

Issued: 25 May 2016

## Press Release

### MARKS AND SPENCER GROUP PLC FULL YEAR RESULTS FOR 53 WEEKS ENDED 2 APRIL 2016 AND STRATEGIC UPDATE

	53 weeks to 2 April 16	change on LY	52 weeks to 26 March 16	change on LY
Group revenue	£10.6bn	+2.4%	£10.4bn	+0.8%
Underlying profit before tax <sup>1</sup>	£689.6m	+4.3%	£684.1m	+3.5%
Non-underlying items	(£200.8m)	n/a	(£200.8m)	n/a
Profit before tax	£488.8m	-18.5%	£483.3m	-19.5%
Underlying basic earnings per share <sup>1</sup>	35.0p	+5.7%	34.8p	+5.1%
Basic earnings per share	24.9p	-16.2%	24.6p	-17.2%
Free cash flow	£539.3m	+2.9%		
Net debt	£2.14bn	-£84.9m		
Dividend per share	18.7p	3.9%		

<sup>1</sup> Underlying results are consistent with how business performance is measured internally. Non underlying items principally include: the mis-selling provision for M&S Bank; one-off impairments within International; UK store review costs and asset write-offs of IT.

#### Review of 2015/16:

- Continued strong growth in Food as we outperformed a competitive market. We opened 75 new Simply Food stores which are performing ahead of expectations.
- Clothing & Home gross margin up 245bps; sales performance unsatisfactory but actions under way.
- Continued difficult trading conditions in International – operating profit down 39.6% to £55.8m.
- Tight control over cost and capital – free cash flow pre-shareholder returns of £539.3m and operating costs +1.8%.

- £451.7m returned to shareholders including: £301.7m dividend and £150m buy back. In addition a special dividend of 4.6p per share (or £75m) announced for the first half of 2016/17.

#### **Strategic update summary:**

- Focus on putting customers at the heart of M&S and driving sales growth.
- Implementing actions to recover and grow Clothing & Home:
  - Re-establish style authority: focus on product, quality and fit
  - Restore price position: lowering prices and reduced promotional stance
  - Enhanced customer experience: sharper ranges, better availability and investment in store staffing
- Continuing to grow the Food business:
  - Build on strengths: focus on innovation, quality and choice
  - Commitment to value credentials: competitive pricing while maintaining margin
  - Improved convenience: extending Simply Food store opening programme
- Driving profitability for shareholders:
  - Continued tight control of costs and cash
  - Focus on shareholder returns
- Additional strategic questions, including International, UK store estate and organisation to be addressed in the autumn.

#### **Steve Rowe, Chief Executive, said:**

“M&S is a great business with a strong customer base and loyal employees and we have much to be proud of. We also know that we have lots of opportunities to improve and be better for our customers, our employees and our shareholders. We are putting customers right at the heart of our business.

“Our results last year were mixed. We continued to outperform on Food but we underperformed on Clothing & Home sales. This is not satisfactory and today we are outlining our initial plans to address the issues and to position Marks & Spencer to deliver profitable sales growth.

“We are clear on the actions needed to recover and grow Clothing & Home, which is our top priority; to continue to grow our Food business; and to focus on driving profitability. We are investing to re-establish our price position by sharpening prices and to enhance service by putting more employees into our stores.

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"These actions, combined with the difficult trading conditions, will have an adverse effect on profit in the short term. We are, however, confident that our commitment to delivering the right product, price and service will help return Clothing & Home sales to growth. This, together with continued momentum in Food, will provide us with a solid base from which to build a long term sustainable business."

**Robert Swannell, M&S Chairman, said:**

"Steve Rowe is today setting out his priorities as our new Chief Executive. His number one priority is to restore our Clothing & Home business to profitable growth, while maintaining the pace of growth and success of our market leading Food business.

"Today we announce a proposed final dividend for 2015/16 of 11.9p resulting in a full year dividend of 18.7p, up 3.9% on last year and broadly in line with underlying profit growth. As part of our ongoing programme of enhanced returns, we are also announcing a special dividend of 4.6p per share (c.£75 million) for the first half of the 2016/17 year. This will be paid to shareholders in July at the same time as the final dividend. We will update on further capital returns at our Interim results in November."

Business and financial review starts from page 10.

## **STRATEGIC UPDATE**

Over the last six weeks we have undertaken a forensic review of M&S in order to build an honest picture of our business today.

We have many strengths. 32 million customers choose to shop with us every year because we have a strong brand identity with values rooted in our heritage of quality and innovation, underpinned by our ethical commitments and great partnerships. And the investments we have made in transforming our systems and supply chain, building an inspirational, easy-to-navigate website and taking greater ownership of our product design and sourcing, have helped us to make significant progress. Our employees are loyal and passionate about our brand and are determined for us to succeed.

We have listened to our customers and analysed our results to understand exactly why we have underperformed and identified where we need to take action to improve M&S. We have asked ourselves crucial questions about our business and the answers give us the blueprint to return M&S to growth.

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Today, we are setting out the first phase of our strategic plan to recover and grow Clothing & Home and continue to grow Food. We will also be reviewing our cost base with the objective of delivering the first benefits this year. There are a number of other strategic questions which need further consideration, including those relating to our International business, our UK store estate and our organisation, and we will update on these in the autumn.

## **CUSTOMER & BRAND**

We are operating in difficult and challenging times – consumer confidence has dipped, the clothing market is flat, online sales have slowed and there’s deflation in the food market. Our customers are changing too as they become increasingly style and health conscious, shop around and expect more.

Analysing the shopping habits and behaviours of the 32 million customers who shop with us has shown that they carry a deep rooted affection for M&S but, for some, M&S is no longer their first choice. We have been listening to them to understand why and we have heard some common themes. This insight forms the basis of our plans for the business. We believe that M&S is a special brand and we are committed to making every moment special for our customers.

## **CLOTHING & HOME**

Our Clothing & Home sales performance has been unsatisfactory for a number of years and today we set out the actions we are taking to recover and grow this important part of our business.

### **Style Authority**

We will re-establish our style authority by focusing on wearable, contemporary style and unbeatable wardrobe essentials.

Product is key to this. Our customers look to M&S not for fashion trends but for accessible products they can wear with confidence. This will be complemented by a refocus on stylish everyday essentials, which we will continually refresh to ensure they are current and competitive, and underpinned by standout M&S innovation.

Quality will remain central to our thinking. Whether buying t-shirts or dresses; socks or suits; vests or school uniform, our customers will recognise that M&S has returned to being famous for unrivalled quality delivered through fabric, fit and finish.

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## Price position

We will restore our price position by investing in everyday price and reducing the number of promotions and sales. Lowering prices and moving our price architecture towards 'Good' will make us more competitive, particularly on opening price points.

We have been too reliant on promotions and sales which has eroded our value credentials. We will significantly reduce promotions and have fewer but better clearance sales in order to rebuild trust in our pricing stance. We will be more targeted in our promotions, leveraging data from our Sparks card customers, and offer fewer channel-specific promotions.

## Experience

We will enhance our customer experience across all channels by delivering clearer ranges and real choice in order to make their purchasing decisions simpler and quicker.

Our customers tell us that product duplication makes shopping with M&S confusing and that navigating through our sub-brands to find what they are looking for requires effort. We also fail to deliver on availability meaning that customers can't always find the products they want.

We will address this by reducing the number of products we sell in our Autumn/Winter ranges, stripping out duplication and buying with greater depth and authority so that we have a strong offer in all our stores regardless of their size.

We will make our stores easier to shop by reducing the level of co-ordination and help customers by inspiring them with selective and impactful outfit merchandising which will give us more flexibility to trade the seasons and trends.

Underpinning all of this will be an investment in service. Our employees are the lifeblood of M&S and they can be the difference in converting footfall into customers. We will improve standards and offer better service by investing in more employees in our stores and improving our instore facilities. Some basic changes to the environment, coupled with great service, can turn a shopping trip into an experience.

We will also continue to develop and improve our digital channels so that we stay up-to-date and relevant and can respond intuitively online and on mobile.

In summary, recovering our Clothing & Home business won't happen overnight. It will take time for customers to notice the improvements we are making and change their shopping behaviour, but we are confident that our commitment to delivering the right product, price and service will help return Clothing & Home sales to growth.

## FOOD

We have a strong Food business that is delivering results. We have consistently outperformed the market despite fierce competition and high deflation. We believe that our core strategy on Food is clear and that our focus on quality, innovation and choice is right and will continue to deliver sustainable, profitable growth.

