIES**

- Prior to results, we announced the business will be led by a smaller executive team to drive a faster pace of action and increased focus on transformation priorities.
- All decision-making bodies will be re-set following this shift and the role of the wider Transformation Leadership Team will be clarified and redefined.
- The re-set of our colleague communication will be embedded to support our aim of creating the most engaging, involving and dynamic place to work in UK retail. This will include designing and developing a new induction programme, graduate programme and leadership framework to attract, develop and retain top talent.
- Robust performance management and rewards frameworks will be launched to drive accountability, commerciality and pace. Underpinning this, a new People IT system is being developed to remove unnecessary process and move to a more self-service model for managers and colleagues.

1. As at 28 March 2020.
2. For details on changes to Board gender diversity since year end see page 46.
The directors are bound by their duties under the Companies Act 2006 (the "Act") and the manner in which these have been discharged, particularly their duty to promote the success of the Company for the benefit of its members as a whole, forms a core theme of this report.

The following pages comprise our Section 172 statement, setting out how the directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. We have integrated our reporting on how our stakeholders have been considered in terms of our business model and governance throughout this report:

- Board activities, see p48 and p49
- Plan A, see p22 to p24
- Our response to the Covid-19 crisis, see p50 to p53
- Throughout the Strategic Report on p2 to p43

**OUR APPROACH**

The Board is responsible for leading stakeholder engagement, ensuring that we fulfil our obligations to those impacted by the business. We believe that considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term and to make M&S special again. Now, as we enter a new financial year in the midst of a global pandemic, balancing the needs and expectations of our stakeholders has never been a more important or challenging task.

On these pages, we have grouped our stakeholders into six key categories and have provided an overview of their interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions and shaping the transformation strategy throughout the year. These have been provided within the context of our nine strategic pillars to present more clearly how our stakeholders are integral to delivering our strategy.

### COVID-19

The Covid-19 pandemic has had a significant impact on all of our stakeholders since it emerged towards the end of the financial year. This impact and how we have responded to protect our business and manage the expectations of our stakeholders is set out in full on pages 50 to 53.

## SECTION 172(1) STATEMENT

### ENGAGEMENT & DECISION-MAKING

#### S172(1) REPORTING

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### SHAREHOLDERS

**M&S**

Engagement with our institutional and private shareholders is an ongoing process, occurring through a range of channels including face-to-face meetings at investor days, calls with the management team, private shareholder panels, our AGM and through a range of shareholder specific communications issued by email. The transformation strategy has been shaped with M&S’s long-term success in mind and for the benefit of our members as a whole. Examples of long-term planning include the growth opportunities presented by Ocado and the liquidity preservation measures taken as a result of Covid-19, including suspension of dividend payments (see page 43 for more detail).

**Key priorities:** Delivering sustainable, profitable growth over the long term.

### CUSTOMERS

**Ensuring the customer is at the heart of every decision is crucial to the Board’s strategy. This year, we have focused on our customers by offering trusted value and a wider range in Food, moving to a first price, right price approach with improved availability in Clothing & Home, reshaping our store estate and improving our website as a platform for customers however they want to shop. We engage directly with customers through social media and have implemented a range of measures to protect their safety and promote social distancing to minimise the risk of Covid-19 spread.**

**Key priorities:** Great quality and value products; having good availability across product lines in the right sizes; a store estate and online offer that are easy to shop.

### COLLEAGUES

**Our colleagues are the heart and soul of the business and central to its success, so properly incorporating their views into Board decision-making is essential to our transformation, of which culture change is a key plank. To achieve this, the role of our Business Involvement Group (BIG) network has been redeveloped with a more regular presence at Board and Remuneration Committee meetings. Feedback, suggestions and concerns from colleagues across the business are also considered through channels such as our Monday trading calls, Talk Straight monthly colleague engagement and the Suggest to Steve initiative. The Board receives regular updates on these topics.**

**Key priorities:** Providing an inclusive and diverse place to work; amplifying the colleague voice in company decision-making.

### COMMUNITIES

**Preserving the links we have established with the communities we serve is an important factor in the Board’s discussions and has helped shape, for example, our approach to reducing plastic packaging, food waste, charitable initiatives that our customers can support and, in particular, the store renewal programme. While the benefits of new store openings are clear, we recognise that closures are a sensitive, albeit necessary, course of action for a business increasing the proportion of sales it delivers online. Careful management of this process has been a significant area of focus for the Board.**

**Key priorities:** A fair contribution to society and the economy; a socially responsible business; a strong presence in the community through a properly shaped store estate.

### PARTNERS

**Our digital, franchise and JV partners have been an important feature of Board discussions, from the participation of senior members of the Ocado team at Board meetings to leveraging the expertise of our digital partners to make better use of technology in our transformation. Into 2020/21, we have worked in partnership with the UK government, banks and other food retailers to secure both the continuity of UK food supplies and the future liquidity of our business.**

**Key priorities:** A corporate partner that responds to concerns and acknowledges jurisdictional and technical expertise.
During the year, as the Board made decisions implementing our strategy, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered.

The following page provides an overview of how decisions taken in furtherance of each of our strategic pillars, primarily prior to the Covid-19 outbreak, were influenced by, and impacted, our six stakeholder groups. While not an exhaustive list, these examples give a flavour of how integral our stakeholders are in the Board’s decision-making process.

1 TRANSFORMING OUR LEADERSHIP

- New appointments at senior levels and our work to improve the flow of incoming talent with expertise in key areas such as design, digital and data will enhance our ability to deliver sustainable growth for investors and colleagues.
- Colleagues told us that their role in delivering the transformation was often unclear, so we developed a set of clear, relatable behaviours, with supporting standards and technical procedures that support and protect our colleagues, suppliers and partners.
- Our new Code of Conduct strengthens the governance processes that underpin key Group-level policies, authorities, including P&L accountability, and our ethical and environmental principles.
- Each will benefit our customers, suppliers and partners.

2 BUILDING GREATER ACCOUNTABILITY

- A new framework of delegated authorities, including P&L accountability, for each of the family of businesses was established to remove bureaucracy and better serve customers, suppliers and partners at business unit level.
- The Board oversaw support for suppliers by ensuring compliance with our ethical and environmental principles through training, conferences, workshops and other development opportunities.
- Engaging with colleagues directly shaped the reset of the role of BIG and strengthened the colleague voice at M&S, with BIG attendance at three Board meetings and one Remuneration Committee meeting during the year.

3 BECOMING A DIGITAL FIRST RETAILER

- Improving the technology available to colleagues, such as the Honeywell devices supplied in stores, has helped equip colleagues with the necessary insight to play a greater part in commercial decision-making. We intend to continue to invest in technology and leverage our new digital partnerships to drive further improvements in this area.
- We have invested in our digital capabilities, including speed and functionality improvements to our app and websites, to grow online to one third of Clothing & Home sales and deliver shareholder value over the longer term.

4 RESHAPING THE RANGES AND CUSTOMER PROFILE IN CLOTHING & HOME

- We reset the vision for our future target Clothing & Home operating model, with a new governance model and programmes of work providing clarity for colleagues on where we want to be as a business and how we plan to get there.
- Through reshaping our buy and becoming more digital and data driven in doing so, we provided colleagues with tools to improve buying from suppliers, achieving double-digit reductions in options across Clothing & Home.
- Working with suppliers to implement logistical improvements, including more frequent deliveries and moving to a single-tier network, will improve product availability for customers.

5 PROTECTING THE MAGIC AND MODERNISING THE REST IN FOOD

- Improved our range and value proposition for customers through continued price investment in high-volume lines and improving our product innovation pipeline.
- Completion of the acquisition of 50% of Ocado Retail brought significant opportunities for growth in volumes and sales, as well as synergies-linked savings. Each will benefit our customers, suppliers and shareholders over the longer term.
- The restructuring of the marketing team to sit within Food has resulted in a new family-focussed programme to broaden customer appeal, including sponsorship of Britain’s Got Talent.

6 REBUILDING PROFITABLE GROWTH IN INTERNATIONAL

- Completion of the roll-out of market right pricing and launch of local flagship websites has improved our value and availability propositions internationally.
- Board directors and members of the International leadership team regularly meet with key international partners to discuss progress and any areas of concern.
- Worked closely with our key international partners and suppliers to agree appropriate supporting measures during times of significant economic difficulty, including the ongoing Covid-19 crisis.

7 CREATING A HIGH-QUALITY STORE ESTATE FIT FOR THE FUTURE

- A key area of Board focus has been shaping our estate so that our store formats are right for the communities we serve. The Board ensures our geographic reach is such that customers across the UK don’t have to travel too far to shop with us.
- The impact of our stores programme on colleagues and communities is significant. Where possible, we aim to redevelop colleagues to other stores in the event of a closure, while new stores provide great employment opportunities in local communities.
- Customer data was crucial to shaping the Food renewal programme and the ‘test and learn’ store format trialled to date.

8 MODERNISING OUR FOOD AND CLOTHING & HOME SUPPLY CHAINS

- Growing online to one third of Clothing & Home sales depends on the capacity and capability of our network to deliver. We have invested in our key sites, upskilled colleagues and stress-tested our supply chain, but recognise there is more to do.
- Ocado will add significant volume into the supply chain, challenging the business and our suppliers while being beneficial over the longer term and improving optionality for customers.
- We continue to ensure that our global supply chain is robust, with viable business continuity plans in place, including no over-reliance on one supplier or geography.

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

- Prior to Covid-19, we were on track to deliver our planned cost savings, a leaner cost base and better operational efficiency in the interests of our investors.
- Simpler store management structures, tailoring staffing to activity and investment in new technologies have improved colleague productivity and the customer experience while reducing cost.
- Achieved efficiencies in the e-commerce carrier network, office and warehouse space closures and other property savings. While beneficial, these have a significant impact on our colleagues and suppliers and need to be managed sensitively.
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.

**PERFORMANCE THIS YEAR**

Our transformation programme aims to return M&S to sustainable, profitable growth and to deliver long-term value for all stakeholders. Our priority has been to evolve Plan A to reflect our new operating model and to embed the programme into the core strategy rather than continuing to exist in parallel with our operations.

Over the past year we have:

- Begun the transition to a new Plan A operating model to embed sustainability into our business units.
- Conducted a detailed review of Plan A considering the views of colleagues, customers, shareholders, pressure groups and campaign bodies, and conducted a benchmarking exercise against the wider consumer goods and retail sector.
- Created a simplified framework that:
  - Is aligned to the business strategy;
  - Has clear deliverables owned and actioned by each business unit;
  - Maintains our position as a committed sustainable retailer; and
  - Provides a programme to build competitive advantage in selected areas and to engage our customers on the issues that matter to them.

