M&S

EST. 1884

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# Press Release

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION.

## Marks and Spencer Group Plc
## Full Year Results For 52 Weeks Ended 30 March 2019
## "Good progress in restoring the basics"

| 52 weeks ended | 30 Mar 19 | 31 Mar 18 | *Change %* |
|---|---|---|---|
| Group revenue | £10,377.3m | £10,698.2m | *-3.0* |
| Profit before tax & adjusting items[1] | £523.2m | £580.9m | *-9.9* |
| Free cash flow before adjusting items[2] | £729.4m | £582.4m | *25.2* |
| Adjusting items[1,2] | £(438.6)m | £(514.1)m | *14.7* |
| Profit before tax | £84.6m | £66.8m | *26.6* |
| Profit after tax | £37.3m | £29.1m | *28.2* |
| Basic earnings per share before adjusting items[1] | 25.4p | 27.8p | *-8.6* |
| Basic earnings per share | 2.1p | 1.6p | *31.3* |
| Net debt | £1.55bn | £1.83bn | *-15.3* |
| Ordinary dividend per share | 13.9p | 18.7p | *-25.7* |

*[1]Adjusted results are consistent with how business performance is measured internally. [2]Refer to adjusting items table below for further details. See glossary for definitions and reconciliations to statutory measures.*

Steve Rowe, Marks & Spencer CEO said:

"We are deep into the first phase of our transformation programme and continue to make good progress restoring the basics and fixing many of the legacy issues we face. As I have said, at this stage we are judging ourselves as much by the pace of change as by the trading outcomes and change will accelerate in the year ahead.

"Whilst there are green shoots, we have not been consistent in our delivery in a number of areas of the business. M&S is changing faster than at any time in my career - substantial changes across the business to our processes, ranges and operations and this has constrained this year's performance, particularly in Clothing & Home. However, we remain on track with our transformation and are now well on the road to making M&S special again."



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## Transformation - good progress

- Accountable businesses established with substantial changes in leadership
- Food business on track with Q4 like-for-like revenue of 0.4% and volume growth of c.1.8% adjusted for Easter timing. Transition to trusted value and wider appeal underway
- Underlying progress in Clothing in changing 'shape of buy', sizing, customer focus and style plus 14% reduction in stock into sale
- Improving the basics of dotcom, download speeds, fulfilment; 22% of UK Clothing & Home revenue now online compared with 19% last year
- UK store portfolio reshaping progressing with 26 full-line stores closed and 48 new store openings in the year. Programme expanded and larger store redevelopment planning initiated
- Good progress on cost savings delivering c.£100m, in addition to the operating costs of stores which have closed
- Transformational Joint Venture ("JV") with Ocado announced; a strategically compelling route to unlock profitable growth for M&S Food
- Proactive steps taken to strengthen and secure the balance sheet for future growth; final dividend for 2018/19 of 7.1 pence
- Announced terms of a 1 for 5 Rights Issue at 185 pence per New Ordinary Share to raise gross proceeds of approximately £601.3m

## Financial performance held back by operating challenges

- Profit before tax & adjusting items down 9.9% driven by headwinds on sales, partly offset by the operating costs transformation programme
- Adjusting items of £438.6m, including £222.1m reflecting the costs of acceleration and extension of our UK store closure programme
- UK Food revenue down 0.6%, with like-for-like revenue down 2.3% (1.5% adjusted for Easter) with improving underlying trend in Q4.  Gross margin down 15bps as investment in trusted value was largely offset by reduced promotional spend



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- UK Clothing & Home revenue down 3.6%, impacted by store closures, with like-for-like revenue down 1.6%. Gross margin up 20bps driven by 14% lower stock into sale. Encouraging signs of progress in Q3, particularly online, constrained by weak availability in Q4 as we sold out of a number of fast selling lines
- Net debt reduced to £1.5bn, as a result of working capital inflow and tight capital expenditure

## Restoring the Basics

The objective of our transformation programme is to create a profitable, growing family of businesses under the M&S brand within three to five years, bound together not only by a common consumer brand but also by shared sites, employment values, technology and customer data. The first phase of the transformation programme is about restoring the basics; getting the organisation and infrastructure of the business fit for the future.

## Protecting the magic and modernising the rest in Food

The Food business is showing good signs of progress in arresting the decline in like-for-like revenue. UK Food revenue declined 0.6%, with like-for-like revenue down 2.3% reflecting the adverse impact of Easter timing in both Q1 and Q4. Adjusted for Easter timing, FY 18/19 like-for-like revenue declined 1.5% with an improving trend in the second half of the year, and like-for-like revenue and volume growth in Q4.

Our Food brand remains very strong and our strategy is to protect the magic which is based on our unique quality, freshness, and innovation credentials whilst reshaping our store estate, infrastructure, operating systems, cost management and supply relationships. The Ocado JV is a natural partner for the brand and combined with our Food transformation plan, opens up the possibility of substantially increasing our grocery market share in the medium term.

Phase 1 fixing the basics of this plan is about addressing the basic operating weaknesses in the business and broadening our appeal to attract a wider range of customers and be relevant to more shopping occasions.



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

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

Our food waste levels remain amongst the highest in the industry and availability has not significantly improved. However, process changes in trial stores known as Project Fuse are illustrating the very significant financial opportunity in these areas.

Similarly, an improved working relationship with GIST, our logistics partner, has demonstrated the substantial opportunity in modernising and better integrating the supply chain.

Reshaping the ranges and customer profile in Clothing & Home

UK Clothing & Home revenue declined 3.6%, partly due to our store closure programme, with like-for-like revenue down 1.6%. UK Clothing & Home online revenue grew 9.8%, with clothing growth ahead of the online market. Encouraging progress in Q3 was constrained by weak availability in Q4 as we sold out of fast selling lines and experienced supply issues.

Our range remained too wide in FY 18/19 with the volume of options in our range splintering our buying scale and making our shops challenging to navigate. Our size ratios have been historically misaligned with the profile of the contemporary family age customer we aim to appeal to. However, where we have made progress in pruning options and introducing slimmer fits and more mid sizes, the customer response has been very strong. For instance, our new denim launch produced an initial 20% sales uplift and our sales of £15 women's jeggings were up 30% over the campaign period.



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Creating a new range architecture in a business with weak processes, a slow supply chain and where buyers are building their confidence has proven challenging, and our sales both in store and online have been frustrated by poor availability in Q4. Although we made good progress reducing overall stock levels, with stock cover down almost three weeks and stock into sale down 14% across the year, many popular lines have sold out prematurely because of the failure to increase the depth of buy and the slowness of the stock flow.