We are delighting our customers in Food where the M&S brand stands for authority on quality and newness. They come to us for innovation, great taste and convenience and trust us to act with integrity. But there is more that we can do to build on our product strengths, maintain a competitive price position and improve convenience.

### Quality, Innovation and Choice

M&S takes product development very seriously, employing the best Food specialists from all corners of the culinary world. As a major own-brand retailer we also have world-leading supplier partnerships which gives us a unique and unrivalled product position. As a result, our customers tell us that M&S Food products are second-to-none in terms of quality, freshness and taste.

We believe that we can build on this in a number of areas for example, healthy eating, which is consistently cited as one of our customers' key concerns. It means much more than diet ranges and meals; our customers want to eat healthily which plays right to our strengths on fresh produce, meat, fish and convenient recipe dishes.

M&S plays an important role in inspiring customers every day and they want us to help inspire them with recipes and ideas, and wow them with events. So from Wednesday night suppers to Christmas celebrations we will put their needs at the centre of our product innovation.

Our customers also want real choice and we will provide this by carefully tailoring our ranges to the location of the store and the mission of the shopper. This will enable us to stock more of our new innovative products in smaller stores, as well as help manage cost of waste.

### Value Credentials

We will continue to invest in price to stay competitive. The food market continues to be deflationary and we will make sure that we offer great value.

We believe we can do this while maintaining our gross margin through ongoing supply chain efficiency programmes that are already delivering improvements with much more to play for.

We will continue to reduce the level of promotions, and focus instead on more personalised offers for customers using our Sparks card.

## **Convenience**

Convenience is essential for our customers when they are increasingly time-poor and need convenient solutions and easy access. Forty percent of all food consumed in the UK is eaten out of the home and convenience is the only segment of food retail predicted to grow over the next few years. This presents us with a great opportunity to respond with conveniently prepared products in convenient stores.

This is why we are accelerating our Simply Food opening programme. The stores that we have opened this year are already delivering ahead of expectations and we believe there is an opportunity to add even more space. In addition to the 250 new Simply Food stores already due to open by March 2017, we are announcing today that we are extending our opening programme by c.100 stores per year in 2017/18 and 2018/19, making our food offer accessible to even more customers.

In summary, we are going to continue to grow our Food business through delivering quality, innovative products to our customers from great stores in convenient locations.

## **PAY AND PENSIONS UPDATE**

We have used the introduction of the UK National Living Wage as an opportunity to review how we reward our people to ensure we attract and retain the best talent and continue to provide great service for our customers. We have announced today proposals for a fairer, simpler and more consistent approach to pay and pensions.

We are proposing a significant base rate increase for Qualified Customer Assistants to £8.50 per hour outside London and £9.65 in Greater London, as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017. We are also proposing to simplify our approach to premium payments.

In addition, we are proposing to close our UK defined benefit (DB) pension scheme for future service accrual (it has been closed to new members since 2002) and enrol current defined benefit members in our defined contribution savings plan from April 2017.

We have started a period of consultation with our people on both of these proposals.

We do not expect these changes to have a significant impact on underlying costs in this or next year. However, there will be a non-underlying charge in the current financial year in the range of c.£100m to £150m. This non-underlying charge is largely driven by the DB pension changes because when current active members become deferred members, the annual increase in their pensionable salary is linked to CPI as opposed to being capped at 1%.

## **OUTLOOK AND GUIDANCE FOR FINANCIAL YEAR 2016/17**

Market conditions continue to be challenging and we are managing our business accordingly.

We are confident that the actions we are taking to address the Clothing & Home sales performance will deliver results, however it will take time for our customers to notice the improvements and change their shopping behaviour. Given current market conditions, and our decision to invest in price and reduce promotional activity, in order to give our customers everyday better value, we expect to see a similar sales trend to 2015/16.

We will continue to realise buying margin gains in Clothing & Home from ongoing sourcing initiatives. However, as previously guided, currency is a headwind of c.70bps this year. We expect this, combined with our decision to step up the level of investment in price, to deliver an increase of c.50-100bps in the Clothing & Home gross margin.

In Food, we expect the roll out of our standalone Food stores to continue to drive sales growth, with space forecast to grow by c.5% in the year ahead.

Given ongoing competitive pressure in the Food market, we expect gross margin to remain level on last year, as we continue to re-invest operational efficiencies into price, quality and innovation.

Tight control of costs remains a priority and we will continue to focus on driving efficiencies. Operating costs are expected to increase by c.3.5%. We will invest in store staffing to give our customers great service. In addition, we are facing higher costs as a result of new space and increased depreciation as well as volume growth and inflation.

In our International business, we expect the factors which impacted last year's profits to persist through this year. We see further pressure from the Euro exchange rate, as well as weak trading conditions in Western Europe. The macro-economic backdrop in most of our franchise markets is not improving, and we will continue to work with our franchise partners to support them through these challenging times.

We are continuing with our focus on cash generation. Capital expenditure is expected to be lower at c.£450m.

The tax rate for the current financial year is expected to be 20%.

Overall, we expect the combination of difficult trading conditions, both in the UK and in our International markets, as well as our decision to invest in price and reduce our promotional activity, to have an adverse impact on profit in the short term. However, we're confident our actions will provide us with a more solid base from which to build long term sustainable growth.

There are many areas of our business that we are still reviewing. In the autumn we will report back on plans for our UK store portfolio, the shape of our International business and our organisation.

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**Investor & Analyst webcast:**

Investor and analyst presentation will be held at 10am on 25 May 2016. This presentation can be viewed live on the Marks and Spencer Group plc website on:

[www.marksandspencer.com/investors](http://www.marksandspencer.com/investors)

**Fixed Income Investor Conference Call:**

This will be hosted by Helen Weir, Chief Finance Officer at 2pm on 25 May 2016:

Dial in number: +44 (0)20 3427 1904 Access code: 8600945

A recording of this call will be available until 3 June 2016:

Dial in number: +44 (0)20 3427 0598 Access code: 8600945

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## FINANCIAL REVIEW

	53 weeks		52 weeks	
	ended		ended	
	2 Apr 16	% change	26 Mar 16	% change
	£m	on LY	£m	on LY
<b>Group revenue<sup>1</sup></b>	<b>10,555.4</b>	<b>+2.4</b>	<b>10,391.0</b>	<b>+0.8</b>
UK	9,470.8	+2.7	9,324.8	+1.1
International <sup>1</sup>	1,084.6	-0.3	1,066.2	-2.0
<b>Underlying operating profit</b>	<b>784.9</b>	<b>+2.9</b>	<b>777.6</b>	<b>+2.0</b>
UK	726.7	+8.4	721.8	+7.7
International	58.2	-36.9	55.8	-39.6
<b>Underlying profit before tax</b>	<b>689.6</b>	<b>+4.3</b>	<b>684.1</b>	<b>+3.5</b>
Non-underlying items	(200.8)	n/a	(200.8)	n/a
<b>Profit before tax</b>	<b>488.8</b>	<b>-18.5</b>	<b>483.3</b>	<b>-19.5</b>
<b>Underlying basic earnings per share</b>	<b>35.0p</b>	<b>+5.7</b>	<b>34.8p</b>	<b>+5.1</b>
<b>Basic earnings per share</b>	<b>24.9p</b>	<b>-16.2</b>	<b>24.6p</b>	<b>-17.2</b>
<b>Dividend per share</b>	<b>18.7p</b>	<b>+3.9</b>		

<sup>1</sup>On reported currency basis

*This year we are reporting on the 53 weeks to 2nd April 2016. Profit metrics are provided on a 53 week basis in the Financial Statements. To provide a meaningful comparison with last year's 52 week period, all operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.*

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## GROUP REVENUE

% change on LY	FY	Q1	Q2	Q3	Q4
Food	+3.6	+3.2	+3.4	+3.7	+4.0
- Like-for-like	+0.2	+0.3	+0.2	+0.4	0.0
Clothing & Home	-2.2	+0.2	-1.0	-5.0	-1.9
- Like-for-like	-2.9	-0.4	-1.9	-5.8	-2.7
M&S.com <sup>1</sup>	+23.4	+38.7	+30.2	+20.9	+8.2
Total UK sales	+1.1	+1.9	+1.5	-0.3	+1.6
- Like-for-like	-1.1	0.0	-0.7	-2.4	-1.1
International <sup>2</sup>	+1.3	+0.7	-2.4	+2.9	+3.8
<b>Total Group<sup>2</sup></b>	<b>+1.1</b>	<b>+1.8</b>	<b>+1.1</b>	<b>0.0</b>	<b>+1.9</b>

<sup>1</sup> Memo only

<sup>2</sup> International & Group revenues are shown at constant currency

### Food

Our strategy to differentiate on quality and innovation continued to set us apart in a challenging and deflationary market. We outperformed the market by some 4% pts and our share rose by 15bps to 4.3%.