Towards the end of this process, the business's focus was rightly on managing the impact of Covid-19 on colleagues, customers and communities – particularly the most vulnerable and healthcare workers – through the pandemic. Therefore, confirmation of Group-level governance and sign-off on targets will now be completed in 2020/21.

Supplementary information detailing our performance on a range of environmental and social issues is included in our 2020 Plan A report available here corporate.marksandspencer.com/sustainability.

### PLAN A FRAMEWORK

#### PEOPLE

**Everyone can belong, and get on**

We want the people working in our business and our supply chains to have a voice, and to progress. We support the causes our customers care about, and the communities where we trade.

**Relevant Sustainable Development Goals**

- Human rights and combating modern slavery
- Access to employment
- Colleague health and wellbeing
- Diversity and inclusion
- Accessibility
- Ethical trading standards
- Improving lives of workers in supply chains
- Community engagement

#### PRODUCT

**We source with care and nothing we make will go to waste**

We source our products responsibly, working closely with our suppliers to ensure high standards. We ensure no food or clothing goes to waste.

**Relevant Sustainable Development Goals**

- Sustainable raw materials
- Reducing food waste
- Animal welfare
- Farming standards
- Health and nutrition

#### PLANET

**Our actions today protect the planet for tomorrow**

We are driving down greenhouse gas emissions. We reduce, reuse and recycle. We work with the factories we source from to take good care of the planet’s natural resources, while being open about the progress we’ve made.

**Relevant Sustainable Development Goals**

- Net zero emissions
- Sustainable manufacturing
- Reducing, reusing and recycling packaging
- Zero waste to landfill
ACTIONS IN RESPONSE TO COVID-19: ALL IN THIS TOGETHER

Last year, we agreed that one of M&S’s core behaviours was to be “all in for the customer”; working as one M&S team, giving all of our effort all of the time and being guided in everything we do to deliver for the customer. In response to Covid-19, this didn’t feel quite enough to reflect the huge challenge faced across the entire M&S family – our colleagues, customers and communities. To reflect this, we brought together our response under the banner ‘All In This Together’ as a way of sharing what we were doing with our stakeholders and directly across the whole M&S family.

The simplified structure of our new Plan A operating model helped us to deliver a quick and coordinated response to the crisis. As set out on page 50, the Operating Committee took ownership for decision-making and set the direction for the Company’s collective response, and each business unit was represented within the CMT by an operational lead who took accountability for delivery. The central Plan A team provided the consistent link to charity partners and recipients of our support – such as the NHS – and reported the needs and requirements of each beneficiary to the operational teams.

Quick decision-making, supported by the extraordinary efforts and attitudes of all members of the M&S family, enabled us to launch new services and initiatives to support our customers, support our suppliers, help the most vulnerable in our communities and do our bit for the UK’s NHS heroes. The graphic above provides a snapshot of that support.

NEVER THE SAME AGAIN PRIORITIES

As we emerge from the Covid-19 crisis, there will be many uncertainties, but we believe customers will be looking even more to brands they can trust and have confidence in to offer value through trading ethically. As a result, we will use the new Plan A framework to build a programme to engage customers and demonstrate that M&S understands – and is taking action on – the issues that matter to them most.

The first priority is to embed the new framework and set the new targets that will drive change and a more sustainable future for M&S.
PLAN A CONTINUED

PLAN A MEASUREMENTS

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAISING MONEY FOR CAUSES THAT MATTER TO OUR CUSTOMERS*</td>
<td>£6.6m -33% on 2018/19 (against restated figure)</td>
</tr>
<tr>
<td>VOLUNTEERING HOURS</td>
<td>46,398 -2% on 2018/19</td>
</tr>
<tr>
<td>MARKS &amp; START</td>
<td>1,863 -27% on 2018/19</td>
</tr>
<tr>
<td>DONATIONS OF SURPLUS FOOD</td>
<td>5.2 million meals +86% on 2018/19</td>
</tr>
<tr>
<td>RECYCLABLE PACKAGING</td>
<td>77% +7% on 2018/19</td>
</tr>
<tr>
<td>WASTE TO LANDFILL</td>
<td>Zero Zero in 2018/19</td>
</tr>
<tr>
<td>M&amp;S GREENHOUSE GAS EMISSIONS (CO₂ e)</td>
<td>338,000 tonnes CO₂ e -6% on 2018/19</td>
</tr>
</tbody>
</table>

* Funds raised with our customers and colleagues in 2018/19 have been reduced by £1.6m due to one of the fundraising lines being incorrectly counted twice in last year’s calculation. Figures are reported in our 2020 Plan A report.

STREAMLINED ENERGY AND CARBON REPORTING

ENERGY AND TRANSPORT FUEL CONSUMED

<table>
<thead>
<tr>
<th></th>
<th>This year 2019/20 (MWhs)</th>
<th>Last year 2018/19 (MWhs)</th>
<th>% Change</th>
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<tbody>
<tr>
<td>UK operations</td>
<td>827</td>
<td>864</td>
<td>-4%</td>
</tr>
<tr>
<td>International operations</td>
<td>19</td>
<td>19</td>
<td>Level</td>
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<tr>
<td>Group</td>
<td>846</td>
<td>883</td>
<td>-4%</td>
</tr>
</tbody>
</table>

1. 2019/20 data for our International operations is estimated.

The principle measures taken to improve energy efficiency in 2019/20 include new refrigeration shelf-edge technology, conversions to LED lighting and the trialling of new fan technologies.

GREENHOUSE GAS (GHG) EMISSIONS

<table>
<thead>
<tr>
<th></th>
<th>This year 2019/20 (000 tonnes)</th>
<th>Last year 2018/19 (000 tonnes)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (scope 1)</td>
<td>173</td>
<td>167</td>
<td>+4%</td>
</tr>
<tr>
<td>In-direct emissions from electricity (scope 2)</td>
<td>165</td>
<td>193</td>
<td>-15%</td>
</tr>
<tr>
<td>Total gross/location-method scope 1+2 GHG emissions</td>
<td>338</td>
<td>360</td>
<td>-6%</td>
</tr>
<tr>
<td>GHG intensity per 1,000 sq ft of salesfloor</td>
<td>18</td>
<td>19</td>
<td>-5%</td>
</tr>
<tr>
<td>Procured renewable energy</td>
<td>143</td>
<td>202</td>
<td>-29%</td>
</tr>
<tr>
<td>Total market-method scope 1+2 GHG emissions</td>
<td>195</td>
<td>158</td>
<td>+23%</td>
</tr>
<tr>
<td>Procured carbon offsets</td>
<td>195</td>
<td>158</td>
<td>+23%</td>
</tr>
<tr>
<td>Total net scope 1+2 GHG emissions</td>
<td>0</td>
<td>0</td>
<td>–</td>
</tr>
</tbody>
</table>

GHG emissions are from operationally controlled activities in accordance with WRI/ WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2019 BEIS conversion factors. The reduction in Gross/location-method figures is due to the lowering of UK grid electricity carbon intensity. Whilst the higher market-based figure is due to the electricity at some locations no longer being classified as renewable. For full details, please see 2020 Plan A Report.

Subsequent reporting on environmental and social performance is available here corporate.marksandspencer.com/sustainability
NON-FINANCIAL INFORMATION STATEMENT

During the year, a new Code of Conduct was developed and this is effective from 1 April 2020. Further details can be found on page 60. The statements below reflect our commitment and management of People, Human Rights and Anti-Bribery and Anti-Corruption in the last 12 months.

PEOPLE
We are committed to providing our colleagues in the UK and overseas with a safe and healthy working environment and an organisational culture which promotes diversity, inclusivity, personal development and mutual respect. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. We have a Board Diversity Policy as set out on page 58.

Read more on our commitment to people:
– People Principles corporate.marksandspencer.com/people-principles
– Code of Ethics and Behaviours corporate.marksandspencer.com/code-of-ethics
– Responsible Marketing Principles corporate.marksandspencer.com/responsible-marketing
– Equal Opportunities Policy corporate.marksandspencer.com/equal-opportunities

HUMAN RIGHTS
M&S has a long history of respecting human rights in the UK and standing up for those values internationally. Our commitment to human rights is reinforced in our Human Rights Policy and Code of 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 knowledge and awareness on human rights for all of our colleagues and suppliers; encouraging them to speak up about any concerns without fear of retribution, the outcomes of which also enable us to comply with legislation and meet the expectations of shareholders.

Our Modern Slavery Statement is published here corporate.marksandspencer.com/modern-slavery-statement

Read more on our commitment to human rights:
– Human Rights Policy corporate.marksandspencer.com/human-rights
– Code of Ethics and Behaviours corporate.marksandspencer.com/code-of-ethics
– M&S Global Sourcing Principles corporate.marksandspencer.com/global-sourcing-principles
– Code of Practice on Ethical Trading corporate.marksandspencer.com/ethical-trading
– Child Labour Procedure corporate.marksandspencer.com/child-labour-procedure
– M&S grievance procedure for Food and Clothing & Home supply chains corporate.marksandspencer.com/grievance-procedure
– Confidential Reporting Procedures corporate.marksandspencer.com/whistleblowing-policy

ANTI-BRIBERY AND ANTI-CORRUPTION
M&S is committed to the highest standards of ethics, honesty and integrity. Our Anti-Bribery and Anti-Corruption Policy outlines the expected standards of conduct that colleagues, contractors, suppliers, business partners, and any other third parties who act for or on behalf of M&S are obliged to follow. The 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-Bribery and Anti-Corruption:
– Anti-Bribery and Anti-Corruption Policy corporate.marksandspencer.com/anti-bribery-policy
– Code of Ethics and Behaviours corporate.marksandspencer.com/code-of-ethics
– Confidential Reporting Procedures corporate.marksandspencer.com/whistleblowing-policy
### STRATEGIC REPORT

#### KEY PERFORMANCE INDICATORS

### FINANCIAL

#### GROUP REVENUE

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>£10.2bn</td>
<td>10.6</td>
<td>10.7</td>
<td>10.4</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales. It is estimated that Covid-19 impacted Group revenue by £83.5m in March 2020 relative to forecast.