Despite these teething problems the customer response to the initial changes has been very encouraging. In the year ahead, we expect to deliver a more marked reduction in options and range duplication, with a substantial increase in the number of '£1m+' lines for Autumn, a significant improvement in size ratios, further focus on style and fashion and additional investment in value. This will be reinforced by the update of the sub brand strategy, including the re-launch of the Per Una range where the initial customer reaction to early changes we have made has been positive.

With the new range architecture, we will aim to shift to a 'first price, right price' trading philosophy, and further reduce the percentage of Clothing & Home sold at discount which remains too high.

Our new range architecture and presentation will be combined with a rationalised, more contemporary in store environment. Around one third of our full-line stores were opened before WWII and three quarters are older than 25 years. Progress on renewing the stores has been limited to date although we have moved a lot of internal walls and sight barriers. A renewal brand format and a modernisation will be piloted in the year ahead.

We have reduced the complexity of our logistics network, closing four distribution centres and warehouses and opening a national distribution centre in Welham Green, which is now ramping up its boxed storage capacity. Along with foods we are rolling out the first phase of our Fuse programme, deploying new tools which will help us remove excess stock trapped in stores where it does not sell, and holding it centrally, improving availability and making our stores easier to shop. We are still at the early stages of modernising our supply chain network, technology and process and this remains a priority.



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## Transforming our leadership and accountability

Over the past two years we have built a substantially new leadership team, bringing fresh perspective, energy and challenge to a business held back by deeply entrenched cultural norms. Our ambition is to intensify cultural and behavioural change throughout M&S, driving the business to act 'bigger, bolder, faster'. We are creating clear and accountable businesses supported by common values, shared infrastructure and customer data and have continued the streamlining of corporate functions. The Clothing & Home and Food businesses now have end-to-end functional accountability, enabling more efficient and effective decision making.

Critically we are taking steps to bring back the voice of the stores. Over the years a business that was famously product and store led has developed a 'Head Office knows best' mentality, remote from the customer. In our new organisation we are ensuring that the role of the store is central to all our activity, whether that be active engagement in range decisions for the first time or store managers leading the trading feedback calls which are attended by all commercial executives. Store managers will now have visibility of their own P&Ls, and Food managers are given the granular information to act on their own waste. M&S has an extraordinary workforce of loyal colleagues and our aim is to be the most involving workplace in large scale UK retail.

## Becoming a digital first retailer across M&S

In our digital operations, we began to address the basics of our website which has helped to deliver UK Clothing & Home online growth of 9.8% in FY 18/19, improving our online clothing market share by 0.3 percentage points. During Q3, when we had strong seasonal demand, growth was well into double digits.

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



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Castle Donington had its best peak performance since it opened with significant improvements in most key metrics including a later delivery cut off, following targeted investment to remedy problems with its reliability, efficiency and capacity. We are investing c. £9m in further process improvements to meet our growth plans for this year. However, we expect that the need for an additional fulfilment centre has been successfully deferred for another two to three years.

M&S in store technology and systems have been historically underinvested and require improvement. Already we have started to address this problem, giving all store managers tablet computers to release office bound time for the shop floor. The successful Honeywell hand held terminal programme has been extended. In the year ahead, we will roll out new applications and accelerate our self-checkout programme to reduce constant queuing issues. Our in store WiFi will be upgraded with the objective of delivering a universal 'high speed anywhere' capability for our customers and store colleagues.

M&S has the potential to have one of the strongest and most valuable customer data 'lakes' in the UK with the combination of Sparks, Online, the M&S credit card and Ocado. However, our customer data bases are currently disconnected and ineffective. Our Sparks loyalty programme needs substantial improvement and in the next year it will be repositioned, revamped and relaunched.

We have made good progress restoring the basics of our technology organisation, transitioning to a partnership with TCS, migrating our online platform to the cloud and rolling out new warehouse management software to enable the decommissioning of obsolete systems and the old mainframe base, which will deliver annualised savings of over £30m.

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



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## Creating a high-quality store portfolio fit for the future

Our store estate is older than that of our competitors with a number of legacy issues. We are making good progress and have closed 35 full-line stores as part of our programme as at 30 March 2019, with sales transfer rates to nearby stores remaining above 20%. We have updated our plan for the future shape of our total store estate. Reshaping the store portfolio means tackling the legacy issues, but also opening new full-line stores as well as Food stores where we can exploit current weak retail demand to secure excellent sites for relocations. As part of our Food strategy we are concentrating on higher volume stores with good access and car parking to enable our customers to shop more of our range. Therefore, some of the low volume, higher cost Simply Food stores, mostly on short-leases will also be progressively relocated or rationalised.

Although we anticipate further net reductions in overall retail space, and we currently expect to close a further c.85 full-line stores and c. 25 Simply Food stores in addition to the 35 full-line stores closed at FY18/19, our strategy is as much about right sizing, relocating and new openings as it is about closures. As such we anticipate our owned store base is likely to remain broadly level.

As indicated at the half year we believe there is significant opportunity for rental cost reductions as we are reviewing our existing leaseholds.

We have also begun a programme of development feasibility to unlock value from the large old town centre stores with surplus space. We have appointed a new Property Development Director and expect to initiate a number of redevelopments in the year ahead.

## Cost savings of at least £350m by 2020/21

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



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

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

### Rebuilding profitable growth in International

International revenue decreased by 13.4% at constant currency driven by the closure of stores in loss making exit markets, and the sale of our business in Hong Kong to a franchise partner in December 2017. Excluding Hong Kong and exit markets, revenue grew by 1.1%.

The International business was already fully embarked on rationalisation and repositioning prior to the transformation programme and further good progress has been made. Our objective is to create a much more competitive localised incarnation of M&S in those selected markets where we can attain a sustainable market share. During the year, we have implemented the 'market right pricing' programme across markets in Clothing & Home. The programme's cumulative performance since implementation has been encouraging with sales up 8% and volumes up 20%, following a net 10% reduction in selling prices. This performance is helping to build confidence with our partners to reinvest into the business. In the year we opened 37 stores and modernised a further 56.