Product innovation continues to be a key driver of performance as customers seek new flavours and unique products. This year we introduced 1,700 new products, equivalent to almost a quarter of our entire range, including new cuisines within our Taste range such as Greek, Lebanese and Spanish prepared meals as well as redeveloping and expanding our popular Italian ranges.

Customer trends continue to evolve with more frequent and more local shopping trips growing in popularity. With our Simply Food stores well positioned to benefit from this trend we continued to expand our reach by opening 82 new stores, of which 75 were Simply Food. The performance of these stores has been above expectations. In addition, our focus has been on refining customer choice by making sure that each store's range is appropriate to not only its location and size but more importantly the customer shopping mission.

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## Clothing & Home

Trading conditions through the year remained challenging, with unseasonal weather, particularly in the autumn, resulting in high levels of promotional activity. However, we underperformed the market and lost market share over the year.

We appointed a new team in September 2015 who took immediate action to address performance. We changed the structure within our Clothing & Home business, to better align it to how our customers shop, combining our Womenswear, Lingerie and Beauty business units, and we reshaped how we buy product, by product category rather than sub-brand.

In the final quarter, we started to take action on sharpening up price points, reducing prices of some 300 core products. We also focused on improving availability, resulting in improvement in the Spring/Summer 16 launch availability of 20%.

## M&S.com

M&S.com sales were up 23.4% year on year. We grew ahead of the market, increasing our share to become the second largest online UK clothing retailer. 7.4m customers shopped online with us this year, our highest number yet.

Mobile continues to be the fastest growing sales channel however we are increasingly seeing customers use multiple devices for their shopping. Our mobile site content is updated daily to ensure we have engaging, up to date content.

During the second half of the year we launched Sparks, our new membership club which combines tailored offers and personalised benefits for customers. Over 4m customers have signed up to date.

## GROSS MARGIN

UK gross margin was up 75bps at 42.1% as a result of the strong improvement in Clothing & Home margin.

Clothing & Home gross margin was up 245bps to 55.1% driven by improvement in the buying margin as we continue to make progress in our sourcing initiatives and implement a more flexible and direct sourcing operation. This has unlocked lower costs through better buying and sourcing migration to lower cost countries. Some of the buying margin gains were eroded by higher markdown costs due to more sale stock and higher promotional costs, as a result of sales underperformance.

Food gross margin was level on the year at 32.8%. Investment in price and an increase in waste costs put pressure on margin. However, these were mitigated through benefits realised from volume growth and ongoing operational efficiencies from streamlining our supply chain processes.

## OPERATING COSTS

	<u>52 weeks ended</u>		% var
	26 Mar 16	28 Mar 15	
	£m	£m	
Retail staffing	974.0	954.5	+2.0
Other retail costs	1,088.5	1,116.4	-2.5
Distribution	419.0	408.7	+2.5
Marketing and related	169.4	167.6	+1.1
Central costs	615.2	560.2	+9.8
<b>Total</b>	<b>3,266.1</b>	<b>3,207.4</b>	<b>+1.8</b>

UK operating costs were up £58.7m (1.8%), with a higher depreciation charge contributing £32.4m.

Retail staffing costs were up as a result of the growth in selling space and the annual pay review. These increases were partly offset by efficiencies from improved resource allocation.

The decrease in other retail costs reflects savings from lower interchange fees and the renegotiation of key utilities and facilities contracts which more than offset higher costs from new space and depreciation.

Distribution costs were up due to higher volumes in Food and M&S.com, which were greater than the savings from lower retail volumes in Clothing & Home.

Marketing costs increased slightly due to additional investment in digital marketing including the launch of our new Sparks card.

Central costs were up largely due to higher depreciation costs as well as higher staff incentive accruals reflecting the improved business performance and the release of employee benefit provisions last year.

## UNDERLYING UK OPERATING PROFIT

Underlying UK operating profit was £721.8m, up 7.7% on last year, driven by improvement in both Clothing & Home and Food profitability.

## INTERNATIONAL

	<u>52 weeks ended</u>		
	26 Mar 16	28 Mar 15	% var
	£m	£m	
<b>Sales</b>	<b>1,066.2</b>	<b>1,088.3</b>	<b>-2.0</b>
Owned	741.8	747.0	-0.7
Franchise	324.4	341.3	-4.9
<b>Operating Profit</b>	<b>55.8</b>	<b>92.3</b>	<b>-39.6</b>
Owned <sup>1</sup>	(31.5)	0.0	n/a
Franchise <sup>1</sup>	87.3	92.3	-5.3

<sup>1</sup>Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers

Sales in our International business were down 2% (up 1.3% on a constant currency basis) with operating profit down 39.6%, primarily driven by a decline in our owned businesses.

We saw challenging trading conditions in many of our owned markets, particularly in Western Europe. Although some markets, including Ireland and Greece, showed some improvement in sales performance, Euro currency pressures had a big impact on profitability as we absorbed the higher costs rather than passing them onto customers.

A number of our franchise markets, including Russia, Turkey and the Middle East, continued to be impacted by difficult macro-economic conditions. This, together with our decision to support our franchise partners with discounts through this time, had a small adverse impact on profit.

## NET FINANCE COSTS

	<u>52 weeks ended</u>	
	26 Mar 16	28 Mar 15
	£m	£m
Interest payable	(99.5)	(99.8)
Interest income	5.8	5.0
<b>Net interest payable</b>	<b>(93.7)</b>	<b>(94.8)</b>
Pension net finance income	15.3	10.5
Unwind of discount on partnership liability	(14.7)	(16.1)
Unwind of discounts on financial instruments and provisions	(0.8)	(0.9)
<b>Net finance cost</b>	<b>(93.5)</b>	<b>(101.3)</b>

Net finance costs were down 7.7% or £7.8m due to increased pension net finance income as result of the increase in the net retirement benefit asset.

## PROFIT BEFORE TAX

Group underlying profit before tax was £684.1m, up 3.5% on last year (53 weeks: £689.6m, up 4.3%). Profit before tax was £483.3m, down 19.5% (53 weeks: £488.8m, down 18.5%).

## NON-UNDERLYING ITEMS

	26 Mar 16	<u>52 weeks ended</u> 28 Mar 15
	£m	£m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(50.3)	(13.8)
Restructuring credits/(costs)	9.2	(4.6)
UK - store review	(26.7)	-
UK - one off systems impairment costs	(23.7)	-
International - store closure costs and impairments	(31.6)	(37.2)
International - impairment of goodwill	(19.1)	-
International - other impairments	(51.7)	-
IAS 39 fair value movement of embedded derivative	(2.0)	1.3
Net gain on acquisition of joint venture holding	5.4	-
Bradford warehouse		
Profit/(loss) on disposal and impairment once commitment to closure	(10.3)	(6.9)
<b>Adjustment to operating profit and profit before tax</b>	<b>(200.8)</b>	<b>(61.2)</b>

Non-underlying adjustments to profit were a net charge of £200.8m (last year £61.2m net charge).

The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision (£50.3m charge).

Following the announcement at the half year of a c.£90m multi-year programme to improve the quality of the UK store estate, a £26.7m charge has been recognised in relation to UK store closures.

In addition, a further £23.7m of asset impairments were incurred as a result of the review of our Clothing & Home strategy which meant that certain buying and merchandising systems under our GM4 programme were no longer required.

In the current year, £102.4m of charges have been recognised in the International business for store closure costs and impairments of goodwill and other assets due to underperformance and the uncertain outlook in a number of markets including Western Europe and Asia.

A net gain of £5.4m has been recognised in the year following the acquisition of the remaining 50% share of the joint venture holding the Bradford warehouse, representing a fair value gain of £27.1m arising on the revaluation of the existing investment partially offset by a loss of £21.7m on derecognition of the embedded derivative associated with the lease.

## TAXATION

The full year underlying effective tax rate was 17.2% (last year 18.9%). After underlying items the effective tax rate was 17.3% (last year 19.7%). The underlying effective tax rate was lower than last year mainly due to a one-off credit arising on the restatement of our deferred tax balances to reflect lower future UK Corporation Tax rates.

## UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 5.1% to 34.8p (increased 5.7% to 35.0p on a 53 week basis). The weighted average number of shares in issue during the period was 1,635.9m (last year 1,635.6m).