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

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>£403.1m</td>
<td>613.8</td>
<td>580.9</td>
<td>403.1</td>
<td></td>
</tr>
</tbody>
</table>

Group profit before tax and adjusting items was £403.1m, down 21.2% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March.

#### RETURN ON CAPITAL EMPLOYED (ROCE)

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.0%</td>
<td>13.7</td>
<td>14.0</td>
<td>11.8</td>
<td>10.0</td>
</tr>
</tbody>
</table>

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

#### ADJUSTED EARNINGS PER SHARE (EPS)

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.7p</td>
<td>30.4</td>
<td>27.8</td>
<td>16.7</td>
<td></td>
</tr>
</tbody>
</table>

Adjusted basic earnings per share decreased 29.5% to 16.7p largely due to lower adjusted profit year on year and the increase in weighted average shares outstanding.

#### DIVIDEND PER SHARE

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.9p</td>
<td>18.7</td>
<td>18.7</td>
<td>3.9</td>
<td></td>
</tr>
</tbody>
</table>

We paid an interim dividend 3.9p on 10 January 2020. The Board has announced the decision not to pay a final dividend for 2019/20 and that it does not anticipate paying a dividend for the 2020/21 financial year.

#### FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

<table>
<thead>
<tr>
<th></th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>£225.0m</td>
<td>585.4</td>
<td>580.8</td>
<td>225.0</td>
<td></td>
</tr>
</tbody>
</table>

The business generated free cash flow before shareholder returns of £225.0m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure.

Prior year comparatives have been restated for the adoption of IFRS 16 Leases. Refer to note 29 of the financial statements for detailed restatement tables and associated commentary.
GROUP REVENUE IN GROWTH IN Q4, PRIOR TO COVID-19 EFFECT IN MARCH

Q4 group revenue declined 2.6% at constant currency largely reflecting the increasingly adverse impact of Covid-19 on revenue in March relative to forecast. For the 8 weeks ended 22 February group revenue increased 2.8% with UK Food like-for-like revenue up 3.7% with strengthening volume growth and UK Clothing & Home like-for-like revenue up 0.3%, driven by stronger trends at M&S.com. International growth in the 8-week period largely reflected the timing of shipments as franchise partners called summer product earlier than last year.

<table>
<thead>
<tr>
<th>% change at constant currency</th>
<th>FY</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Jan/Feb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>2.1</td>
<td>0.8</td>
<td>1.5</td>
<td>1.5</td>
<td>4.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Like-for-like</td>
<td>1.9</td>
<td>0.4</td>
<td>1.4</td>
<td>1.4</td>
<td>4.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Clothing &amp; Home</td>
<td>-8.3</td>
<td>-7.8</td>
<td>-8.2</td>
<td>-3.8</td>
<td>-15.7</td>
<td>-1.7</td>
</tr>
<tr>
<td>Like-for-like</td>
<td>-6.2</td>
<td>-5.5</td>
<td>-5.9</td>
<td>-1.8</td>
<td>-13.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Total UK sales</td>
<td>-1.8</td>
<td>-2.3</td>
<td>-2.2</td>
<td>-0.6</td>
<td>-2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Like-for-like</td>
<td>-1.1</td>
<td>-1.8</td>
<td>-1.4</td>
<td>0.1</td>
<td>-1.6</td>
<td>2.6</td>
</tr>
<tr>
<td>International</td>
<td>-2.5</td>
<td>2.8</td>
<td>-4.4</td>
<td>-1.8</td>
<td>-6.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Total Group</td>
<td>-1.8</td>
<td>-1.9</td>
<td>-2.5</td>
<td>-0.7</td>
<td>-2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Total M&amp;S.com (Memo only)</td>
<td>1.2</td>
<td>0.8</td>
<td>-0.4</td>
<td>2.5</td>
<td>1.3</td>
<td>11.1</td>
</tr>
<tr>
<td>UK Clothing &amp; Home online (Memo only)</td>
<td>-0.2</td>
<td>-0.5</td>
<td>-0.6</td>
<td>1.1</td>
<td>-1.3</td>
<td>12.1</td>
</tr>
</tbody>
</table>

See glossary for definitions. Prior year revenue has been restated for the reclassification of localised websites from Clothing & Home to International.

FULL YEAR FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>28 March 20 £m</th>
<th>30 March 19 Restated £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group revenue</td>
<td>10,181.9</td>
<td>10,377.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>UK Food</td>
<td>6,028.2</td>
<td>5,903.4</td>
<td>2.1</td>
</tr>
<tr>
<td>UK Clothing &amp; Home</td>
<td>3,209.1</td>
<td>3,499.8</td>
<td>-8.3</td>
</tr>
<tr>
<td>International</td>
<td>944.6</td>
<td>974.1</td>
<td>-3.0</td>
</tr>
</tbody>
</table>

Group operating profit before adjusting items2

<table>
<thead>
<tr>
<th></th>
<th>590.7</th>
<th>725.6</th>
<th>-18.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Food</td>
<td>236.7</td>
<td>212.9</td>
<td>11.2</td>
</tr>
<tr>
<td>UK Clothing &amp; Home</td>
<td>223.9</td>
<td>355.2</td>
<td>-37.0</td>
</tr>
<tr>
<td>International</td>
<td>110.7</td>
<td>130.5</td>
<td>-15.2</td>
</tr>
<tr>
<td>Other</td>
<td>19.4</td>
<td>27.0</td>
<td>-28.1</td>
</tr>
</tbody>
</table>

Interest on leases

|                      | (133.4)        | (147.2)                 | 9.4      |

Net financial interest

|                      | (54.2)         | (66.7)                  | 18.7     |

Profit before tax & adjusting items

|                      | 403.1          | 511.7                   | -21.2    |

Adjusting items

|                      | (335.9)        | (427.5)                 | 21.4     |

Profit before tax

|                      | 67.2           | 84.2                    | -20.2    |

Profit after tax

|                      | £274.4m        | £45.3m                  | -39.5    |

Adjusted basic earnings per share2

|                      | 16.7p          | 23.7p                   | -29.5    |

Basic earnings per share2

|                      | 1.3p           | 2.5p                    | -48.0    |

Dividend per share2

|                      | 3.9p           | 13.3p                   | -70.7    |

Net debt

|                      | £4.03bn        | £4.08bn                 | -1.2     |

Notes
1. Prior year comparatives have been restated for the adoption of IFRS16 ‘Leases’. Refer to note 29 of the financial statements for detailed restatement tables and associated commentary.
2. Earnings per share and Dividend per share have been restated to reflect the bonus factor adjustment resulting from the rights issue (refer to notes 1 and 8 of the financial statements for further information).

There are a number of non-CAAP measures and alternative profit measures 'APM’, discussed with this announcement and a glossary and reconciliation to statutory measures is provided on page 180. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.
COVID-19 IMPACT

Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales, including an adverse revenue impact of c.£83.5m in March which we largely attribute to Covid-19. Group statutory profit before tax declined 20.2% to £67.2m. This was largely driven by a decline in Clothing & Home operating profit as a result of lower sales. Statutory profit before tax includes an estimated total impact of £264.7m for Covid-19. This comprises a trading impact of £51.9m in March which we largely attribute to the pandemic, in addition to £212.8m of charges in adjusting items which includes the recognition of additional inventory provisions of £157.0m and the impairment of stores and goodwill of £49.2m.

As part of its scenario planning to mitigate the effects of Covid-19 the Group is planning a significant reduction in costs and a number of cash management initiatives, which are detailed on page 05 of this report.

REPORTING OF ACCOUNTABLE BUSINESSES

During the year, the Group completed a comprehensive review of the way operating costs are allocated between the businesses, allowing management to review the operating profit of each business. As a result, the Group now recognises three operating segments, being UK Clothing & Home, UK Food and International (previously UK and International). This allows the financial information to align to the way the business is managed and holds leadership appropriately to account. The review has resulted in a reallocation of £13.3m of central costs from the previous UK segment to International (£12.6m) and M&S Bank (£0.7m). In addition, certain M&S.com flagship websites, which last year generated £37.5m of revenue and £2.9m of operating profit (previously UK) and M&S Bank have been reclassified from UK Clothing & Home to International.

UK: FOOD

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>28 March 20</th>
<th>30 March 19</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,903.4</td>
<td>6,028.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Operating profit before adjusting items</td>
<td>212.9</td>
<td>236.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>3.6%</td>
<td>3.9%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

UK Food revenue increased 2.1% and operating profit before adjusting items increased 11.2%, due to lower costs. We estimate a positive effect on March revenue of £17.7m and operating profit of £3.7m, largely related to Covid-19.

Like-for-like revenue was up 1.9%. Performance was particularly strong in quarter four with growth of 3.7% in the two months from February before increased demand related to Covid-19 in March. As we executed our strategy to broaden appeal and make M&S more accessible to more customers by removing promotions and lowering prices, total full year volumes were up 3.3%. As expected, the contribution from new space was largely offset by full line store closures.

The table below sets out the drivers of the movement in operating profit margin before adjusting items, which increased 0.3%:

<table>
<thead>
<tr>
<th>2018/19 operating profit margin</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>-0.5</td>
</tr>
<tr>
<td>Store staffing</td>
<td>0.3</td>
</tr>
<tr>
<td>Other store costs</td>
<td>0.3</td>
</tr>
<tr>
<td>Distribution and warehousing</td>
<td>-0.2</td>
</tr>
<tr>
<td>Central costs</td>
<td>0.4</td>
</tr>
</tbody>
</table>

UK: CLOTHING & HOME

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>28 March 20</th>
<th>30 March 19</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,499.8</td>
<td>3,209.1</td>
<td>-8.3</td>
</tr>
<tr>
<td>Operating profit before adjusting items</td>
<td>355.2</td>
<td>223.9</td>
<td>-37.0</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>10.1%</td>
<td>7.0%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

UK Clothing & Home revenue declined 8.3% and operating profit before adjusting items was down 37.0%. We estimate an adverse effect on March revenue of £78.1m and operating profit of £43.8m, largely related to Covid-19.

Like for like revenue declined 6.2%, of which an estimated 2.2% related to the adverse movement in March, largely due to Covid-19. After a disappointing first half, revenue performance both in store and online began to improve in the second half, supported by better availability and growth in key categories in Womenswear and Kidswear. Menswear experienced some initial problems as the range moved towards a more contemporary style and fit.