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



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## Joint Venture with Ocado

In February 2019, we announced the creation of a new 50/50 JV with Ocado Group Plc ("Ocado"), the UK's leading pure play digital grocer, that will transform online grocery shopping for UK consumers. Under the JV, M&S is acquiring a 50% share of Ocado's UK retail business, which will be supported by Ocado Smart Platform technology, for an initial consideration of £562.5m and deferred consideration of up to £187.5m, plus interest. The Ocado JV is expected to be recognised by M&S as an associate applying the equity method of accounting, reflecting the significant influence that M&S will have over the entity.

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

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

We anticipate synergies for M&S of at least £70m by the third full financial year following completion through increased buying scale, harmonised buying terms on branded products and improved efficiencies on new product development. We expect some churn in customers as the JV transitions from the previous sourcing arrangements, however following the 'frictional' transition we plan to accelerate growth in the JV. There is a significant opportunity to reduce customer acquisition costs in the JV by marketing directly to our customer data base and the c. 12 million M&S food customers who account already for around one third of online grocery spend, albeit mostly with our competitors.



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## Balance sheet and transaction financing

The Board believes that, given the high operating risk the business faces, it is important to maintain a strong balance sheet and cashflow, to provide security and underpin the changes we need to make. In the next four years, in addition to the investment in our proposed JV, we have substantial debt repayments due on our bond financing and a significant pension obligation to fund. Further, in uncertain times our strong preference is to limit dependence on bank debt financing.

Therefore, having considered carefully other options, we believe it is appropriate to finance the JV by means of a Rights Issue and to reduce the Group's annual dividend payment to a sustainable level, which we aim to grow in line with earnings over time.

## Details of the Rights Issue

On 27 February 2019 we announced the creation of a new 50/50 JV with Ocado. It was announced that the transaction would be primarily equity financed by a rights issue.

Today we announce the terms of the fully underwritten rights issue which is intended to raise gross proceeds of approximately £601.3 million.

The Rights Issue will result in the issue of 325.0 million new ordinary shares representing approximately 20.0% of the existing issued share capital of the Company and 16.7% of the enlarged issued share capital following completion of the Rights Issue. The Rights Issue will be on the following basis:

1 for 5 Rights Issue at 185 pence per New Ordinary Share



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The rights issue price of 185 pence per New Ordinary Share represents a discount of approximately 31.8 per cent. to the closing middle-market price of 271.2 pence per existing ordinary share, or a discount of approximately 30.0 per cent. to the closing middle-market price of 264.1 pence per existing ordinary share when adjusted to reflect the ordinary shares becoming ex-dividend during the Rights Issue offer period, in each case on 21 May 2019 (being the latest business day before the announcement of the terms of the Rights Issue). Additionally, it represents a discount of approximately 28.0 per cent. to the theoretical ex-rights price of 256.8 pence per New Ordinary Share, or a discount of approximately 26.3 per cent. to the theoretical ex-rights price of 250.9 pence per existing ordinary share when adjusted to reflect the ordinary shares becoming ex-dividend during the Rights Issue offer period, both on 21 May 2019 (being the latest business day before the announcement of the terms of the Rights Issue).

It is anticipated that the Rights Issue will formally launch on or around 24 May 2019, subject to and following the approval of the Prospectus by the FCA. At this time further details of the Rights Issue will be provided to shareholders.

## Full year guidance 2019/20

We remain in the difficult early stages of our transformation programme and while we expect some improvement in trading in each of our major businesses in the year ahead, progress is likely to be second half weighted. Trading in the first seven weeks of the financial year is in line with Board expectations, although the pattern of trade remains volatile in the context of weather and events. All guidance is shown before the effects of IFRS 16. For further detail on IFRS 16 please see Note 1 to the financial statements.

- In Food, we expect net store closures to reduce sales by c.1% as the accelerated store closure programme is not fully offset by new Simply Food and full-line stores. We anticipate gross margin to be -25bps to +25bps, as we balance further investment in trusted value with our cost reduction programme
- In Clothing & Home, we expect net store closures to reduce sales by c.3%. We anticipate gross margin to be -25bps to +25bps, with further investment in trusted value
- We expect UK operating costs to decrease by up to 1%, largely as a result of continued cost efficiencies, store closures and lower depreciation



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- Capital expenditure is expected to increase to between £350m and £400m, largely as a result of an increase in investment in store environment, new store trials and C&H logistics capacity
- We expect an adjusted effective tax rate of c.23%

| | Full year guidance |
|---|---|
| UK Food | |
| - Space contribution (%) | c.-1 |
| - Gross margin change (bps) | -25bps to +25bps |
| Clothing & Home | |
| - Space contribution (%) | c.-3 |
| - Gross margin change (bps) | -25bps to +25bps |
| UK operating costs (%) | c.0 to –1 |
| Adjusted effective tax rate (%) | c.23 |
| Capital expenditure (£m) | 350 to 400 |

Group revenue: constant currency

Q4 group revenue declined by 1.6% at constant currency reflecting the increasing pace of closures in our UK store estate and the adverse impact of Easter timing on like-for-like revenue of an estimated c.1.9% in Food and c.0.4% in Clothing & Home. International revenue grew 1.8% with exit market store closures and the sale of our retail operations in Hong Kong now largely annualised. Revenue at M&S.com reflects the planned reduction in promotional activity in our Food business, with solid underlying growth in clothing orders.

| % change | FY | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|
| Food | **-0.6** | -0.1 | -0.2 | -1.2 | -0.8 |
| - Like-for-like | **-2.3** | -3.1 | -2.7 | -2.1 | -1.5 |
| Clothing & Home | **-3.6** | -1.6 | -3.7 | -4.8 | -3.9 |
| - Like-for-like | **-1.6** | -0.6 | -1.6 | -2.4 | -1.3 |
| Total UK sales | **-1.8** | -0.7 | -1.6 | -2.7 | -1.9 |
| - Like-for-like | **-2.0** | -2.2 | -2.3 | -2.2 | -1.4 |
| International | **-13.4** | -21.1 | -15.8 | -15.1 | 1.8 |
| **Total Group** | **-2.9** | **-2.9** | **-3.1** | **-3.9** | **-1.6** |
| *Total M&S.com (Memo only)* | *5.0* | *6.3* | *5.0* | *7.2* | *0.2* |
| *UK Clothing & Home online (Memo only)* | *9.8* | *9.9* | *8.5* | *14.1* | *4.9* |

*See glossary for definitions. Prior year revenue has been restated for the reclassification of cards & gift wrap from Clothing & Home to Food.*

We will report our first half results on 6 November 2019.



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### Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 22 May 2019. This presentation can be viewed live on the Marks and Spencer Group plc website.