## CAPITAL EXPENDITURE

	<u>53 weeks ended</u>	<u>52 weeks ended</u>
	2 Apr 16	28 Mar 15
	£m	£m
UK store environment	36.9	92.7
New UK stores	106.4	63.5
International	26.4	37.5
Supply chain	89.1	117.6
IT	161.1	156.2
Maintenance	79.6	94.5
Proceeds from property disposals	(30.6)	(35.4)
<b>Total capital expenditure excluding acquisition</b>	<b>468.9</b>	<b>526.6</b>
Joint venture owning Bradford warehouse	56.2	-
<b>Total capital expenditure</b>	<b>525.1</b>	<b>526.6</b>

Total capital expenditure was level versus last year, however this includes £56.2m relating to the acquisition of the remaining 50% of the JV which owned the freehold of our Bradford warehouse.

Excluding this, capital expenditure was down reflecting a trend towards a lower level of capex going forward.

Spend on the UK store environment has reduced due to the completion of many of our in-store initiatives designed to create a more inspiring environment for our customers. Key projects this year include the new Lingerie and Kidswear schemes and investment in our Food stores including our hospitality offer.

As at the year end, we traded from 17.0m square feet of selling space, an increase of c.1.6% (on a weighted average basis) as we opened 82 new stores and closed 20 stores. Within this, Food space grew by 3.9% with 25 new owned Simply Food stores, 50 franchise food stores and 7 full line stores. Of the 20 closures, 4 were relocations to better sites as we improve the quality of the store estate for our customers. Overall, Clothing & Home space increased by 0.4%. International space increased by 1.4%, a reduction in the rate of growth on previous years.

We continued to invest in supply chain and technology. At the end of the year we have completed another milestone in the rollout of the strategic distribution network with the opening of our repurposed Bradford warehouse as an automated store NDC for our Clothing & Home business. The strategic network rollout remains on track and is expected to be fully implemented by the end of 2017/18.

In IT, we continued to make progress on our GM4 clothing & home buying and merchandising systems with three of the four systems now operational within the business. Following a review of the Clothing & Home business, the decision was made not to implement the final component, Assortment Planning.

The proceeds from property disposals mainly relate to the deferred consideration from the sale of the White City warehouse which is being received over three years until 2016/17.

On 29 February 2016, the Group purchased the remaining 50% share of the Lima (Bradford) S.à.r.l. joint venture for cash consideration of £56.2m. The company owned the automated distribution centre in Bradford which was previously leased to the Group. As a result of this transaction the Bradford automated distribution centre is now completely owned and controlled by the Group.

## CASH FLOW AND NET DEBT

	<u>53 weeks ended</u>	<u>52 weeks ended</u>
	2 Apr 16	28 Mar 15
	£m	£m
Underlying profit before tax	689.6	661.2
Finance costs	116.4	116.8
Finance income	(21.1)	(15.5)
Depreciation & amortisation	576.8	550.1
<b>Underlying EBITDA</b>	<b>1,361.7</b>	<b>1,312.6</b>
Non cash pension and share charges	118.0	84.3
Non underlying items	(63.2)	(25.1)
Working capital	13.2	120.3
Pension funding	(118.4)	(143.0)
Capex and disposals	(519.5)	(664.4)
Acquisition of joint venture	(56.2)	-
Interest and taxation	(206.0)	(177.1)
Share transactions	9.7	16.6
<b>Free cash flow pre shareholder returns</b>	<b>539.3</b>	<b>524.2</b>
Dividends paid	(301.7)	(280.7)
Share buyback	(150.7)	-
<b>Free cash flow</b>	<b>86.9</b>	<b>243.5</b>
<b>Opening net debt</b>	<b>(2,223.2)</b>	<b>(2,463.6)</b>
Exchange and other non-cash movements	(2.0)	(3.1)
<b>Closing net debt</b>	<b>(2,138.3)</b>	<b>(2,223.2)</b>

The business delivered strong free cash flow pre shareholder returns of £539.3m. After the completion of the share buyback programme and payment of dividends to shareholders, the overall net debt was down by £84.9m. The improved free cash flow reflects stronger business performance, with underlying EBITDA of £1,361.7m, an increase of £49.1m (3.7%) on last year. Working capital was broadly flat in the year. These movements are partially offset by pension funding of £118.4m and capital expenditure cash payments of £519.5m, including the payment of prior year capital accruals.

## SHAREHOLDER RETURNS

Cash generation has increased for the third consecutive year. In line with our capital allocation policy, the Board has proposed a 2.6% increase in the final dividend to 11.9p, subject to approval of shareholders at the Annual General Meeting, to be held on 12 July 2016. This will result in a total dividend of 18.7p, up 3.9% on last year. As part of our ongoing programme of enhanced returns, we have also announced a special dividend amounting to 4.6p per share (c.£75m) for the first half of the 2016/17 financial year. Both the final and the special dividend will be paid on 15 July 2016 to shareholders on the register of members as at close of business on 3 June 2016.

In the year we completed the return of £150m of cash to shareholders through the previously announced share buyback programme.

## PENSION

At 2 April 2016, the IAS 19 net retirement benefit surplus was £824.1m (last year £449.0m). The increase is due to a fall in the present value of the UK defined benefit liabilities as a result of an increase in the discount rate from 3.1% to 3.4%. This reflects the movement in corporate bond yields in the year.

In February 2016, we announced the results of triennial actuarial valuation of the UK defined benefit pension scheme. The valuation as at 31 March 2015 has resulted in a surplus of £204m, an improvement on the 2012 position of £290m deficit, due to asset outperformance. We have agreed with the trustees that there will be no changes to the existing funding arrangements for past service.

We have made a proposal to close our UK defined benefit (DB) pension scheme to future service accrual. This scheme has been closed to new members since 2002. Under these proposals, we would enrol current defined benefit members in our defined contribution pension plan from April 2017.

## PLAN A

The last 12 months have seen more good progress on Plan A with 22 further commitments delivered. We've driven the plan harder and made it even more relevant for our customers.

Nearly three quarters (73%) of all M&S products now have a strong Plan A story to tell (64% last year) and we've made notable progress on improving our energy efficiency (energy use -39%), water efficiency (water use -30%) and ensuring the raw materials we use are sustainable (for example all the palm oil we used last year was RSPO certified). Alongside this we've maintained our commitment to be carbon neutral and zero waste to landfill business.

Our customers are closer to Plan A than ever before. 90% of Sparks card holders have chosen a charity to support every time they shop with us (M&S donates a penny every time a Sparks customer shops with us) and over a thousand have volunteered with our store colleagues at seven Spark Something Good community volunteering events across the UK and Ireland.

We have also taken a major step forward this year on tackling food waste in our stores. We've reduced food waste by nine per cent with better systems helping us better forecast sales and we've significantly increased the amount of food we redistribute to charities and good causes. All M&S owned stores are now connected with local food banks and charities through the social network Neighbourly.com, supporting them with unsold M&S food.

In recognition of the growing importance of human rights we have joined the UN Global Compact and we'll be publishing our first Human Rights report alongside our Plan A Report in June. We have again helped over 3,000 people facing significant barriers to get work through our employability programmes with 66% going on to get a job or further education.

*Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets.*

- Ends -

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**Consolidated income statement**

	53 weeks ended 2 April 2016			52 weeks ended 28 March 2015			
	Notes	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
<b>Revenue</b>	2	10,555.4	-	10,555.4	10,311.4	-	10,311.4
<b>Operating profit</b>	2,3	784.9	(200.8)	584.1	762.5	(61.2)	701.3
Finance income	4	21.1	-	21.1	15.5	-	15.5
Finance costs	4	(116.4)	-	(116.4)	(116.8)	-	(116.8)
<b>Profit before tax</b>		689.6	(200.8)	488.8	661.2	(61.2)	600.0
Income tax expense	5	(118.8)	34.4	(84.4)	(124.8)	6.5	(118.3)
<b>Profit for the year</b>		570.8	(166.4)	404.4	536.4	(54.7)	481.7
<b>Attributable to:</b>							
Owners of the parent		573.3	(166.4)	406.9	541.2	(54.7)	486.5
Non-controlling interests		(2.5)	-	(2.5)	(4.8)	-	(4.8)
		570.8	(166.4)	404.4	536.4	(54.7)	481.7
Basic earnings per share	6	35.0p		24.9p	33.1p		29.7p
Diluted earnings per share	6	34.9p		24.8p	32.9p		29.5p