The table below sets out the drivers of the movement in Clothing & Home operating profit margin before adjusting items which was down 3.1%:

<table>
<thead>
<tr>
<th>2018/19 operating profit margin</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>-1.2</td>
</tr>
<tr>
<td>Store staffing</td>
<td>-0.5</td>
</tr>
<tr>
<td>Other store costs</td>
<td>-0.6</td>
</tr>
<tr>
<td>Distribution and warehousing</td>
<td>-0.3</td>
</tr>
<tr>
<td>Central costs</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

2019/20 operating profit margin 7.0

Gross margin decreased 120bps which was more than planned, as a result of sourcing headwinds including raw materials and labour and the adverse impact of higher than expected promotional sales and shorter clearance periods.
Operating costs were down in all areas, although increased as a percent of sales. The decline in store staffing costs was largely driven by efficiency programmes, which more than offset the pay review. Other store costs were driven by lower depreciation and cost savings such as the move to a single maintenance vendor. In distribution, reduced costs from the move to a single tier network and in our online operations more than offset inflation and channel shift. Central cost declines were largely driven by lower depreciation with efficiencies reinvested in increased marketing and the build out of digital operations.

M&S BANK AND SERVICES

M&S Bank and services income before adjusting items was down £10.2m to £16.8m. This was predominantly the result of an increase in bad debt provisioning due to a higher risk of customer default. M&S Bank income after adjusting items decreased £1.9m to £4.2m.

OCADO RETAIL

On 5 August 2019, the acquisition of 50% of Ocado Retail was completed. Ocado Retail Limited is an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition.

The investment in associate is recognised at a cost of £769.0m. This incorporates initial consideration of £560.9m paid in cash on acquisition, contingent consideration of £202.4m and transaction costs of £5.7m. The contingent consideration is conditional on reaching agreed earnings and capacity targets.

The M&S share of Ocado Retail Limited profit for the period from acquisition to 1 March 2020 is £2.6m. Summarised financial information in respect of Ocado Retail Limited is below:

<table>
<thead>
<tr>
<th>7 months to 1 March 20</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>979.7</td>
</tr>
<tr>
<td>EBITDA before exceptional items</td>
<td>25.7</td>
</tr>
<tr>
<td>Operating profit</td>
<td>10.9</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>5.1</td>
</tr>
<tr>
<td>M&amp;S 50% share of profit</td>
<td>2.6</td>
</tr>
</tbody>
</table>

On 6 May 2020, Ocado Retail Limited reported 40.4% revenue growth for the 9 weeks to 3 May 2020. For further detail on Ocado Retail Limited please see note 30 to the financial statements.

INTERNATIONAL

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>28 March 20</th>
<th>30 March 19</th>
<th>Change</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£m</td>
<td>Restated £m</td>
<td>%</td>
<td>CC %</td>
</tr>
<tr>
<td>Franchise</td>
<td>392.6</td>
<td>409.2</td>
<td>-4.1</td>
<td>-3.8</td>
</tr>
<tr>
<td>Owned</td>
<td>552.0</td>
<td>564.9</td>
<td>-2.3</td>
<td>-1.6</td>
</tr>
<tr>
<td>Total</td>
<td>944.6</td>
<td>974.1</td>
<td>-3.0</td>
<td>-2.5</td>
</tr>
<tr>
<td>Operating profit before adjusting items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise</td>
<td>64.9</td>
<td>72.3</td>
<td>-10.2</td>
<td></td>
</tr>
<tr>
<td>Owned</td>
<td>56.7</td>
<td>70.8</td>
<td>-19.9</td>
<td></td>
</tr>
<tr>
<td>Corporate costs</td>
<td>(10.9)</td>
<td>(12.6)</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>110.7</td>
<td>130.5</td>
<td>-15.2</td>
<td></td>
</tr>
</tbody>
</table>

International revenue decreased 2.5% at constant currency with operating profit before adjusting items down 15.2%. We estimate an adverse effect on March revenue of £23.1m and operating profit of £11.8m, largely related to Covid-19.

In owned markets, a weak trading performance in the Republic of Ireland was partly offset by continued growth in India driven by 17 new store openings, although opening costs impacted profit. Franchise shipments declined as a result of investment in lower prices, partner driven stock efficiencies and political unrest in Hong Kong, although trends improved in the second half.

NET FINANCE COST

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>28 March 20</th>
<th>30 March 19</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable</td>
<td>(80.5)</td>
<td>(80.3)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Interest income</td>
<td>8.6</td>
<td>8.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Net interest payable</td>
<td>(71.9)</td>
<td>(72.3)</td>
<td>0.4</td>
</tr>
<tr>
<td>Pension net finance income</td>
<td>23.6</td>
<td>25.8</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Unwind of discount on Scottish Limited Partnership liability</td>
<td>(6.9)</td>
<td>(8.8)</td>
<td>1.9</td>
</tr>
<tr>
<td>Unwind of discount on provisions</td>
<td>(4.9)</td>
<td>(7.9)</td>
<td>3.0</td>
</tr>
<tr>
<td>Ineffectiveness on financial instruments</td>
<td>5.9</td>
<td>(3.5)</td>
<td>9.4</td>
</tr>
<tr>
<td>Net financial interest</td>
<td>(54.2)</td>
<td>(66.7)</td>
<td>12.5</td>
</tr>
<tr>
<td>Net interest payable on lease liabilities</td>
<td>(133.4)</td>
<td>(147.2)</td>
<td>13.8</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(187.6)</td>
<td>(213.9)</td>
<td>26.3</td>
</tr>
</tbody>
</table>

Net finance costs decreased £26.3m to £187.6m. This was primarily due to a reduction in net lease financing costs and the reversal of ineffectiveness on a currency swap. In July we issued a £250m bond partially refinancing a £400m redemption in December. In March 2020, in response to Covid-19, the Group’s long-term credit rating was lowered by Moody’s Investors Service and Standard & Poor’s to Ba1/BB+ respectively. This should result in an additional c.£15m of annual interest costs, payable following the next coupon payment, on Bonds issued under the Group’s EMTN programme.

GROUP PROFIT BEFORE TAX

Group profit before tax declined 20.2% to £67.2m. This includes adjusting items of £335.9m.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group profit before tax and adjusting items was £403.1m, down 21.2% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March. The profit decrease was largely due to the decline in Clothing & Home operating profit.
ADJUSTMENTS TO PROFIT BEFORE TAX

Consistent with previous years, the Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. 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>52 weeks ended</th>
<th>Covid-19 related</th>
<th>28 March 20</th>
<th>30 Mar 19 Restated</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic programmes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– UK store estate</td>
<td>(11.6)</td>
<td>(29.3)</td>
<td>(216.5)</td>
<td>187.2</td>
</tr>
<tr>
<td>– Organisation</td>
<td>–</td>
<td>(13.8)</td>
<td>(4.9)</td>
<td>(8.9)</td>
</tr>
<tr>
<td>– Operational transformation</td>
<td>–</td>
<td>(11.6)</td>
<td>(16.4)</td>
<td>4.8</td>
</tr>
<tr>
<td>– UK logistics</td>
<td>–</td>
<td>(10.2)</td>
<td>(14.3)</td>
<td>4.1</td>
</tr>
<tr>
<td>– Changes to pay and pensions</td>
<td>–</td>
<td>(2.9)</td>
<td>(6.2)</td>
<td>3.3</td>
</tr>
<tr>
<td>– International store closures and impairments</td>
<td>–</td>
<td>(2.2)</td>
<td>(5.3)</td>
<td>3.1</td>
</tr>
<tr>
<td>– IT restructure</td>
<td>–</td>
<td>(0.4)</td>
<td>(15.6)</td>
<td>15.2</td>
</tr>
<tr>
<td>Directly attributable to Covid-19</td>
<td>(163.6)</td>
<td>(163.6)</td>
<td>–</td>
<td>(163.6)</td>
</tr>
<tr>
<td>Store impairments and other property charges</td>
<td>(24.2)</td>
<td>(78.5)</td>
<td>(103.5)</td>
<td>25.0</td>
</tr>
<tr>
<td>Goodwill impairment – per una</td>
<td>(13.4)</td>
<td>(13.4)</td>
<td>–</td>
<td>(13.4)</td>
</tr>
<tr>
<td>M&amp;S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision</td>
<td>–</td>
<td>(12.6)</td>
<td>(20.9)</td>
<td>8.3</td>
</tr>
<tr>
<td>Amortisation and fair value arising from the investment in Ocado Retail</td>
<td>–</td>
<td>(16.8)</td>
<td>–</td>
<td>(16.8)</td>
</tr>
<tr>
<td>Establishing the investment in Ocado Retail Limited</td>
<td>–</td>
<td>(1.2)</td>
<td>(3.4)</td>
<td>2.2</td>
</tr>
<tr>
<td>Remeasurement of contingent consideration including discount unwind</td>
<td>–</td>
<td>(2.9)</td>
<td>–</td>
<td>(2.9)</td>
</tr>
<tr>
<td>Other</td>
<td>23.5</td>
<td>–</td>
<td>23.5</td>
<td></td>
</tr>
<tr>
<td>GMF and other pension equalisation</td>
<td>–</td>
<td>–</td>
<td>(20.5)</td>
<td>20.5</td>
</tr>
<tr>
<td>Adjusting items</td>
<td>(212.8)</td>
<td>(335.9)</td>
<td>(427.5)</td>
<td>91.6</td>
</tr>
</tbody>
</table>

* Included within the total.

A number of charges have been recognised in the period relating to the implementation of previously announced strategic programmes including:
- A charge of £29.3m (of which £11.6m represents the directly attributable incremental impairment due to Covid-19) in relation to store closures identified as part of transformation plans reflecting an updated view of latest store closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years.
- A charge of £13.8m in relation to the redundancy costs associated with the review of the support centre organisational structure and an updated view of ongoing costs associated with centralising the Group’s London support centres.
- A charge of £11.6m in relation to the transformation and simplification of supply chain and operations across Clothing & Home and Food.
- A net charge of £10.2m as we continue to transition to a single tier Clothing & Home UK distribution network, including the cost of closure of two distribution centres. In February 2020 next steps were announced with a further two sites expected to close in the next two years, resulting in an expected additional charge of c.£13m.

Store impairment and other property charges of £78.5m (including £24.2m representing the directly attributable incremental impairment due to Covid-19) were recognised. In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme). Charges of £12.6m have been incurred relating to M&S Bank, primarily relating to the insurance mis-selling provision, as well as further charges recognised in relation to forward economic guidance provisions recognised as a result of Covid-19. The Group’s share of the total insurance mis-selling provisions of £327.6m exceeds the total offset against profit share of £242.7m to date. Further costs of c.£10m, predominantly relating to the estimated mis-selling liability are expected and will be deducted from the Group’s future profit share from M&S Bank.