### Fixed Income Investor Conference Call:

This will be hosted by Humphrey Singer, Chief Finance Officer, at 2pm on 22 May 2019:

Dial in number: +44 (0)330 336 9126 Access code: 4941368

A recording of this call will be available until 5pm on 29 May 2019:
Dial in number: +44 (0) 207 660 0134 Access code: 4941368



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## FULL YEAR REVIEW

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

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

### UK: Food

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

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



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## UK: Clothing & Home

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

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

## UK operating costs

| 52 weeks ended | 30 Mar 19<br>£m | 31 Mar 18<br>£m | *Change*<br>*%* |
|---|---|---|---|
| Store staffing | 1,044.7 | 1,070.6 | *(2.4)* |
| Other store costs | 950.4 | 992.1 | *(4.2)* |
| Distribution & warehousing | 564.6 | 538.0 | *4.9* |
| Marketing | 155.1 | 151.6 | *2.3* |
| Central costs | 694.8 | 698.0 | *(0.5)* |
| **Total** | **3,409.6** | **3,450.3** | ***(1.2)*** |

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

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

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



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(England and Wales)

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

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

## M&S Bank

M&S Bank income before adjusting items was down £12.7m to £27.6m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up, as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £6.7m.

## International

| 52 weeks ended | 30 Mar 19 £m | 31 Mar 18 £m | *Change %* | *Change CC %* | *Change CC % excl. Hong Kong* |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Franchise | 409.1 | 360.6 | 13.4% | 13.3% | 2.2% |
| Owned Retained[1] | 527.5 | 660.2 | -20.1% | -19.3% | 0.3% |
| Total Retained | 936.6 | 1,020.8 | -8.2% | -7.7% | 1.1% |
| Owned Exit | - | 66.4 | - | - | - |
| **Total** | **936.6** | **1,087.2** | **-13.9%** | **-13.4%** | **-6.1%** |
| Operating profit before adjusting items | | | | | |
| Franchise | 72.2 | 86.1 | -16.1% | | |
| Owned Retained[1] | 52.7 | 53.1 | -0.8% | | |
| Total Retained | 124.9 | 139.2 | -10.3% | | |
| Owned Exit | 2.1 | (4.0) | 152.5% | | |
| **Total** | **127.0** | **135.2** | **-6.1%** | | |

[1]Hong Kong results reported in owned retained until the business was sold to our franchise partner in December 2017.



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35 North Wharf Road
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Registered No. 4256886
(England and Wales)

Total International revenue decreased 13.4% at constant currency. Excluding the impact from exit markets and Hong Kong, revenue at constant currency increased 1.1%. This was driven by our franchise operations where Food revenue increased by 8%, with notable growth in France, the Middle East and Singapore. In Clothing & Home we implemented market right pricing across most markets and saw an improving trend in retail sales in Q4. Owned retained revenue reflects solid growth in India and Greece, which largely offsets ongoing difficult trading conditions in the Republic of Ireland.

International operating profit before adjusting items decreased 6.1% with total retained operating profit down 10.3%. This was largely driven by the sale of our business in Hong Kong and the implementation of market right pricing. The decline in franchise operating profit reflects the allocation of £8m of costs from owned to franchise following the closure of owned markets and the sale of our business in Hong Kong, in addition to the implementation of market right pricing. Owned retained profit increased, excluding the effects of the disposal of Hong Kong. The £2.1m profit in owned exit markets largely reflects the recovery of an historical VAT receivable.

## Net finance cost

| 52 weeks ended | 30 Mar 19<br>£m | 31 Mar 18<br>£m | Change<br>£m |
|---|---|---|---|
| Interest payable | (82.0) | (95.4) | 13.4 |
| Interest income | 7.6 | 6.0 | 1.6 |
| **Net interest payable** | **(74.4)** | **(89.4)** | **15.0** |
| Pension net finance income | 25.8 | 17.7 | 8.1 |
| Unwind of discount on Scottish Limited Partnership liability | (8.8) | (10.9) | 2.1 |
| Unwind of discount on provisions | (17.3) | (5.2) | (12.1) |
| Ineffectiveness on financial instruments | (3.1) | (1.9) | (1.2) |
| **Net finance cost** | **(77.8)** | **(89.7)** | **11.9** |



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35 North Wharf Road
London W2 1NW
Registered No. 4256886
(England and Wales)

Net finance cost decreased by £11.9m to £77.8m, primarily due to a decrease in interest payable as a result of the repayment of the US$500m bond which matured in December 2017. Pension net finance income increased by £8.1m driven by a higher UK defined benefit pension scheme surplus at the start of the year compared to the start of the prior year. The unwind of discount on provisions reflects our UK store estate programme and our central London office reorganisation.

### Profit before tax & adjusting items

Profit before tax and adjusting items was £523.2m, down 9.9% on last year. The decrease was principally due to a 2.3% reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

### Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. Further material charges relating to our strategic programmes are anticipated as programmes progress. For further detail on these charges and the Group's policy for adjusting items please see Notes 1 and 3 to the financial statements.

| 52 weeks ended | 30 Mar 19 £m | 31 Mar 18 £m | Change £m |
|---|---|---|---|
| Strategic programmes | | | |
| – UK store estate | (222.1) | (321.1) | 99.0 |
| – Organisation | (51.8) | (30.7) | (21.1) |
| – Operational transformation | (16.4) | - | (16.4) |
| – IT restructure | (15.6) | (15.5) | (0.1) |
| – UK logistics | (14.3) | (13.1) | (1.2) |
| – Changes to pay and pensions | (6.2) | (12.9) | 6.7 |
| – International store closures and impairments | (5.3) | (5.0) | (0.3) |
| UK store impairments, asset write-offs and onerous lease charges | (62.1) | (63.4) | 1.3 |
| M&S Bank charges incurred in relation to the insurance mis-selling provision | (20.9) | (34.7) | 13.8 |
| GMP and other pension equalization | (20.5) | - | (20.5) |
| Establishing the Ocado JV | (3.4) | - | (3.4) |
| Other | - | (17.7) | 17.7 |
| **Adjusting items** | **(438.6)** | **(514.1)** | **75.5** |



Marks and Spencer Group plc
Registered Office:
Waterside House
35 North Wharf Road
London W2 1NW
Registered No. 4256886
(England and Wales)

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

- A charge of £222.1m in relation to our accelerated and expanded store closure programme, which has been expanded to include a number of Food stores. This charge includes accelerated depreciation, impairment of assets, estimated onerous leases and other closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change through-out the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges before the adoption of IFRS 16 are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m;
- A charge of £51.8m largely in relation to costs associated with centralising and rationalising our London office functions as well as redundancy costs related to the review of the retail organisational structure;
- A charge of £16.4m in relation to the transformation and simplification of our supply chain and operations across Clothing & Home and Food. This includes initiatives to reengineer the end to end supply chain, remove costs and complexity and working capital;
- A charge of £15.6m in relation to our technology transformation programme which we began in the prior year; and
- A net charge of £14.3m as we continue to transition to a single tier Clothing & Home UK distribution network, including the closure of two of our distribution centres.