**Consolidated statement of comprehensive income**

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
<b>Profit for the year</b>		404.4	481.7
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of retirement benefit schemes	9	346.2	193.7
Tax charge on items that will not be reclassified		(45.6)	(40.2)
		300.6	153.5
<b>Items that will be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences		7.3	(7.5)
Cash flow hedges and net investment hedges			
- fair value movements recognised in other comprehensive income		(30.1)	221.2
- reclassified and reported in profit or loss		(22.1)	(60.0)
- amount recognised in inventories		5.9	(21.6)
Tax credit/(charge) on cash flow hedges and net investment hedges		6.5	(21.2)
		(32.5)	110.9
Other comprehensive income for the year, net of tax		268.1	264.4
<b>Total comprehensive income for the year</b>		672.5	746.1
<b>Attributable to:</b>			
Owners of the parent		675.0	750.9
Non-controlling interests		(2.5)	(4.8)
		672.5	746.1

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## Consolidated statement of financial position

	Notes	As at 2 April 2016 £m	As at 28 March 2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		802.8	858.2
Property, plant and equipment		5,027.1	5,031.1
Investment property		15.5	15.6
Investment in joint ventures		6.9	12.2
Other financial assets		3.0	3.0
Retirement benefit asset	8	851.0	460.7
Trade and other receivables		234.7	283.3
Derivative financial instruments	10	74.0	75.8
Deferred tax assets		-	1.2
		<b>7,015.0</b>	<b>6,741.1</b>
<b>Current assets</b>			
Inventories		799.9	797.8
Other financial assets		19.1	11.6
Trade and other receivables		321.1	321.8
Derivative financial instruments	10	72.1	117.9
Current tax assets		1.6	-
Cash and cash equivalents		247.6	205.9
		<b>1,461.4</b>	<b>1,455.0</b>
<b>Total assets</b>		<b>8,476.4</b>	<b>8,196.1</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		1,617.7	1,642.4
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Borrowings and other financial liabilities		297.5	279.4
Derivative financial instruments	10	28.5	7.7
Provisions		14.0	46.2
Current tax liabilities		75.2	64.0
		<b>2,104.8</b>	<b>2,111.6</b>
<b>Non-current liabilities</b>			
Retirement benefit deficit	8	26.9	11.7
Trade and other payables		353.0	319.7
Partnership liability to the Marks & Spencer UK Pension Scheme	9	383.8	441.0
Borrowings and other financial liabilities		1,774.7	1,745.9
Derivative financial instruments	10	0.2	20.0
Provisions		52.0	32.1
Deferred tax liabilities		337.6	315.3
		<b>2,928.2</b>	<b>2,885.7</b>
<b>Total liabilities</b>		<b>5,033.0</b>	<b>4,997.3</b>
<b>Net assets</b>		<b>3,443.4</b>	<b>3,198.8</b>
<b>Equity</b>			
Issued share capital		405.8	412.0
Share premium account		411.3	392.4
Capital redemption reserve		2,210.5	2,202.6
Hedging reserve		32.3	64.3
Other reserve		(6,542.2)	(6,542.2)
Retained earnings		6,927.5	6,670.5
<b>Total shareholders' equity</b>		<b>3,445.2</b>	<b>3,199.6</b>
Non-controlling interests in equity		(1.8)	(0.8)
<b>Total equity</b>		<b>3,443.4</b>	<b>3,198.8</b>

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**Consolidated statement of changes in equity**

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total £m
<b>As at 30 March 2014</b>	408.1	355.5	2,202.6	(41.8)	(6,542.2)	6,325.1	2,707.3	(0.6)	2,706.7
Profit/(loss) for the year	-	-	-	-	-	486.5	486.5	(4.8)	481.7
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(2.0)	-	(5.5)	(7.5)	-	(7.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	193.7	193.7	-	193.7
Tax charge on items that will not be reclassified	-	-	-	-	-	(40.2)	(40.2)	-	(40.2)
Cash flow hedges and net investment hedges									
- fair value movements recognised in other comprehensive income	-	-	-	210.9	-	10.3	221.2	-	221.2
- reclassified and reported in profit or loss	-	-	-	(60.0)	-	-	(60.0)	-	(60.0)
- amount recognised in inventories	-	-	-	(21.6)	-	-	(21.6)	-	(21.6)
Tax on cash flow hedges and net investment hedges	-	-	-	(21.2)	-	-	(21.2)	-	(21.2)
<b>Other comprehensive income</b>	-	-	-	<b>106.1</b>	-	<b>158.3</b>	<b>264.4</b>	-	<b>264.4</b>
<b>Total comprehensive income/(expense)</b>	-	-	-	<b>106.1</b>	-	<b>644.8</b>	<b>750.9</b>	<b>(4.8)</b>	<b>746.1</b>
Transactions with owners:									
Dividends	-	-	-	-	-	(280.7)	(280.7)	-	(280.7)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	4.6	4.6
Shares issued on exercise of employee share options	3.9	36.9	-	-	-	-	40.8	-	40.8
Purchase of own shares held by employee trusts	-	-	-	-	-	(24.2)	(24.2)	-	(24.2)
Release of share-based payments	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Deferred tax on share schemes	-	-	-	-	-	6.6	6.6	-	6.6
<b>As at 28 March 2015</b>	<b>412.0</b>	<b>392.4</b>	<b>2,202.6</b>	<b>64.3</b>	<b>(6,542.2)</b>	<b>6,670.5</b>	<b>3,199.6</b>	<b>(0.8)</b>	<b>3,198.8</b>
<b>As at 29 March 2015</b>	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
Profit/(loss) for the year	-	-	-	-	-	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.5)	-	7.8	7.3	-	7.3
Remeasurements of retirement benefit schemes	-	-	-	-	-	346.2	346.2	-	346.2
Tax charge on items that will not be reclassified	-	-	-	-	-	(45.6)	(45.6)	-	(45.6)
Cash flow hedges and net investment hedges									
- fair value movements recognised in other comprehensive income	-	-	-	(21.8)	-	(8.3)	(30.1)	-	(30.1)
- reclassified and reported in profit or loss	-	-	-	(22.1)	-	-	(22.1)	-	(22.1)
- amount recognised in inventories	-	-	-	5.9	-	-	5.9	-	5.9
Tax on cash flow hedges and net investment hedges	-	-	-	6.5	-	-	6.5	-	6.5
<b>Other comprehensive income/(expense)</b>	-	-	-	<b>(32.0)</b>	-	<b>300.1</b>	<b>268.1</b>	-	<b>268.1</b>
<b>Total comprehensive income/(expense)</b>	-	-	-	<b>(32.0)</b>	-	<b>707.0</b>	<b>675.0</b>	<b>(2.5)</b>	<b>672.5</b>
Transactions with owners:									
Dividends	-	-	-	-	-	(301.7)	(301.7)	-	(301.7)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	1.5	1.5
Shares issued on exercise of employee share options	1.7	18.9	-	-	-	-	20.6	-	20.6
Purchase of own shares held by employee trusts	-	-	-	-	-	(10.9)	(10.9)	-	(10.9)
Shares purchased in buy-back	(7.9)	-	7.9	-	-	(150.7)	(150.7)	-	(150.7)
Credit for share-based payments	-	-	-	-	-	17.2	17.2	-	17.2
Deferred tax on share schemes	-	-	-	-	-	(3.9)	(3.9)	-	(3.9)
<b>As at 2 April 2016</b>	<b>405.8</b>	<b>411.3</b>	<b>2,210.5</b>	<b>32.3</b>	<b>(6,542.2)</b>	<b>6,927.5</b>	<b>3,445.2</b>	<b>(1.8)</b>	<b>3,443.4</b>

The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

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## Consolidated statement of cash flows

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	13	1,311.3	1,349.1
Income tax paid		(99.3)	(71.1)
<b>Net cash inflow from operating activities</b>		<b>1,212.0</b>	<b>1,278.0</b>
<b>Cash flows from investing activities</b>			
Proceeds on property disposals		30.6	35.4
Purchase of property, plant and equipment		(363.3)	(521.8)
Purchase of intangible assets		(186.8)	(178.0)
(Purchase)/reduction of current financial assets		(7.2)	6.0
Interest received		6.8	9.3
Acquisition of subsidiary	12	(56.2)	-
<b>Net cash used in investing activities</b>		<b>(576.1)</b>	<b>(649.1)</b>
<b>Cash flows from financing activities</b>			
Interest paid <sup>1</sup>		(113.5)	(115.3)
Cash inflow/(outflow) from borrowings		3.1	(165.7)
Repayment of syndicated loan notes		(19.9)	(10.2)
Decrease in obligations under finance leases		(2.4)	(4.8)
Payment of liability to the Marks & Spencer UK Pension Scheme		(56.0)	(54.4)
Equity dividends paid		(301.7)	(280.7)
Shares issued on exercise of employee share options		20.6	40.8
Purchase of own shares held by employee trust		(10.9)	(24.2)
Share buy back		(150.7)	-
<b>Net cash used in financing activities</b>		<b>(631.4)</b>	<b>(614.5)</b>
<b>Net cash inflow from activities</b>		<b>4.5</b>	<b>14.4</b>
Effects of exchange rate changes		3.7	(2.3)
Opening net cash		187.8	175.7
<b>Closing net cash</b>		<b>196.0</b>	<b>187.8</b>