A charge of £16.8m has been recognised predominantly related to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail. A credit of £23.5m has been recognised in the period relating to the release of a provision for employee related matters recognised in 2017/18 following settlement in the period for £0.6m.
COVID-19 ADJUSTING ITEMS

Following the declaration by the World Health Organisation of the Covid-19 global pandemic and the subsequent UK and International government restrictions, Clothing and Home has been unable to trade from full line stores, M&S outlet stores and a number of Food franchises have temporarily closed and trade in Food has had to continue with social distancing measures in place. As a result, charges of £212.8m have been recognised relating to the Covid-19 pandemic. The charges relate to stock provisioning, impairments of intangible assets, property, plant and equipment and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

The charges relate to:
- Stock provisioning: £157.0m.
- Incremental impairments of intangibles and PP&E: £49.2m.
- Onerous contract provisions, cancellations, one-off costs: £6.6m.

Following a detailed assessment of all retail inventory, a charge of £157.0m has been recognised (C&H: £145.3m; Food: £6.0m and International: £5.7m). The provision relates to items from previous seasons which are unlikely to be saleable when stores reopen; items in the summer sale that are likely to be cleared below cost and the cost associated with hibernating stock to Spring/Summer 2021. The provision in Food includes charges related to unsaleable seasonal goods as a result of the lockdown of activity in late March.

As a direct result of the Covid-19 pandemic, following a reperformance of all impairment assessments using the cash flows in the Covid-19 scenario, incremental impairment charges have been recognised of £49.2m (Store impairments: £24.2m, per una: £13.4m and UK store estate programme: £11.6m).

£6.6m of charges have been recognised relating to onerous contracts and other provisions, cancellation charges and impairment and write-off of intangible assets in the course of construction following project cancellations.

TAXATION

The effective tax rate on profit before tax and adjusting items was 20.7% (last year 20.7%). This was lower than the expected effective tax rate due to an increase in the estimated deferred tax assets of the Group which resulted from a change to the previously enacted UK corporate tax rate of 17% back to 19%. The effect of this increase is not expected to impact future years. The effective tax rate is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership (“SLP”) structure. The effective tax rate on statutory profit before tax was 59.3% (last year 46.2%) due to the impact of disallowable adjusting items.

EARNINGS PER SHARE

Basic earnings per share were 1.3p (last year 2.5p), due to the decrease in profit year-on-year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,894.9m (last year restated for the bonus factor related to the rights issue: 1,698.1m), reflecting the issuance of 325m shares following the completion of the rights issue.

Adjusted basic earnings per share decreased 29.5% to 1.67p largely due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

CAPITAL EXPENDITURE

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>28 March 20 £m</th>
<th>30 Mar 19 £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK store remodelling</td>
<td>60.3</td>
<td>26.0</td>
<td>34.3</td>
</tr>
<tr>
<td>New UK stores</td>
<td>33.3</td>
<td>40.1</td>
<td>(6.8)</td>
</tr>
<tr>
<td>International</td>
<td>12.3</td>
<td>11.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Supply chain</td>
<td>39.2</td>
<td>48.7</td>
<td>(9.5)</td>
</tr>
<tr>
<td>IT &amp; M&amp;S.com</td>
<td>84.5</td>
<td>88.2</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Property asset replacement</td>
<td>102.4</td>
<td>69.0</td>
<td>33.4</td>
</tr>
</tbody>
</table>

Capital expenditure before disposals 322.0 283.0 94.4
Proceeds from property disposals (2.7) (48.1) 45.4
Capital expenditure 329.3 234.9 94.4

Group capital expenditure before disposals increased £49.0m to £332.0m.

UK store remodelling spend increased £34.3m largely reflecting the investment in five ‘test and learn’ trial stores. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Supply chain expenditure reflects investment in the expansion of the Bradford distribution centre. Spend has reduced due to the significant prior year investment in the Welham Green national distribution centre.

IT and M&S.com spend decreased largely due to the completion of the technology transformation programme. Property asset replacement increased £33.4m due to the initiation of an asset replacement programme in stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £3,708.5m at the year end, an increase of 50.2% on last year largely due to the investment in Ocado and the increase in the net retirement benefit surplus.
## CASH FLOW & NET DEBT

<table>
<thead>
<tr>
<th></th>
<th>28 March 20</th>
<th>Restated 20</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted operating profit</strong></td>
<td>590.7</td>
<td>725.6</td>
<td>(134.9)</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation before adjusting items</strong></td>
<td>632.5</td>
<td>702.6</td>
<td>(70.1)</td>
</tr>
<tr>
<td><strong>Cash lease payments</strong></td>
<td>(335.7)</td>
<td>(312.7)</td>
<td>(23.0)</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>(48.5)</td>
<td>61.1</td>
<td>(109.6)</td>
</tr>
<tr>
<td><strong>Defined benefit scheme pension funding</strong></td>
<td>(37.9)</td>
<td>(37.9)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Capex and disposals</strong></td>
<td>(325.9)</td>
<td>(264.8)</td>
<td>(61.1)</td>
</tr>
<tr>
<td><strong>Financial interest and taxation</strong></td>
<td>(171.1)</td>
<td>(184.7)</td>
<td>13.6</td>
</tr>
<tr>
<td><strong>Investment in associate Ocado Retail Limited</strong></td>
<td>(577.8)</td>
<td>–</td>
<td>(577.8)</td>
</tr>
<tr>
<td><strong>Investment in Joint Venture</strong></td>
<td>(2.5)</td>
<td>(2.5)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Employee related share transactions</strong></td>
<td>9.7</td>
<td>14.3</td>
<td>(4.6)</td>
</tr>
<tr>
<td><strong>Proceeds from rights issue net of costs</strong></td>
<td>574.4</td>
<td>–</td>
<td>574.4</td>
</tr>
<tr>
<td><strong>Share of profit from associate</strong></td>
<td>(2.6)</td>
<td>(2.6)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Cash received on refinancing of derivatives</strong></td>
<td>7.7</td>
<td>–</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Adjusting items outflow</strong></td>
<td>(88.0)</td>
<td>(120.2)</td>
<td>32.2</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>225.0</td>
<td>580.8</td>
<td>(355.8)</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>(191.1)</td>
<td>(303.5)</td>
<td>112.4</td>
</tr>
</tbody>
</table>

**Free cash flow after shareholder returns**

<table>
<thead>
<tr>
<th></th>
<th>33.9</th>
<th>277.3</th>
<th>(243.4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decrease in lease obligations</strong></td>
<td>201.4</td>
<td>170.1</td>
<td>31.3</td>
</tr>
<tr>
<td><strong>New lease commitments</strong></td>
<td>(204.1)</td>
<td>(150.4)</td>
<td>(53.7)</td>
</tr>
<tr>
<td><strong>Opening net debt</strong></td>
<td>(4,075.4)</td>
<td>(4,369.4)</td>
<td>294.0</td>
</tr>
<tr>
<td><strong>Exchange and other non-cash movements</strong></td>
<td>19.0</td>
<td>(3.0)</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>Closing net debt</strong></td>
<td>(4,025.2)</td>
<td>(4,075.4)</td>
<td>50.2</td>
</tr>
</tbody>
</table>

The business generated free cash flow before shareholder returns of £225.0m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure. The working capital outflow relative to last year was largely a result of the timing of payments and increased inventory. This follows a planned reduction in inventories in the prior year, and higher than normal year-end inventory levels as a result of additional Food to meet stockpiling demand and lower than expected Clothing & Home sales in March.

Higher capital expenditure reflects the spend on ‘test and learn’ stores and the asset replacement programme in stores.

Defined benefit scheme pension funding of £37.9m largely reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items in cash flow during the year were £88.0m. These included £22.7m in relation to the store closure programme, £20.9m for organisational change, £15.4m for operational transformation, £12.6m for M&S Bank, £4.3m for the technology transformation programme and £3.7m relating to distribution and warehousing.

During the year, a Rights Issue was completed, raising proceeds net of costs of £574.4m, for the purpose of funding the acquisition of 50% of Ocado Retail which completed on 5 August 2019. The cash paid for the investment in Ocado Retail and associated transaction costs of £577.8m does not include the adjustment to the consideration on the finalisation of the completion statement currently held as a receivable of £11.5m.

After the payment of the final dividend from 2018/19, the interim dividend for 2019/20 and the reduction in outstanding discounted lease commitments due to capital repayments, net debt was down £50.2m from the start of the financial year.

### DIVIDEND

We paid an interim dividend 3.9p on 10 January 2020. The board has announced the decision not to pay a final dividend for 2019/20 and that it does not anticipate paying a dividend for the 2020/21 financial year.

### PENSION

At 28 March 2020, the IAS 19 net retirement benefit surplus was £1,902.6m (£914.3m at 30 March 2019). The increase in the surplus is mainly due to a significant increase in longer dated credit spreads driven by market changes linked to Covid-19 resulting in a reduction in scheme liabilities. Additionally, the return on scheme assets increased due to a fall in gilt yields. It is currently anticipated that the increase in surplus will give rise to an increased pension credit next year.

In April 2019, the Scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Scheme has now, in total, hedged its longevity exposure for around two thirds of the 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.

The Strategic Report, including pages 33-43, was approved by a duly authorised Committee of the Board of Directors on 26 May 2020, and signed on its behalf by

Steve Rowe, Chief Executive
26 May 2020
RISK MANAGEMENT

Effective risk management is an essential tool for our business to support the delivery of our transformation and to respond effectively to the challenges facing our company, the retail sector and the communities we serve.

APPROACH TO RISK MANAGEMENT

Our approach to risk management is simple and practical. The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including identification of the principal and emerging risks facing M&S. The Group Risk Policy was formally reviewed and revised during the year to ensure it remains fully aligned with business needs and our corporate governance responsibilities. An overview of the key features of the Policy and the principal risks and uncertainties are set out on the following pages.