In FY 16/17 we announced our intention to close owned stores in ten international markets. A net charge of £5.3m has been recognised in the period reflecting the actualisation of previously estimated closure costs.



Marks and Spencer Group plc
Registered Office:
Waterside House
35 North Wharf Road
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Registered No. 4256886
(England and Wales)

In response to the ongoing pressures impacting the retail industry, as well as reflecting our strategic focus towards growing online market share, we have revised future projections for certain UK stores. As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. The charge has been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group. Additional detail is in Note 10 to the financial statements.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a charge of £20.9m during the year. The deadline for any claims to be brought by customers expires on 29 August 2019. The estimated liability continues to be reviewed in FY 19/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

We have recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of guaranteed minimum pensions ("GMP") and other pension equalisation costs following a High Court ruling in October 2018. Additional detail on the Group's GMP assessment is detailed in Note 8 to the financial statements.

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

## Taxation

The effective tax rate on profit before tax and adjusting items was 20.3% (last year 21.6%). This is higher than the UK statutory rate predominantly due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure, partially offset by the recognition of deferred tax assets in our Indian entity, following its return to profitability. The effective tax rate on statutory profit before tax was 55.9% (last year 56.4%) due to the impact of disallowable adjusting items.



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Registered No. 4256886
(England and Wales)

## Earnings per share

Basic earnings per share increased 31.3% to 2.1p, primarily due to the impact from lower adjusting items year-on-year. The weighted average number of shares in issue during the period was 1,624.1m (last year 1,624.0m).

Adjusted basic earnings per share decreased by 8.6% to 25.4p due to lower adjusted profit year-on-year.

## Capital expenditure

| 52 weeks ended | 30 Mar 19<br>£m | 31 Mar 18<br>£m | Change<br>£m |
|---|---|---|---|
| UK store environment | 26.0 | 26.6 | (0.6) |
| New UK stores | 40.1 | 72.1 | (32.0) |
| International | 11.0 | 11.6 | (0.6) |
| Supply chain | 48.7 | 23.8 | 24.9 |
| IT & M&S.com | 88.2 | 91.9 | (3.7) |
| Property maintenance | 69.0 | 72.9 | (3.9) |
| **Capital expenditure before disposals** | **283.0** | **298.9** | **(15.9)** |
| Proceeds from property disposals | (48.1) | (3.2) | (44.9) |
| **Capital expenditure** | **234.9** | **295.7** | **(60.8)** |

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

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



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Registered Office:
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35 North Wharf Road
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Registered No. 4256886
(England and Wales)

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

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

### Statement of financial position

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

### Cash flow & net debt

| 52 weeks ended | 30 Mar 19<br>£m | 31 Mar 18<br>£m | Change<br>£m |
|---|---|---|---|
| **Adjusted operating profit** | **601.0** | **670.6** | **(69.6)** |
| Depreciation and amortisation before adjusting items | 544.9 | 580.6 | (35.7) |
| Working capital | 59.1 | (96.8) | 155.9 |
| Defined benefit scheme pension funding | (37.9) | (41.4) | 3.5 |
| Capex and disposals | (264.8) | (346.0) | 81.2 |
| Interest and taxation | (184.7) | (200.5) | 15.8 |
| Investment in Joint Venture | (2.5) | - | (2.5) |
| Non-cash share based payment charges | 19.2 | 18.9 | 0.3 |
| Share transactions | (4.9) | (3.0) | (1.9) |
| **Free cash flow before adjusting items** | **729.4** | **582.4** | **147.0** |
| Adjusting items cash outflow | (145.3) | (164.9) | 19.6 |
| **Free cash flow** | **584.1** | **417.5** | **166.6** |
| Ordinary dividends paid | (303.5) | (303.4) | (0.1) |
| **Free cash flow after shareholder returns** | **280.6** | **114.1** | **166.5** |
| **Opening net debt** | **(1,827.5)** | **(1,934.7)** | **107.2** |
| Exchange and other non-cash movements | 1.8 | (6.9) | 8.7 |
| **Closing net debt** | **(1,545.1)** | **(1,827.5)** | **282.4** |



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Registered Office:
Waterside House
35 North Wharf Road
London W2 1NW
Registered No. 4256886
(England and Wales)

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

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

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

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

## Dividend

On February 27 we announced the Board's decision to reduce our dividend per share by 40% to a sustainable level, which we aim to grow in line with earnings over time. We are declaring a final dividend of 7.1p (full year dividend 13.9p). This will be paid on 12 July 2019 to shareholders on the register of members as at close of business on 31 May 2019, subject to approval of shareholders at the Annual General Meeting, to be held on 9 July 2019. The 2018/19 final dividend per share and prior dividends per share will be restated in future accounts to reflect the bonus factor adjustment resulting from the rights issue in due course. The bonus factor adjustment arises due to the Rights Issue involving an element of bonus shares because the rights issue price is below the Closing Price of 271.2 pence per share.



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Registered Office:
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Registered No. 4256886
(England and Wales)

## Pension

As indicated at our Interim Results, M&S plc (the Company) reached an agreement with the Trustee of its UK Defined Benefit Pension Scheme with regards to the triennial actuarial valuation as at 31 March 2018. This resulted in a statutory surplus of £652m and is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements and which are included in the calculation of the statutory surplus– see Note 9)

At 30 March 2019, the IAS 19 net retirement benefit surplus was £914.3m (last full year £948.2m). The IAS 19 surplus includes the first partnership interest in the scheme assets, valued at £278.5m (Note 9). The decrease in the surplus is largely due to a decrease in the discount rate partially offset by a change in mortality assumptions and by the return on scheme assets.

In April 2019, following the year-end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for around two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Company's exposure to changes in longevity, interest rates, inflation and other factors.

## IFRS 16

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



Marks and Spencer Group plc
Registered Office:
Waterside House
35 North Wharf Road
London W2 1NW
Registered No. 4256886
(England and Wales)

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

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the relative maturity of the lease portfolio. Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

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

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral.
For further detail on IFRS 16 please see Note 1 to the financial statements.