<sup>1</sup> Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

## Reconciliation of net cash flow to movement in net debt

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
<b>Opening net debt</b>		<b>(2,223.2)</b>	<b>(2,463.6)</b>
Net cash inflow from activities		4.5	14.4
Increase/(decrease) in current financial assets		7.2	(6.0)
Decrease in debt financing		75.2	235.1
Exchange and other non-cash movements		(2.0)	(3.1)
<b>Movement in net debt</b>		<b>84.9</b>	<b>240.4</b>
<b>Closing net debt</b>	14	<b>(2,138.3)</b>	<b>(2,223.2)</b>

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## 1 General information and basis of preparation

### General Information

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, does not constitute full accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. The auditor has reported on the Group's statutory accounts for each of the years 2015/16 and 2014/15, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2014/15 have been delivered to the Registrar of Companies and the statutory accounts for 2015/16 will be filed with the Registrar in due course.

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are drawn up on the historical cost basis of accounting, as modified by financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### Going concern basis

Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

### Accounting Policies

There have been no significant changes to accounting under IFRS which have affected the Group's results. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year are the Annual Improvements to IFRSs: 2011-2013 cycle. These have not had a material impact on the Group.

The following IFRS have been issued but are not yet effective:

- IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is yet to be endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors are substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements;
- IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model based on expected credit losses for recognising provisions; and provides for simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology. It is not yet practicable to quantify the effect of IFRS 9 on the Group. Work on the impact of the new recognition, impairment and general hedge accounting requirements is in its early stages and we expect new processes and changes to the existing IT systems may be required to aid the Group's implementation of the standard; and
- IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 with early adoption permitted. It has not yet been endorsed by the EU. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. Based on the Group's preliminary assessment from work performed to date, the Group believes that the adoption of IFRS 15 will not have a material impact on the consolidated results but work is still ongoing to fully quantify its impact.

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### Non-underlying items

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- Profits and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated;
- One-off pension credits arising on changes to the defined benefit schemes' rules and practices;
- Interest relating to significant and one-off repayments from tax litigation claims;
- Restructuring costs;
- Significant and one-off impairment charges and provisions that distort underlying trading;
- Fair value movements in financial instruments;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Adjustment in income from HSBC in relation to M&S Bank due to a non-recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products; and
- Ex-gratia payment received from HSBC in relation to the mis-selling of financial products.

## 2 Segmental Information

IFRS 8 requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. The executive directors also monitor revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by subcategory and gross profit within the UK segment by subcategory.

The following is an analysis of the Group's revenue and results by reportable segment:

	53 weeks ended 2 April 2016				52 weeks ended 28 March 2015			
	Management	Adjustment <sup>1</sup>	Non-underlying items <sup>2</sup>	Statutory	Management	Adjustment <sup>1</sup>	Non-underlying items <sup>2</sup>	Statutory
	£m	£m	£m	£m	£m	£m	£m	£m
Clothing & Home revenue	3,961.3	-	-	3,961.3	3,987.4	1.0	-	3,988.4
Food revenue	5,509.5	-	-	5,509.5	5,234.7	-	-	5,234.7
UK revenue	9,470.8	-	-	9,470.8	9,222.1	1.0	-	9,223.1
Franchised	329.7	-	-	329.7	341.3	-	-	341.3
Owned	754.9	-	-	754.9	747.0	-	-	747.0
International revenue	1,084.6	-	-	1,084.6	1,088.3	-	-	1,088.3
<b>Group revenue</b>	<b>10,555.4</b>	<b>-</b>	<b>-</b>	<b>10,555.4</b>	<b>10,310.4</b>	<b>1.0</b>	<b>-</b>	<b>10,311.4</b>
Clothing & Home gross profit	2,180.7				2,098.9			
Food gross profit	1,806.2				1,718.5			
UK gross profit	3,986.9	(300.9)	-	3,686.0	3,817.4	(293.4)	-	3,524.0
UK operating costs	(3,320.1)	300.9	(49.1)	(3,068.3)	(3,207.4)	293.4	(15.8)	(2,929.8)
M&S Bank	59.9	-	(50.3)	9.6	60.2	-	(13.8)	46.4
UK operating profit	726.7	-	(99.4)	627.3	670.2	-	(29.6)	640.6
International operating profit	58.2	-	(101.4)	(43.2)	92.3	-	(31.6)	60.7
<b>Group operating profit</b>	<b>784.9</b>	<b>-</b>	<b>(200.8)</b>	<b>584.1</b>	<b>762.5</b>	<b>-</b>	<b>(61.2)</b>	<b>701.3</b>
Finance income	21.1	-	-	21.1	15.5	-	-	15.5
Finance costs	(116.4)	-	-	(116.4)	(116.8)	-	-	(116.8)
<b>Profit before tax</b>	<b>689.6</b>	<b>-</b>	<b>(200.8)</b>	<b>488.8</b>	<b>661.2</b>	<b>-</b>	<b>(61.2)</b>	<b>600.0</b>

- Adjustments to revenue in the prior year relate to refunds recognised in cost of sales for management accounting purposes (last year £1.3m credit) and an adjustment for agency transactions presented gross in management accounts (last year £0.3m charge). In the current year these adjustments are reflected in the management number. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £300.9m (last year £293.4m).
- Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 3).

## Other segmental information

	2016			2015		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	624.9	20.0	644.9	544.4	33.4	577.8
Depreciation and amortisation	531.9	30.9	562.8	490.8	32.0	522.8
Impairment and asset write-offs	60.8	98.8	159.6	36.0	35.3	71.3
Total assets	8,062.3	414.1	8,476.4	7,763.2	432.9	8,196.1
Non-current assets	6,751.9	263.1	7,015.0	6,424.0	317.1	6,741.1

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### 3 Non-underlying items

In order to provide shareholders with a measure of the true underlying performance of the business and to allow a more understandable assessment of its position, the Group makes certain adjustments to the reported profit before tax. These adjustments for non-underlying items are made in accordance with the Group's accounting policy and are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business.

The total non-underlying items reported for the 53 week period ended 2 April 2016 is a net charge of £200.8m. The adjustments made to reported profit before tax to arrive at underlying profit are:

	2016	2015
	£m	£m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(50.3)	(13.8)
Restructuring credits/(costs)	9.2	(4.6)
UK store review	(26.7)	-
UK one-off impairment costs	(23.7)	-
International - store closure costs and impairments	(31.6)	(37.2)
International - impairment of goodwill	(19.1)	-
International - other impairments	(51.7)	-
Profit/(loss) on property disposal and impairment following a commitment being made to close stores	(10.3)	(6.9)
IAS 39 Fair value movement of embedded derivative	(2.0)	1.3
Net gain on acquisition of joint venture holding Bradford warehouse	5.4	-
<b>Adjustment to profit before tax</b>	<b>(200.8)</b>	<b>(61.2)</b>

#### Net M&S Bank charges incurred in relation to the insurance mis-selling provision

The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any fees received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2012, M&S Bank has recognised, in its audited financial statements, an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability in both the current and prior years. The total charge to date for the deduction in the Group's fee income is £189.4m. The deduction in the period is £50.3m.

On 26 September 2014, the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historical mis-selling charges). This resulted in an ex gratia payment to the Group of £40.0m by HSBC which was recognised as a non-underlying credit in the prior period (net of £0.1m legal fees).

#### Restructuring credits/(costs)

The £9.2m restructuring credit in the year relates primarily to the Group's ongoing strategy to transition to a single tier distribution network and the closure costs of the legacy logistics sites. The net credit in the year arises due to an updated view of the site closure proposals (which has resulted in the retention of some sites initially announced for closure), an updated view of the estimated costs associated with closure and the successful assignment of a lease that had initially been provided for as onerous.