The risk management process mirrors the M&S operating model with each business and functional area being responsible for the ongoing identification, assessment and management of their existing and emerging risks. The output of these assessments are ultimately aggregated to compile an overall Group-level view of risk. This process includes:

- Risks being consistently identified, measured and reported against set criteria which considers both the likelihood of occurrence and potential impact to the Group.
- Each business and functional area maintaining detailed risk registers and mitigation plans which are approved by their respective leadership teams and discussed with the executive directors.
- Direct reporting of risk and mitigating activities by each of our business and functional leadership teams to the Audit Committee on an annual basis.
- A formal half-yearly review of all risk registers by the Group Risk team.
- Development of an overarching summary of risks, combining both top-down and bottom-up perspectives, to provide a consolidated view of Group-level risks.
- A full review of the principal risks and uncertainties at least twice a year by the Audit Committee.
- Swift action to reassess risk across the business in response to significant changes or events, such as the Covid-19 pandemic.

The overall assessment considers the impact of changes in the external environment, our strategy and transformation programme, core operations and our engagement with external parties. It also includes proactive consideration of emerging risks where the full extent and implications may not be fully understood but need to be tracked.

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

The directors’ assessment of the long-term viability of M&S is also reviewed annually, mindful of the principal risks faced. The approach for assessing long-term viability can be found on page 42.

RISK GOVERNANCE AND PROCESS OVERVIEW

<table>
<thead>
<tr>
<th>Internal reporting</th>
<th>External reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidated Group-level risks</strong></td>
<td><strong>Principal risks and uncertainties</strong></td>
</tr>
<tr>
<td>- Consolidation of significant risks from underlying risk registers</td>
<td>- A summarised version of principal risks for external reporting</td>
</tr>
<tr>
<td>- Overlay of Group-level risks</td>
<td>- Review and approval by the Board and Audit Committee</td>
</tr>
<tr>
<td>- Review and agreement of the principal risks by the executive directors</td>
<td>- <strong>Parties involved:</strong></td>
</tr>
<tr>
<td>- Review and approval by the Audit Committee</td>
<td>- M&amp;S Board</td>
</tr>
<tr>
<td><strong>Business and functional risk registers</strong></td>
<td>- Audit Committee</td>
</tr>
<tr>
<td>- Development and ongoing maintenance of risk registers, including consideration of emerging risks, by the business and functional leadership teams</td>
<td>- Executive Committee members</td>
</tr>
<tr>
<td>- Review and challenge of risk content and quality of mitigation plans by Group Risk</td>
<td>- Group Risk team</td>
</tr>
<tr>
<td>- Review and challenge of risks at leadership forums</td>
<td>- <strong>Parties involved:</strong></td>
</tr>
<tr>
<td><strong>Current issues and areas of change</strong></td>
<td>- Audit Committee</td>
</tr>
<tr>
<td>- Monitoring of emerging areas of change or issues that may become significant at a Group level</td>
<td>- Operating Committee members</td>
</tr>
<tr>
<td></td>
<td>- Business &amp; functional leadership teams</td>
</tr>
<tr>
<td></td>
<td>- Group Risk team</td>
</tr>
<tr>
<td></td>
<td>- Group Risk team</td>
</tr>
</tbody>
</table>

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During the course of the year, the business has continued to develop and adhere to our risk management disciplines and managed risks in line with good practice, including adoption of the requirement to formally consider potential emerging risks.

Our established processes had operated to allow consideration of the principal risks and uncertainties to be completed in accordance with the methodology outlined on page 33, and in line with our year-end timetable prior to the outbreak of Covid-19 & the UK. The impact of the pandemic on the UK has, however, triggered the need to consider both the specific consequences of the virus and its impact on the underlying principal risks being managed by the business. The disclosure below has therefore been structured to provide an overview of the actions taken in response to the virus, the most significant risks associated with the pandemic and details of how it has impacted the broader set of principal risks and uncertainties.

COVID-19
The impact of Covid-19 on the business is explained in various parts of the Strategic Report. Consequently, the narrative included in the business updates should be read in conjunction with the disclosure below to provide an understanding of the risks and, in some instances, opportunities, facing M&S.

Our response
From the initial reports of the outbreak in China, the crisis management and business continuity protocols for the business were effectively invoked and have, since January, provided a framework to support our response. The following key actions have been undertaken to manage the impact of the pandemic on our business:

- Reacted immediately to government guidance by closing clothing outlets, Clothing & Home store sections, cafés and M&S Bank services.
- Introduced distancing and hygiene measures in stores and depots to keep customers and colleagues safe.
- At a leadership level, streamlined structures were implemented to accelerate decision-making by a group of the executive and managing directors of our family of businesses.
- The Board and Operating Committee have met at an increased frequency throughout the crisis, monitoring and responding to events on a daily basis.
- Daily meetings of the Crisis Management team are held with representatives from across the business.
- Each business and function has developed and maintains full response plans to both highlight and track actions for their immediate requirements and to identify what is required to restore operations.
- We are engaged with all relevant external stakeholders, including the government, retail organisations and specialist advisers.
- Operational activities have been amended, and continue to be updated, to comply with guidance provided by the government to prioritise the safety of colleagues, customers and others involved in the ‘feed the nation’ strategy. This included targeted initiatives to support the most vulnerable members of our communities.
- Successfully implemented home working for support centre colleagues on an unprecedented scale, benefiting from the recent investment in technology and digital capabilities.
- Proactively engaged with the Business Involvement Group to allow decisions impacting our colleagues, and their implications, to be considered in advance. Operational protocols, self-isolating, shielding, frontline colleague suggestions or concerns, furloughing of staff and the impact of changes to reward (such as the 15% premium for frontline colleagues and share award in support centres) have all been considered.
- Worked quickly with suppliers, initially in Clothing & Home from January 2020 and subsequently across the whole business as the scale of the virus became apparent, to both maintain continuity of supply and, where needed, to cancel or defer orders. In addition, we implemented extended payment terms for suppliers in Clothing & Home.
- Took decisive action to reduce our cost base, capital expenditure and cash commitments:
  - Discretionary spend was stopped.
  - Capital expenditure for the year ending March 2021 was significantly reduced from a planned £400m to a revised target of c.£140m.
  - Colleagues were furloughed in line with the Coronavirus Job Retention Scheme.
  - Updated our dividend guidance.
  - Implemented enhanced financial controls over approval of all spend.
  - Immediately reacted to government initiatives such as the business rates holiday, tax and VAT payment deferrals.
- Engaged with banks and lenders to proactively address the implications on our facilities and covenant compliance, obtaining formal agreement with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax covenant conditions for the tests arising in September 2020, March 2021, and September 2021.
- Obtained confirmation of eligible issuer status under the UK government’s Covid Corporate Financing Facility (CCFF).
- Engaged with landlords to manage rent obligations and property costs.
Changes to our risk profile
The table below summarises the key potential risk implications of the pandemic and how these link to the core principal risks that remain in place.

<table>
<thead>
<tr>
<th>Risk category</th>
<th>Risk description</th>
<th>Relevant principal risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protecting customers &amp; colleagues</td>
<td>An inability to maintain and, where needed, adapt operational protocols to safeguard customers, colleagues and other partners involved in running our business during extended lockdown or a period of transitional social distancing would impact the continued operation of stores and breach our responsibilities to all key stakeholders.</td>
<td>Legal &amp; regulatory compliance</td>
</tr>
<tr>
<td>Clothing &amp; Home inventory management</td>
<td>A failure to effectively manage the implications of the lockdown period on all aspects of the Clothing &amp; Home supply chain and inventory management would adversely impact customer experience, trading performance, liquidity, operational efficiency and third-party relationships for an extended period.</td>
<td>Trading performance (Clothing &amp; Home)</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, would impact the business’s ability to operate within committed credit facilities.</td>
<td>Liquidity &amp; funding</td>
</tr>
<tr>
<td>Store portfolio management</td>
<td>An inability to increase the scale and pace of our plans to create a modern and appropriately shaped store estate during the retail property market downturn would impede our transformation objectives.</td>
<td>Business transformation</td>
</tr>
<tr>
<td></td>
<td>An inability to secure favourable agreements with landlords would impede cost control initiatives.</td>
<td></td>
</tr>
<tr>
<td>Post-crisis recovery</td>
<td>An inability to successfully respond to the ending of lockdown (such as management of colleagues returning from furlough and re-establishing ‘business as usual’ process and control) would trigger operational challenges and inefficiencies for the business.</td>
<td>Multiple risk implications</td>
</tr>
<tr>
<td></td>
<td>A failure to evaluate, fund and implement initiatives to improve business operations would be a missed opportunity.</td>
<td></td>
</tr>
<tr>
<td>Strategy re-alignment</td>
<td>An inability to define and successfully implement a revised strategy to rapidly respond to a post-Covid world and the associated changes in customer behaviours and operational requirements would significantly undermine the transformational imperatives of the business.</td>
<td>Multiple risk implications</td>
</tr>
<tr>
<td></td>
<td>This would include, although not be limited to, the operation of our online Clothing &amp; Home business, International operations, management of operating and capital expenditure and the portfolio of business transformation initiatives under way.</td>
<td></td>
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</tbody>
</table>

In addition to the risks noted above, many of the principal risks prior to the pandemic remain the same in substance but have been amplified by the current events – for example, our ability to effectively respond to Brexit, the transformational improvements needed to the supply chain, maintaining controls over food safety, the potential risk of disruption to critical third-party relationships or readiness to execute the launch of M&S products with Ocado Retail. Where this is the case, the effect has been noted in the relevant section below.

Emerging risks
It is also important to note that, in many respects, the impact of Covid-19 has the characteristics of an emerging risk as well as changing the principal risk profile today, as future events, and their impact on our business and the global community we work within, cannot be determined with any certainty. We will therefore continue to monitor and respond to further changes as needed in the months ahead. As a consequence, the nature and magnitude of the ongoing events will continue to change the risk profile in currently unknown ways.
### TRADING PERFORMANCE RECOVERY

**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, including the impact of Covid-19, would adversely impact our business performance.**

M&S competes with a diverse range of retailers – in both Food and Clothing & Home – in an increasingly challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and broader macroeconomic uncertainties. Delivering the right product ranges that appeal to our customers, clear and simple pricing, architecture and availability are critical to the growth of our business.

In addition, Covid-19 has had, and continues to have, a significant negative impact on our trading performance in line with UK retail more widely. Managing the growth in surplus stock resulting from the lockdown is an area of business focus.

Delays in implementing the targeted transformational improvements, or the business recovery plans in response to Covid-19, across the business could negatively impact business performance.