## Brexit

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

The potential impacts include:

- A continued deterioration in customer sentiment
- Operational complexity and costs due to restrictions on the movement of goods and stricter border controls
- Costs passed through from our suppliers
- Continuity of supply and supplier viability

- The impact of import and export duties
- Volatility in currency and corporate bond rates
- Tightening of the labour market
- Additional regulatory responsibilities and costs
- Increased complexity and cost in our international operations, including our franchise partners.

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

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*In addition to the Principal Risks & Uncertainties disclosed in the 2017/18 Annual Report and Accounts, the forthcoming disclosure in the 2018/19 report will highlight additional risks in relation to Brexit, the proposed joint venture with Ocado plc, the potential impact of failure or resilience issues at critical business locations and the ongoing management of short and long-term funding to meet business needs.*

*Directors Responsibility Report*

*The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 30 March 2019. Certain parts thereof are not included within this announcement.*

*The directors confirm to the best of their knowledge:*

- *The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.*
- *The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.*
- *The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.*

*The Directors' Report was approved by a duly authorised committee of the Board of Directors on 21 May 2019 and signed on its behalf by Nick Folland, Group General Counsel & Company Secretary.*

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



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- Ends -



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(England and Wales)

## Consolidated income statement

| | | 52 weeks ended 30 March 2019 | | | 52 weeks ended 31 March 2018 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Profit before adjusting items £m | Adjusting items £m | Total £m | Profit before adjusting items £m | Adjusting items £m | Total £m |
| **Revenue** | 2 | 10,377.3 | - | 10,377.3 | 10,698.2 | - | 10,698.2 |
| | | | | | | | |
| **Operating profit** | 2, 3 | 601.0 | (438.6) | 162.4 | 670.6 | (514.1) | 156.5 |
| | | | | | | | |
| Finance income | 4 | 33.8 | - | 33.8 | 24.1 | - | 24.1 |
| Finance costs | 4 | (111.6) | - | (111.6) | (113.8) | - | (113.8) |
| | | | | | | | |
| **Profit before tax** | | 523.2 | (438.6) | 84.6 | 580.9 | (514.1) | 66.8 |
| Income tax expense | 5 | (106.0) | 58.7 | (47.3) | (125.4) | 87.7 | (37.7) |
| **Profit for the year** | | 417.2 | (379.9) | 37.3 | 455.5 | (426.4) | 29.1 |
| | | | | | | | |
| **Attributable to:** | | | | | | | |
| Owners of the parent | | 413.4 | (379.9) | 33.5 | 452.1 | (426.4) | 25.7 |
| Non-controlling interests | | 3.8 | - | 3.8 | 3.4 | - | 3.4 |
| | | 417.2 | (379.9) | 37.3 | 455.5 | (426.4) | 29.1 |
| | | | | | | | |
| Basic earnings per share | 6 | 25.4p | | 2.1p | 27.8p | | 1.6p |
| Diluted earnings per share | 6 | 25.4p | | 2.1p | 27.8p | | 1.6p |

## Consolidated statement of comprehensive income

| | Notes | 52 weeks ended 30 March 2019 £m | 52 weeks ended 31 March 2018 £m |
|---|---|---|---|
| **Profit for the year** | | 37.3 | 29.1 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurements of retirement benefit schemes | 8 | (79.9) | 200.9 |
| Tax credit/(charge) on items that will not be reclassified | | 14.0 | (39.0) |
| | | (65.9) | 161.9 |
| **Items that will be reclassified subsequently to profit or loss** | | | |
| Foreign currency translation differences | | | |
| - movements recognised in other comprehensive income | | (15.4) | (23.4) |
| - reclassified and reported in profit and loss | | - | (36.2) |
| Revaluation of available for sale asset | | - | 6.9 |
| Cash flow hedges and net investment hedges | | | |
| - fair value movements in other comprehensive income | | 132.0 | (208.7) |
| - reclassified and reported in profit or loss | | (16.0) | 85.0 |
| - amount recognised in inventories | | - | 57.5 |
| Tax (charge)/credit on cash flow hedges and net investment hedges | | (19.0) | 19.7 |
| | | 81.6 | (99.2) |
| Other comprehensive income for the year, net of tax | | 15.7 | 62.7 |
| **Total comprehensive income for the year** | | 53.0 | 91.8 |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 49.2 | 88.4 |
| Non-controlling interests | | 3.8 | 3.4 |
| | | 53.0 | 91.8 |

## Consolidated statement of financial position

| | Notes | As at 30 March 2019 £m | As at 31 March 2018 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | | 499.9 | 599.2 |
| Property, plant and equipment | 10 | 4,028.5 | 4,393.9 |
| Investment property | | 15.5 | 15.5 |
| Investment in joint ventures | | 4.0 | 7.0 |
| Other financial assets | | 9.9 | 9.9 |
| Retirement benefit asset | 8 | 931.5 | 970.7 |
| Trade and other receivables | | 200.7 | 209.0 |
| Derivative financial instruments | | 19.8 | 27.1 |
| | | 5,709.8 | 6,232.3 |
| **Current assets** | | | |
| Inventories | | 700.4 | 781.0 |
| Other financial assets | | 141.8 | 13.7 |
| Trade and other receivables | | 322.5 | 308.4 |
| Derivative financial instruments | | 40.3 | 7.1 |
| Cash and cash equivalents | | 285.4 | 207.7 |
| | | 1,490.4 | 1,317.9 |
| **Total assets** | | 7,200.2 | 7,550.2 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 1,461.3 | 1,405.9 |
| Partnership liability to the Marks & Spencer UK Pension Scheme | 9 | 71.9 | 71.9 |
| Borrowings and other financial liabilities | | 513.1 | 125.6 |
| Derivative financial instruments | | 7.3 | 73.8 |
| Provisions | | 148.6 | 98.8 |
| Current tax liabilities | | 26.2 | 50.0 |
| | | 2,228.4 | 1,826.0 |
| **Non-current liabilities** | | | |
| Retirement benefit deficit | 8 | 17.2 | 22.5 |
| Trade and other payables | | 322.4 | 333.8 |
| Partnership liability to the Marks & Spencer UK Pension Scheme | 9 | 200.5 | 263.6 |
| Borrowings and other financial liabilities | | 1,279.5 | 1,670.6 |
| Derivative financial instruments | | 2.8 | 30.7 |
| Provisions | | 250.1 | 193.1 |
| Deferred tax liabilities | | 218.4 | 255.7 |
| | | 2,290.9 | 2,770.0 |
| **Total liabilities** | | 4,519.3 | 4,596.0 |
| **Net assets** | | 2,680.9 | 2,954.2 |
| **Equity** | | | |
| Issued share capital | | 406.3 | 406.2 |
| Share premium account | | 416.9 | 416.4 |
| Capital redemption reserve | | 2,210.5 | 2,210.5 |
| Hedging reserves | | (2.9) | (65.3) |
| Other reserve | | (6,542.2) | (6,542.2) |
| Foreign exchange reserve | | (44.7) | (29.3) |
| Retained earnings | | 6,237.1 | 6,560.4 |
| **Total shareholders' equity** | | 2,681.0 | 2,956.7 |
| Non-controlling interests in equity | | (0.1) | (2.5) |
| **Total equity** | | 2,680.9 | 2,954.2 |