#### UK store review

The UK store review relates to a strategic multi-year programme which was announced during the year. As part of this programme, nine UK stores have been closed in the period resulting in charges of £26.7m being incurred. These charges relate to dilapidations and sublet shortfalls, accelerated depreciation of fixtures and fittings, impairments of land and buildings and redundancy costs.

#### UK one-off impairment costs

As part of the ongoing review of the Clothing & Home business, significant changes in both the trading strategy and the store ranging strategy were made. As a result of these changes, elements of the new buying and merchandising system will no longer be used and as a result investment in these elements of the system have been written off, resulting in a one-off charge of £23.7m.

#### International - store closure costs and impairments

The international store impairment tests during the year have identified a number of stores across the portfolio, where current and anticipated future performance will not support the carrying value of the stores. As a result, one-off impairment charges of £21.9m have been incurred, primarily in Western Europe and Asia.

Closure costs of £6.5m were incurred on the exit of stores, primarily in the Balkans region. In addition, separately capitalised staffing costs of £3.2m relating to property and store design projects for closed/impaired international stores have been written off during the year.

#### International - impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment annually, or more frequently if indicators of impairment are identified. The goodwill impairment test involves an assessment of the carrying value relative to the value in use of the CGU (calculated using the three year plans reviewed by the Board). Where the carrying value exceeds the value in use an impairment charge is recognised. During the year, indicators of impairment have been identified in respect of both the Czech Group and the Hungarian businesses.

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The performance of the Czech Group during the year has been heavily impacted by challenging trading conditions and weakening currencies. These have had a detrimental impact on the business' ability to improve profitability year-on-year. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £15.8m.

The Hungarian retail market has been impacted by challenging trading conditions resulting in a decrease in gross profit and reduced expectations of future growth. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £3.3m.

#### **International - other impairments**

The Mode brand was acquired in 2011, giving the Group the right to use the M&S brand in certain European markets. The valuation of this asset is supported by the cash flows of both owned and franchised European businesses. The deterioration in the current year trading performance across several of these markets (most notably Greece, France, the Czech Group and Hungary) and the consequential impact on expected future year cash flows has resulted in the carrying value of the brand no longer being supportable. As a result, a full impairment of £32.4m has been recognised in the year.

E-SAP is an enterprise management system used solely by the owned businesses in Greece, the Czech Group and Hungary. As highlighted above, the expected future cash flows of these countries have been impacted by challenging trading conditions and weakening currencies. There are no plans to implement E-SAP across other international territories. As a result, the cash flows can no longer support the carrying value of the E-SAP system and an impairment charge of the full £19.3m has been recognised in the year.

#### **Profit/(loss) on property disposal and impairment following a commitment being made to close stores**

During the year, the Group recognised a net profit of £0.6m on the disposal of stores in Hartlepool, Harlow and Gloucester.

As a result of historic store closures, the Group has a small non-operating portfolio of properties. The strategy is to market the properties for sale (or lease assignment) or to explore sub-let opportunities where a sale or assignment is not achievable. A detailed review of the realisable value of these assets has been performed during the year which has identified a one-off charge of £10.9m.

#### **IAS 39 Fair value movement of embedded derivative**

The embedded derivative arose in respect of a lease contract for the Bradford distribution warehouse held within the Lima (Bradford) S.à r.l. joint venture. The lease contained both a rental increase cap and floor resulting in an embedded derivative being recognised on the balance sheet and fair valued each reporting period. The fair value movement in the derivative during the period until acquisition was £2.0m.

#### **Net gain on acquisition of joint venture holding Bradford warehouse**

On 29 February 2016, the Group purchased the remaining 50% of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. In accordance with IFRS 3 'Business Combinations' this acquisition was treated as a stepped acquisition resulting in a one-off fair value gain of £27.1m.

Following the Group's acquisition, the embedded derivative in respect of the lease contract for the warehouse (see note above 'IAS 39 Fair value movement of embedded derivative) has been derecognised from the balance sheet, resulting in a one-off cost of £21.7m.

Refer to note 12 for more detail on this business combination.

#### 4 Finance income/costs

	2016 £m	2015 £m
Bank and other interest receivable	5.8	5.0
Pension net finance income (see note 8)	15.3	10.5
<b>Finance income</b>	<b>21.1</b>	<b>15.5</b>
Interest on bank borrowings	(3.6)	(3.3)
Interest payable on syndicated bank facility	(5.5)	(6.4)
Interest payable on medium-term notes	(89.9)	(88.1)
Interest payable on finance leases	(1.9)	(2.0)
Unwind of discount on financial instruments	(0.4)	(0.6)
Unwind of discount on provisions	(0.4)	(0.3)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(14.7)	(16.1)
<b>Finance costs</b>	<b>(116.4)</b>	<b>(116.8)</b>
<b>Net finance costs</b>	<b>(95.3)</b>	<b>(101.3)</b>

#### 5 Taxation

The effective tax rate was 17.3% (last year 19.7%) and after excluding non-underlying items the underlying effective tax rate was 17.2% (last year 18.9%).

#### 6 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business (see note 3). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has four classes of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year, unvested shares granted under the Deferred Share Bonus Plan, unvested shares granted under the Restricted Share Plan and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

Details of the underlying earnings per share are set out below:

	2016 £m	2015 £m
<b>Profit attributable to equity shareholders of the Company</b>	<b>406.9</b>	<b>486.5</b>
Add/(less) (net of tax):		
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	40.2	10.9
Restructuring credits/(costs)	(7.3)	3.9
UK store review	21.7	-
UK one-off impairment costs	19.0	-
International - store closure costs and impairments	25.2	36.6
International - impairment of goodwill	19.1	-
International - other impairments	47.8	-
Profit/(loss) on property disposal and impairment following a commitment being made to close stores	8.8	4.3
IAS 39 Fair value movement of embedded derivative	1.6	(1.0)
Net gain on acquisition of joint venture holding Bradford warehouse	(9.7)	-
<b>Underlying profit attributable to equity shareholders of the Company</b>	<b>573.3</b>	<b>541.2</b>

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	2016	
	Million	Million
Weighted average number of ordinary shares in issue	1,635.9	1,635.6
Potentially dilutive share options under Group's share option schemes	6.3	11.3
<b>Weighted average number of diluted ordinary shares</b>	<b>1,642.2</b>	<b>1,646.9</b>
	Pence	Pence
Basic earnings per share	24.9	29.7
Diluted earnings per share	24.8	29.5
Underlying basic earnings per share	35.0	33.1
Underlying diluted earnings per share	34.9	32.9

## 7 Dividends

	2016	2015	2016	2015
	per share	per share	£m	£m
<b>Dividends on equity ordinary shares</b>				
Paid final dividend	11.6p	10.8p	190.8	176.2
Paid interim dividend	6.8p	6.4p	110.9	104.5
	<b>18.4p</b>	<b>17.2p</b>	<b>301.7</b>	<b>280.7</b>

The directors have proposed a final dividend in respect of the year ended 2 April 2016 of 11.9p per share (last year 11.6p), amounting to a dividend of £192.6m (last year £190.8m). This payment is subject to approval of shareholders at the Annual General Meeting, to be held on 12 July 2016

In addition, the Board have declared the payment of a special dividend of 4.6p per share amounting to a dividend of c.£75m. Both the Special and the Final dividend will be paid on 15 July 2016 to shareholders on the register of members as at close of business on 3 June 2016. In line with the requirements of IAS 10 – 'Events after the reporting period', these dividends have not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 2 June 2016. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 24 June 2016.

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## 8 Retirement benefits

	2016	2015
	£m	£m
<b>Opening net retirement benefit asset</b>	<b>449.0</b>	<b>189.0</b>
Current service cost	(98.0)	(82.4)
Administration costs	(3.0)	(2.0)
Past service costs - curtailment charge	(1.0)	(1.0)
Net interest income (see note 4)	15.3	10.5
Employer contributions	118.4	143.0
Actual return on scheme assets excluding amounts included in net interest income	(156.3)	1,722.4
Actuarial gain - experience	164.8	33.7
Actuarial loss - demographic assumptions	(100.8)	(83.9)
Actuarial gain/(loss) - financial assumptions	438.5	(1,478.5)
Exchange movement	(2.8)	(1.8)
<b>Closing net retirement benefit asset</b>	<b>824.1</b>	<b>449.0</b>
Total market value of assets	8,515.3	8,596.5
Present value of scheme liabilities	(7,682.3)	(8,135.8)
Net funded pension plan asset	833.0	460.7
Unfunded retirement benefits	(0.9)	(0.7)
Post-retirement healthcare	(8.0)	(11.0)
<b>Net retirement benefit asset</b>	<b>824.1</b>	<b>449.0</b>

### Analysed in the statement of financial position as:

Retirement benefit asset	851.0	460.7
Retirement benefit deficit	(26.9)	(11.7)
<b>Net retirement benefit asset</b>	<b>824.1</b>	<b>449.0</b>

### Financial assumptions

The main financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 3.40% (last year 3.10%) and 2.95% (last year 3.10%) respectively. The inflation rate of 2.95% (last year 3.10%) reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 1.95% (last year 2.10%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased by 0.25% the surplus would increase by c.£90m. If the inflation rate increased by 0.25%, the surplus would decreased by c.£20m.