**Mitigating Activities**
- Continued to strengthen capabilities of our senior leadership teams in both Food and Clothing & Home through targeted recruitment.
- Established operating model consisting of a family of accountable businesses who share M&S brand values, colleagues and support functions, technology and customer data.
- Managing directors for each of these businesses who have full accountability for their performance including for marketing, supply chain, finance and technology.
- Individual Business Boards to enable executive oversight and effective governance of each business.
- Continued delivery against business-specific transformation plans incorporating discipline around cost, prices, availability, value, ranges, broadening customer appeal and promotions across both businesses.
- Development, ongoing update and monitoring of business-specific planning for the business restore as future stages of the lockdown are communicated. This includes development of a clear strategy to manage the wide-ranging implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management.
- Planned improvements to online trading by delivering both the Ocado online launch in Food and our online ambitions for Clothing & Home.

### BUSINESS TRANSFORMATION

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

The business has continued to deliver the range of projects underpinning the transformation, including:
- The reshaping, modernising and effective management of a UK store estate that is fit for the future, with the right stores in the right space, improved integration between online and store sales and shopping facilities expected by our target customer groups.
- Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs.
- Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business.

In response to Covid-19, we will need to re-evaluate priorities and their delivery, including acceleration of initiatives to respond to permanent changes in customer behaviours or to change our own working practices, balancing delivery of the transformation with strict cash management disciplines and rapidly reacting to the consequences of the pandemic.

A pause or delay to key components of the business improvement programme because of the virus response or other reasons may delay delivery of the transformation objectives.

**Mitigating Activities**
- Adoption of a ‘Never the Same Again’ approach to all aspects of business operations and prioritisation of the most critical improvement initiatives.
- Comprehensive review of all operational and capital expenditure to allocate spending to those activities aligned to the transformation agenda and stop others in view of Covid-19 priorities and recovery.
- Maintenance of programme governance principles for all ongoing projects.
- Periodic independent audit reviews of key programme delivery and reporting to the Audit Committee.
- Maintaining momentum to deliver ongoing initiatives to transform our supply chain capabilities in all parts of the business. For example, in Food the Vangarde supply chain programme has demonstrated improvements to food waste levels and availability.
- Continued focus on the store estate transformation with new initiatives like redevelopment of existing sites to make effective use of space, resetting rental rates with landlords and delivery of new format stores.
## PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

<table>
<thead>
<tr>
<th>RISK</th>
<th>DESCRIPTION &amp; CONTEXT</th>
<th>MITIGATING ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIQUIDITY AND FUNDING</strong></td>
<td>Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, could impact the business’s ability to operate within and secure additional committed credit facilities. Availability of, and access to, appropriate sources of funding is required for core business operations and the successful and timely delivery of our transformation plan. In addition, cash management has additional complexity as a consequence of the ongoing trading restrictions during lockdown, the associated reduction in cash generation and planning for the impact of furloughing, deferral of tax payments and other emergency measures. Brexit adds a further dimension to this 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. An inability to maintain appropriate short- and longer-term funding to meet business needs (both operational and strategic), make payments on debt and to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rate changes, may have an adverse impact on business viability and performance.</td>
<td>- Continued use of the existing committed facilities available to the business, including the £1.1bn revolving credit facility. - Immediate measures implemented to manage cash and liquidity, including:  - Freezing of discretionary spend  - Significant reduction in capital spending  - Dividend deferral  - Temporary furlough of colleagues  - Enhanced controls over spending  - Confirmation of our eligibility under the UK government’s CCFF scheme  - Use of the business rates holiday, tax payment deferral and other government support measures  - Formal agreement received from the syndicate of lending banks to relax or waive covenant conditions for our revolving credit facility. - Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics. - Regular dialogue with the market and rating agencies. - Review of counterparty credit risk and limits in line with our risk appetite and treasury policy.</td>
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| **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 potential implications of the UK’s exit from the European Union are significant and include:  - Deterioration in customer sentiment.  - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls (including the movement of goods between Great Britain and Northern Ireland).  - 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. While an orderly exit following the end of the transitional period would allow business planning to more effectively address the consequences of change against a defined timeframe, the level of change required as part of any deal is yet unclear. A no deal outcome would have a more immediate and negative impact. The focus on the response to Covid-19 and the possibility that the government may not seek an extension of the transitional period may mean there is an increased risk of a ‘no deal’ departure and the consequential ability to implement the necessary measures on a timely basis. | - A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive readiness requirements. - Each of our family of businesses has undertaken a risk assessment to prioritise and plan for the operational changes they will need. Teams have continued to progress planning during the current pandemic lockdown. - 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&S’s views, including the UK Border Development Group with access to the Department for Environment, Food & Rural Affairs (Defra), HM Revenue & Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning. |
## PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

### FOOD ONLINE

**A failure to effectively execute the launch of M&S products for Ocado Retail would significantly impact the achievement of our strategy to take our food online in a profitable, scalable and sustainable way.**

The investment in Ocado Retail is part of our strategy for improving our online reach and capability. To achieve this, we are committed to providing M&S product ranges and to have established new product development capabilities for Ocado Retail by the beginning of September 2020. Activities include:

- Finalisation of all commercial agreements with suppliers.
- Delivery of a range of M&S products to allow a seamless transition for Ocado customers on launch.
- Establishing data and technology interfaces with Ocado Retail.
- Developing operating procedures and ways of working between the two businesses.

An inability to establish effective operating protocols in advance of the launch date, whether related to the impact of Covid-19 or other factors, could delay delivery of the expected benefits from our investment in Ocado Retail.

### FOOD SAFETY & INTEGRITY

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

Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers. This includes considering how external pressures on the food industry and wider economic and environmental changes could impact the availability and integrity of our food, the ability to operate all routine controls, our reputation and shareholder value.

Many of these external pressures, including the impact of Covid-19, inflationary costs, labour quality and availability, increased regulatory scrutiny, animal disease, and the unknown impact of Brexit, are, to a large degree, outside our control but are nevertheless monitored.

- Oversight from Customer and Brand Protection Committee.
- Food Safety Policy and Standards are in place, with clear accountability set at all levels.
- Defined Terms of Trade, manufacturing standards, specifications for “from farm to fork” and standard operating procedures (stores, support centre and supply chain).
- New food initiatives assessed for food safety risks.
- Qualified and capable technical team, with continuing professional development programme.
- Store, supplier and depot audit programmes, including unannounced visits and raw material testing, adapted to be managed remotely where site visits are not possible.
- Introduction of modified processes, including enhanced monitoring of quality and customer complaints, to mitigate risk during the Covid-19 lockdown and ongoing assessment of the need for further change.
- Quarterly review of our control framework.
- Established processes for the development and legal sign-off for product packaging.
- Documented and tested crisis management plan.
- Membership of the Food Industry Intelligence Network at Board and Operating Committee level.
- Periodic Internal Audit reviews to consider process design and operating effectiveness.
7 CORPORATE COMPLIANCE & RESPONSIBILITY

Failure to deliver against our legal, regulatory, social and environmental commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers.

The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on both business performance and market sentiment requiring continual improvements in how we operate as a business to maintain compliance.

More recently, the requirements triggered by the Covid-19 outbreak, including in relation to safety and social distancing, have in a short time frame necessitated immediate changes to operating procedures in our distribution network, stores and support centres.

In addition, the expectations of our customers and other stakeholders (including regulators) are increasingly demanding. The environmental impact of food, packaging and the sustainability of clothing are all increasingly relevant. Speed in responding to evolving expectations is vital to maintaining a positive business perception.

Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as have an impact on our reputation and financial results.

- A Code of Conduct is in place and has recently been reviewed and updated. This is underpinned by policies and procedures, including human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health & safety, food safety, national minimum wage, equal pay, cyber and data security. An annual self-assessment compliance process is also in place.
- Immediate crisis response capability (via the Crisis Management team) when required on a reactive basis – more recently for Covid-19.
- Mandatory induction briefings and annual training for relevant colleagues on key regulations.
- Oversight from committees and steering groups such as for fire, health and safety or food safety.
- In-house regulatory legal team, including specialist solicitors, which conducts 'horizon scanning' on new and emerging regulatory and legislative changes.
- Dedicated non-legal regulatory issue leaders and advisers to drive compliance against key risk areas within the business. This includes, for example, GSCOP (Groceries Supply Code of Practice) compliance in Food or ethical sourcing in Clothing & Home.
- Proactive engagement with regulators, legislators, trade bodies and policy makers.
- Simplified Plan A operating model with a lean central team responsible for setting the framework and establishing sustainability priorities in each of our family of businesses.
- Published, monitored and reported commitments in relation to environmental and social issues in line with regulatory requirements.
- Established auditing and monitoring systems.
- Customer contact centre insight and analysis of live social media issues.

8 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. More broadly, an inability to effectively respond to global events, such as pandemic or supply chain disruption, would significantly impact business performance.

As our sole online Clothing & Home fulfilment centre, the effective operation of our Castle Donington depot is vital. A major incident leading to a sustained period offline would impact sales and potentially hinder the growth of M&S.com. In addition to Castle Donington, the loss of other locations such as the dedicated warehouses that store beers, wines & spirits or frozen goods in the UK or support facilities, such as IT, could impact business operations.

While the response to Covid-19 has highlighted positives in the business’s ability to continue operating in extreme circumstances, it has also underlined the risk associated with our global supply chains. The reliance on China and the interdependency of sourcing locations, in addition to the concentration of supply from individual countries such as Bangladesh, highlight the potential impact of globally disruptive events. Beyond supply chain, the implications on trading both in the UK and International are also a risk.