## Consolidated statement of changes in equity

| | Ordinary share capital £m | Share premium account £m | Capital redemption reserve £m | Hedging reserve[2] £m | Cost of hedging £m | Other reserve[1] £m | Foreign exchange reserve £m | Retained earnings[3] £m | Total £m | Non-controlling interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 2 April 2017** | 406.2 | 416.4 | 2,210.5 | 17.3 | - | (6,542.2) | 30.5 | 6,617.6 | 3,156.3 | (5.9) | 3,150.4 |
| Profit for the year | - | - | - | - | - | - | - | 25.7 | 25.7 | 3.4 | 29.1 |
| Other comprehensive (expense)/income: | | | | | | | | | | | |
| Foreign currency translation | | | | | | | | | | | |
| - movements recognised in other comprehensive income | - | - | - | 0.2 | - | - | (23.6) | - | (23.4) | - | (23.4) |
| - reclassified and reported in profit and loss | - | - | - | - | - | - | (36.2) | - | (36.2) | - | (36.2) |
| Revaluation of available for sale asset | - | - | - | - | - | - | - | 6.9 | 6.9 | - | 6.9 |
| Remeasurements of retirement benefit schemes | - | - | - | - | - | - | - | 200.9 | 200.9 | - | 200.9 |
| Tax charge on items that will not be reclassified | - | - | - | - | - | - | - | (39.0) | (39.0) | - | (39.0) |
| Cash flow hedges and net investment hedges | | | | | | | | | | | |
| - fair value movements in other comprehensive income | - | - | - | (211.0) | - | - | - | 2.3 | (208.7) | - | (208.7) |
| - reclassified and reported in profit or loss | - | - | - | 51.0 | - | - | - | 34.0 | 85.0 | - | 85.0 |
| - amount recognised in inventories | - | - | - | 57.5 | - | - | - | - | 57.5 | - | 57.5 |
| Tax on cash flow hedges and net investment hedges | - | - | - | 19.7 | - | - | - | - | 19.7 | - | 19.7 |
| Other comprehensive income/(expense) | - | - | - | (82.6) | - | - | (59.8) | 205.1 | 62.7 | - | 62.7 |
| Total comprehensive income/(expense) | - | - | - | (82.6) | - | - | (59.8) | 230.8 | 88.4 | 3.4 | 91.8 |
| Transactions with owners: | | | | | | | | | | | |
| Dividends | - | - | - | - | - | - | - | (303.4) | (303.4) | - | (303.4) |
| Transactions with non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued on exercise of employee share options | - | - | - | - | - | - | - | - | - | - | - |
| Purchase of own shares held by employee trusts | - | - | - | - | - | - | - | (3.1) | (3.1) | - | (3.1) |
| Credit for share-based payments | - | - | - | - | - | - | - | 18.5 | 18.5 | - | 18.5 |
| Deferred tax on share schemes | - | - | - | - | - | - | - | - | - | - | - |
| **As at 31 March 2018** | 406.2 | 416.4 | 2,210.5 | (65.3) | - | (6,542.2) | (29.3) | 6,560.4 | 2,956.7 | (2.5) | 2,954.2 |

| | Ordinary share capital £m | Share premium account £m | Capital redemption reserve £m | Hedging reserve[2] £m | Cost of hedging £m | Other reserve[1] £m | Foreign exchange reserve £m | Retained earnings[3] £m | Total £m | Non-controlling interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 April 2018** | 406.2 | 416.4 | 2,210.5 | (65.3) | - | (6,542.2) | (29.3) | 6,560.4 | 2,956.7 | (2.5) | 2,954.2 |
| Adjustment on initial application of IFRS 9 | - | - | - | (10.7) | 10.7 | - | - | (0.5) | (0.5) | - | (0.5) |
| **Adjusted opening shareholders equity** | 406.2 | 416.4 | 2,210.5 | (76.0) | 10.7 | (6,542.2) | (29.3) | 6,559.9 | 2,956.2 | (2.5) | 2,953.7 |
| Profit for the year | - | - | - | - | - | - | - | 33.5 | 33.5 | 3.8 | 37.3 |
| Other comprehensive (expense)/income: | | | | | | | | | | | |
| Foreign currency translation | | | | | | | | | | | |
| - movements recognised in other comprehensive income | - | - | - | - | - | - | (15.4) | - | (15.4) | - | (15.4) |
| Remeasurements of retirement benefit schemes | - | - | - | - | - | - | - | (79.9) | (79.9) | - | (79.9) |
| Tax credit on items that will not be reclassified | - | - | - | - | - | - | - | 14.0 | 14.0 | - | 14.0 |
| Cash flow hedges and net investment hedges | | | | | | | | | | | |
| - fair value movement in other comprehensive income | - | - | - | 130.5 | 1.5 | - | - | - | 132.0 | - | 132.0 |
| - reclassified and reported in profit or loss | - | - | - | (16.0) | - | - | - | - | (16.0) | - | (16.0) |
| Tax on cash flow hedges and net investment hedges | - | - | - | (18.5) | (0.5) | - | - | - | (19.0) | - | (19.0) |
| Other comprehensive income/(expense) | - | - | - | 96.0 | 1.0 | - | (15.4) | (65.9) | 15.7 | - | 15.7 |
| Total comprehensive income/(expense) | - | - | - | 96.0 | 1.0 | - | (15.4) | (32.4) | 49.2 | 3.8 | 53.0 |
| Cash flow hedges recognised in inventories | - | - | - | (42.7) | - | - | - | - | (42.7) | - | (42.7) |
| Tax on cash flow hedges recognised in inventories | - | - | - | 8.1 | - | - | - | - | 8.1 | - | 8.1 |
| Transactions with owners: | | | | | | | | | | | |
| Dividends | - | - | - | - | - | - | - | (303.5) | (303.5) | - | (303.5) |
| Transactions with non-controlling shareholders | - | - | - | - | - | - | - | - | - | (1.4) | (1.4) |
| Shares issued on exercise of employee share options | 0.1 | 0.5 | - | - | - | - | - | - | 0.6 | - | 0.6 |
| Purchase of own shares held by employee trusts | - | - | - | - | - | - | - | (5.5) | (5.5) | - | (5.5) |
| Credit for share-based payments | - | - | - | - | - | - | - | 19.2 | 19.2 | - | 19.2 |
| Deferred tax on share schemes | - | - | - | - | - | - | - | (0.6) | (0.6) | - | (0.6) |
| **As at 30 March 2019** | 406.3 | 416.9 | 2,210.5 | (14.6) | 11.7 | (6,542.2) | (44.7) | 6,237.1 | 2,681.0 | (0.1) | 2,680.9 |