### 9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). As such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the partnership. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

The Partnership liability to the Marks & Spencer UK Pension Scheme of £455.7m (last year £512.9m) is valued at the net present value of the future expected distributions from the Partnership to the Marks & Spencer UK Pension Scheme as limited partner.

During the year to 2 April 2016, an interest charge of £14.7m (last year £16.1m) was recognised in the income statement representing the unwind of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £469.5m (last year £531.3m).

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## 10 Financial Instruments

### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's Level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. At 28 March 2015 the fair value of the embedded derivative was calculated using an option valuation model based on the present value of a 35 year lease with annual lease payments increasing by Retail Price Index (RPI), capped and floored at 1.5% and 2.5% respectively and then discounted back to the valuation date. The valuation was sensitive to changes in RPI. As a result of the acquisition of Lima (Bradford) S.à r.l. in the period, the host contract that contained the embedded derivative is now held between Group companies. As such, the Group no longer holds any third party Level 3 assets or liabilities.

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets measured at fair value</b>								
Financial assets at fair value through profit or loss								
- Trading derivatives	-	1.4	-	1.4	-	3.1	-	3.1
Derivatives used for hedging	-	144.7	-	144.7	-	166.9	-	166.9
Embedded derivatives (see note 3)	-	-	-	-	-	-	23.7	23.7
Short-term investments	-	19.1	-	19.1	-	11.6	-	11.6
<b>Liabilities measured at fair value</b>								
Financial liabilities at fair value through profit or loss								
- Trading derivatives	-	(1.8)	-	(1.8)	-	(0.4)	-	(0.4)
Derivatives used for hedging	-	(26.9)	-	(26.9)	-	(27.3)	-	(27.3)

There were no transfers between Level 1 and Level 2 fair value measurements. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table represents the changes in Level 3 instruments:

	2016 £m	2015 £m
<b>Opening balance</b>	<b>23.7</b>	<b>22.4</b>
Fair value (loss)/gain recognised in the income statement	(2.0)	1.3
Derecognition	(21.7)	-
<b>Closing balance</b>	<b>-</b>	<b>23.7</b>

During the year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the host lease contract is now between subsidiaries of the Group (see note 12).

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract up until the acquisition date. The fair value movement of the embedded derivative of £2.0m loss (last year £1.3m gain) and subsequent derecognition of the asset (£21.7m) is treated as an adjustment to reported profit (see note 3).

### Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,726.4m (last year £1,697.7m), the fair value of this debt was £1,868.3m (last year £1,883.6m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (Level 3 equivalent) is £455.7m (last year £512.9m) and the fair value of this liability is £445.3m (last year £501.3m).

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## 11 Contingencies and commitments

### A. Capital commitments

	2016	2015
	£m	£m
Commitments in respect of properties in the course of construction	129.2	102.9
Software capital commitments	17.1	25.5
	<b>146.3</b>	<b>128.4</b>

### B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase property, plant and equipment, which are currently owned and operated by the warehouse operators on the Group's behalf (at values ranging from historical net book value to market value).

See note 9 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

## 12 Business Combinations

On 29 February 2016, Marks and Spencer plc purchased the remaining 50% share in the joint venture Lima (Bradford) S.à r.l. This company owned an automated distribution centre in Bradford used by the Group. The distribution centre was transferred to another group company on the same day and on 1 March 2016, Lima (Bradford) S.à r.l. was put into liquidation.

This purchase has been accounted for as a stepped acquisition under IFRS 3 – 'Business Combinations'. The deemed disposal of the original 50% share of the joint venture resulted in the recognition of a £27.1m gain in the period, which has been recognised as a non-underlying credit in the consolidated income statement as disclosed in note 3. The gain arose as a result of the requirement to fair value the initial 50% share held by Marks and Spencer plc.

A summary of how the gain arose is detailed below:

	2016
	£m
Fair value of previously owned 50% interest	56.2
Repayment of intercompany loan	(24.0)
<b>Deemed proceeds received by Marks and Spencer plc for the existing 50% interest</b>	<b>32.2</b>
Carrying value of the investment in the joint venture	(5.1)
<b>Gain arising on acquisition</b>	<b>27.1</b>

The acquisition resulted in the recognition of goodwill, as shown below:

	2016
	£m
Property, plant and equipment	112.6
Other net liabilities	(62.6)
<b>Total identifiable assets</b>	<b>50.0</b>
Cash paid	56.2
<b>Goodwill arising on acquisition</b>	<b>6.2</b>

This acquisition resulted in the recognition of £6.2m of goodwill, as a result of the consideration paid exceeding the fair value of the net assets acquired, attributable to the recognition of a deferred tax liability in relation to the property. The goodwill is not expected to be deductible for income tax purposes.

The purchase of this entity resulted in the distribution centre being fully owned by the Group. Therefore the embedded derivative previously recognised by the Group in relation to the lease agreement for the distribution centre has been eliminated. The derecognition of this embedded derivative resulted in the recognition of a £21.7m loss in the consolidated income statement. This has been recognised as a non-underlying item, as disclosed in notes 3 and 10.

### 13 Analysis of cash flows given in the statement of cash flows

	2016	2015
	£m	£m
Profit on ordinary activities after taxation	404.4	481.7
Income tax expense	84.4	118.3
Finance costs	116.4	116.8
Finance income	(21.1)	(15.5)
<b>Operating profit</b>	<b>584.1</b>	<b>701.3</b>
(Increase)/decrease in inventories	(22.5)	45.7
Decrease/(increase) in receivables	3.3	(13.0)
Increase in payables	32.4	87.6
Non-underlying operating cash (outflows)/inflows	(12.9)	28.6
Depreciation, amortisation and underlying asset impairments and write-offs	576.8	550.1
Share-based payments	16.0	(1.1)
Pension costs charged against operating profit	102.0	85.4
Cash contributions to pension schemes	(118.4)	(143.0)
Non-underlying non-cash items	(50.3)	(53.7)
Non-underlying operating profit items	200.8	61.2
<b>Cash generated from operations</b>	<b>1,311.3</b>	<b>1,349.1</b>

### 14 Reconciliation of net debt to statement of financial position

	2016	2015
	£m	£m
<b>Statement of financial position and related notes</b>		
Cash and cash equivalents	247.6	205.9
Current financial assets	19.1	11.6
Bank loans and overdrafts	(297.3)	(279.0)
Medium term notes - net of hedging derivatives	(1,656.1)	(1,652.0)
Finance lease liabilities	(48.6)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(455.7)	(512.9)
	<b>(2,191.0)</b>	<b>(2,275.0)</b>
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	52.7	51.8
<b>Total net debt</b>	<b>(2,138.3)</b>	<b>(2,223.2)</b>

### 15 Related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha served as a non-executive director of the Group up to 2 April 2016. These transactions amounted to £2.6m during the year (last year £2.5m) with an outstanding trade payable of £0.2m at 2 April 2016 (last year £0.2m).

### 16 Subsequent Events

On 25 May 2016 the directors announced proposals for a significant base rate increase for Qualified Customer Assistants to £8.50 per hour outside London and £9.65 in Greater London, as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017. The directors also announced proposals for a fairer, simpler and more consistent approach to pay and premiums.

In addition, also effective from April 2017, the directors are proposing to make changes to the UK defined benefit (DB) pension scheme, which has been closed to new members since 2002, to close it to future accrual. We would enrol current defined benefit members in the defined contribution savings plan from April 2017. This has had no impact on the results for the year ended 2 April 2016.

These proposals are subject to consultation and the potential non-underlying charges for both the pay and pension changes for year ending 1 April 2017 could be in the range of c.£100m to £150m. This non-underlying charge is largely driven by the DB pension changes because when current active members become deferred members, the annual increase in their pensionable salary is linked to CPI as opposed to being capped at 1%.

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