- A dedicated Business Continuity team.
- An established Group Crisis Management process – which was invoked and has operated throughout the Covid-19 outbreak.
- Business continuity plans, incorporating remote working requirements, are in place for key activities across our operations, including offices, depots and IT sites. These were invoked and, where needed, refined during lockdown.
- Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties.
- Store and sourcing office business continuity assessments and visits, where appropriate.
- Insurance cover to mitigate the impact of remediation and business interruption.
- Mechanisms to validate the existence of key supplier arrangements.
- Ongoing contingency planning for Brexit.
- Enhanced capabilities at Castle Donington to manage technology failure.
- Engagement with external stakeholders including Retail Business Continuity Association and government-led initiatives.
- Membership of the National Counter Terrorism Information exchange.
### PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

<table>
<thead>
<tr>
<th>RISK</th>
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</table>
| 9    | **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 in the retail industry, coupled with the Data Protection Act (DPA), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties hosting critical services and holding M&S and customer data also means the information security risk profile is changeable. This risk also increases as we develop our digital capabilities. For example our dependency on the availability of, and access to, insightful data across our business and/or with the increasing shift online. In addition, the risk of a data breach or misuse is impacted by Covid-19 as there is the potential for:  
  - An increase in targeted phishing campaigns.  
  - New risks linked to working from home and the usage of personal devices.  
  - Increased reliance on third parties supporting critical support services. |
|   | | – Dedicated Information Security function, comprising a multi-disciplinary operation of information security specialists and support services and capabilities, with a 24/7 Security Operation Centre.  
|   | | – Continued focus on improving controls, policies, and procedures in line with our environment and threat landscape, including heightened areas of risk due to Covid-19.  
|   | | – Maintained focus on scanning our threat environment.  
|   | | – Established third-party assurance programme.  
|   | | – Focused security assurance, overall operational rigor and security hygiene around significant change activities.  
|   | | – Network of Data Protection Compliance Managers in priority business areas to oversee and address compliance.  
|   | | – Mandatory information security and data protection training for colleagues, including responsibilities for the use of personal data.  
|   | | – Corporate Security team with a focus on improving the physical security environment. |
| 10  | **TECHNOLOGY CAPABILITY** | A failure to 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. The digital world continues to evolve at an unrelenting pace, enabling competitive advantage, influencing consumer behaviours or expectations and increasing demands on IT infrastructure. As demonstrated during the Covid-19 lockdown, our business resilience is increasingly dependent on the reliability and effectiveness of our technology infrastructure and capability. We are clear on our aim to be Digital First and continue to plan and invest to support this objective. While a focus on improving the existing IT infrastructure has begun to deliver improvements in capability, flexibility and cost efficiency, further work is required to enable the business to move with pace to meet customer and colleague needs. We also need to continue to develop the skills and capabilities of our colleagues in order to drive beneficial and effective use of the technological changes that are made. |
|   | | – Delivery against our technology transformation programme continues and is underpinned with a defined technology operating model, project governance principles and agile methodology.  
|   | | – Cross-channel technology investment strategy in place and aligned to the family of businesses, reviewed quarterly to track benefits realisation of core projects.  
|   | | – Improvements to our IT infrastructure, increased bandwidth and deployment of a unified communication and collaboration tool, which underpinned the rapid move to remote working during the Covid-19 lockdown.  
|   | | – Continued investment in in-store technology and digital capabilities to enhance both customer and colleague experience.  
|   | | – Prioritisation of technology initiatives which is fully aligned with our operating and capital expenditure targets.  
|   | | – Continued collaboration with our principal technology services partner, TCS, and other strategic partnerships, such as Microsoft, to drive our Digital First ambition.  
|   | | – Expansion of the Decoded programme and investment in data analytics expertise to improve digital people skills.  
|   | | – Investment in dedicated resource focused on technology risk and assurance maturity and roll-out of a structured IT control methodology. |
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, could impact delivery of our transformation initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.

Our business is dependent on a range of significant third-party relationships that span products and services, franchise operations, joint ventures, investments and our banking and services partners. A critical failure of a key supplier or partner could have a significant impact on operational activities, our transformation and/or customer experience – any of which could negatively impact operating profit.

The scale and impact of Covid-19, both in the UK and internationally, has heightened the possibility of disruption or failure in the important group of third-party companies that form part of the extended operations of our business.

- Inclusion of third-party management risks as part of the Crisis Management team oversight of the Covid-19 response.
- Clear procurement and supplier management policies in place, including dedicated relationship partners for strategic suppliers.
- Defined service level agreements and key performance indicators for key contracts.
- Dedicated procurement and commercial teams.
- Key supplier business contingency planning including targeted reviews by our Business Continuity team.
- Structured governance and business monitoring processes for investments, other partnering and franchise agreements.
- Integrated business planning processes to support franchise and joint venture reviews.
- Regular review of franchise and joint venture markets and new opportunities.
- Third-party self-assessment processes to confirm compliance with expected standards and policies.

TALENT, CULTURE & CAPABILITY

An inability to maintain efficient processes and complete, accurate people metrics could impact our ability to effectively target our resources and people agenda to focus on attracting, engaging, developing and motivating colleagues and developing skills for the future. This could also impact the pace of operational and cultural transformation across the business.

The need to engage, motivate and connect with our colleagues across a multi-generational, diverse workforce and drive Digital First skills and mindset is key to delivering productivity and supporting the transformation of our business while driving customer loyalty through a differentiated service proposition.

An inability to maintain the necessary change management capabilities could constrain our transformation objectives. This, combined with the cultural challenge of managing talent, performance and succession could result in increased resource management and development costs.

- Investment in external hires to strengthen capability and address identified skills gaps.
- Investment in internal talent through structured identification of critical and senior roles.
- Leadership development programmes to enhance leadership capability and colleague engagement.
- Improved new starter experience to ensure effective onboarding, engagement and retention of new colleagues.
- A Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including at Board meetings.
- Development of a robust performance management system that will measure achievement against business objectives and behaviours, with a clear link to reward.
- A total reward review, with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age.
- Creation of a network of external allies to champion our inclusion and diversity agenda.
- Change management capability considered a specific leadership skill requiring investment through training, toolkits and methodology.
- Planned investment in an HR information system.
- Delivery of a digital-specific apprenticeship programme driving digital literacy and capability building.
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.

In assessing viability, the Board considered a number of key factors, including our business model (see page 09), our strategy (see page 07), risk appetite (see page 33) and our principal risks and uncertainties (see pages 34 to 42).

The Board is required to assess the Company’s viability over a period greater than 12 months, and in keeping with the way that the Board views the development of our business over the long term, a period of three years is considered appropriate for business planning, measuring performance and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast-paced changes taking place across the retail sector, we expect to see significant volatility and business disruption reducing our expected performance in 2020/21. We have already felt the impact of the government’s guidelines on lockdown, with our Food stores open and trading (albeit with social-distancing measures in place), but with Clothing & Home unable to trade from stores, and all sales therefore predominantly coming from online sales and Click & Collect in stores. Measures have already been taken to protect the health and safety of our customers and our colleagues, to manage our supply chain, to cut costs, and to redeploy our Clothing & Home colleagues to Food to meet the demand and increased safety practices.

These measures will help to mitigate the impact of the volatility, and we believe that trading conditions will recover as we move into 2021/22.

In assessing viability, the directors considered the position presented in the Budget and Three-Year Plan recently approved by the Board. In the context of the current challenging environment highlighted above, a “Covid-19 scenario” was applied to the plan, as well as the modelling of additional severe, yet plausible, sensitivities. These were based on the potential financial impact of the Group’s principal risks and uncertainties and the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment.

The Covid-19 scenario and how it corresponds to the principal risks, including the pandemic (pages 34 - 42) has been assumed to occur over the
OUR APPROACH TO ASSESSING LONG-TERM VIABILITY CONTINUED

same three-year period in order to assess the Group’s ability to withstand multiple challenges. The potential impacts of the pandemic have been built into the Covid-19 scenario and additional sensitivities, but the potential impact of a further “black swan” event that cannot be reasonably anticipated, or is considered remote, is not included.

The Covid-19 scenario assumes that the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

- On average, a 70% decline in Clothing & Home sales vs budget for the four months to July 2020, followed by a slow recovery back to budget by February 2021, reducing expected revenue by £1.5bn for the financial year.

- A 20% decline in Food sales vs budget for the four months to July, impacting annual revenue by £384m.

- International sales following a similar profile to Clothing & Home, with a significant decline in April due to closures, and a recovery extended to March 2021, impacting annual revenue by £124m.

Given the Covid-19 scenario is most sensitive to changes in the length of the Covid-19 impacting period and the depth of the impact, and without firm guidance from the government on a possible ‘exit strategy’, a prudent approach has been taken to stress test this Covid-19 case with further downside sensitivities, which extend the length of the social-distancing measures or increase the depth of the impact on sales and margin as follows:

- Sensitivity 1 – The Covid-19 scenario above, but with a much slower recovery, thereby impacting Clothing & Home and Food sales for longer and including a recession for the duration of the Three-Year Plan period (modelled as a 5% decline vs plan in Clothing & Home and Food sales on an ongoing basis through-out the three years). The incremental impact on Clothing & Home and Food revenues is £251m and £281m respectively for the financial year.

- Sensitivity 2 – as per sensitivity 1, plus a deeper sales decline over the first six-month period, with Clothing & Home on average c.80% down on budget. The incremental impact on Clothing & Home and Food revenue is £424m and £99m respectively, over and above sensitivity 1 for the financial year.

Reverse stress testing has also been applied to the model, which represents a further decline in sales compared with sensitivity 2. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

The impact of the Covid-19 scenario and sensitivities has been reviewed against the Group’s projected cash flow position and financial covenant over the three-year viability period. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable. These actions were identified as the Covid-19 pandemic emerged as part of the contingency planning that the Group has been undertaking, which considered both feasibility and timeframe to execute.

Mitigating actions taken include, but are not limited to, reducing planned capital and marketing spend, freezing pay and recruitment, making technology and operating expenditure cuts, reducing the supply pipeline of Clothing & Home stock by c.£560m, and lengthening payment terms, and ceasing to pay the final dividend payment for 2019/20 and for the current financial year, resulting in a total anticipated cash saving of c.£340m.

The Group also expects to benefit from c.£172m of business rates relief in 2020/21 and the government’s Coronavirus Job Retention Scheme to help meet the cost of furloughed roles in store, distribution and support centres, which should generate cash savings of c.£50m up to 30 June 2020.

In addition, in order to maximise liquidity for the likely duration of the crisis and the recovery period beyond, the following further steps have also been taken:

- Formal agreement has been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.

- The Group has confirmed its eligibility under the UK government’s CCFF and allocated an issuer limit of £300m, providing additional further liquidity headroom.

The agreement with the banks combined with the other measures taken means that, even under the Covid-19 scenario and the sensitivities, the business would continue to have significant liquidity headroom on its existing facilities and against the revolving credit facility financial covenant.

Neither the Covid-19 scenario, nor the sensitivities individually threaten the viability of the Company. In all assessments, there is an option to extend the potential mitigations available, such as further 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. The directors have also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Board has a reasonable expectation that the Group has adequate resources to continue in operation, meets its liabilities as they fall due, retain sufficient available cash across all three years of the assessment period and not breach any covenant under the revolving credit facility. The Board therefore has a reasonable expectation that the Group will remain commercially viable over the three-year period of assessment. The Viability Statement can be found on page 96.