1. The "Other reserve" was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.
2. Amounts "reclassified and reported in profit or loss" in 2017/18 includes the revaluation of the cross currency swaps, offsetting the revaluation of the USD hedged bonds within finance costs.
3. Included within Retained Earnings is the fair value through other comprehensive income reserve.

## Consolidated statement of cash flows

| | Notes | 52 weeks ended 30 March 2019 £m | 52 weeks ended 31 March 2018 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 13 | 1,041.0 | 944.1 |
| Income tax paid | | (105.7) | (94.3) |
| **Net cash inflow from operating activities** | | 935.3 | 849.8 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds on property disposals | | 48.1 | 3.2 |
| Purchase of property, plant and equipment | | (217.8) | (274.9) |
| Proceeds on disposal of Hong Kong business | | - | 22.9 |
| Purchase of intangible assets | | (95.1) | (74.3) |
| (Purchase)/sale of current financial assets | | (128.1) | 0.8 |
| Interest received | | 7.4 | 6.0 |
| Purchase of investment in joint venture | | (2.5) | - |
| **Net cash used in investing activities** | | (388.0) | (316.3) |
| | | | |
| **Cash flows from financing activities** | | | |
| Interest paid[1] | | (86.4) | (112.2) |
| Cash outflow from borrowings | | (46.7) | - |
| Cash inflow from borrowings | | - | 43.8 |
| Payment of obligations under finance leases | | (3.3) | (2.6) |
| Payment of liability to the Marks & Spencer UK Pension Scheme | | (61.6) | (59.6) |
| Equity dividends paid | | (303.5) | (303.4) |
| Shares issued on exercise of employee share options | | 0.6 | 0.1 |
| Purchase of own shares by employee trust | | (5.5) | (3.1) |
| Issuance/(redemption) of Medium Term Notes | | 1.4 | (328.2) |
| **Net cash used in financing activities** | | (505.0) | (765.2) |
| | | | |
| **Net cash inflow/(outflow) from activities** | | 42.3 | (231.7) |
| Effects of exchange rate changes | | (0.2) | (3.5) |
| Opening net cash | | 171.0 | 406.2 |
| **Closing net cash** | | 213.1 | 171.0 |

[1]Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

| | Notes | 52 weeks ended 30 March 2019 £m | 52 weeks ended 31 March 2018 £m |
|---|---|---|---|
| **Reconciliation of net cash flow to movement in net debt** | | | |
| **Opening net debt** | | (1,827.5) | (1,934.7) |
| Net cash inflow/(outflow) from activities | | 42.3 | (231.7) |
| Increase/(decrease) in current financial assets | | 128.1 | (0.8) |
| Decrease in debt financing | | 110.2 | 346.6 |
| Exchange and other non-cash movements | | 1.8 | (6.9) |
| **Movement in net debt** | | 282.4 | 107.2 |
| **Closing net debt** | 14 | (1,545.1) | (1,827.5) |

## 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 2018/19 and 2017/18, which do not contain any statement under s498 (2) or (3) of the Companies Act 2006 and were unqualified. The statutory accounts for 2017/18 have been delivered to the Registrar of Companies and the statutory accounts for 2018/19 will be filed with the Registrar in due course.

### Basis of preparation

Whilst the financial information included in this press release has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information has been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 30 March 2019. The Company expects to publish full financial statements that comply with IFRS Standards on 23 May 2019.

### 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

### New accounting standards adopted by the Group

There have been significant changes to accounting under IFRS which have affected the Group’s financial statements. New standards and interpretations effective as of 1 January 2018 and therefore applicable to the Group’s financial statements for the 52 weeks ended 30 March 2019 are listed below:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 4 Insurance contracts regarding the implementation of IFRS 9 Financial instruments.
- Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Amendments to IAS 40 Transfer of Investment Property.
- Amendments to IFRS 2 Share-based Payments, on clarifying how to account for certain types of share-based payment transactions.
- Annual improvements to IFRS Standards 2014-2016 Cycle (certain items effective from 1 January 2017).

With the exception of the adoption of IFRS 9 and IFRS 15, the adoption of the above standards and interpretations has not led to any changes to the Group’s accounting policies or had any other material impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard is effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard introduces changes to three key areas:

- New requirements for the classification and measurement of financial instruments.
- A new impairment model based on expected credit losses for recognising provisions.
- Simplified hedge accounting through closer alignment with an entity’s risk management methodology.

The adoption of IFRS 9 has not had a material impact on either the Consolidated Income Statement or the Consolidated Statement of Financial Position. The Group has adopted IFRS 9 using the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives. The impact of the adoption of the new standard is shown in note 29 which includes additional disclosures relating to hedge accounting (including a new cost of hedging reserve), credit risk management and impairment of financial assets.

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group’s share of profits for the prior period includes the post-implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9 which had an immaterial impact in the prior period.

1 **Accounting Policies** continued

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and 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 previous accounting standard. Due to the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 has not had a material impact on the timing or nature of the Group's revenue recognition.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset representing the right to recover products from the customer is also recognised. There is no change to the Group's revenue recognition under IFRS 15. However, the refund provision was previously recorded on a net basis within Current Liabilities and therefore on adoption of IFRS 15 the Group was required to adjust inventories and the refund provision to a gross basis.

The Group has adopted IFRS 15 using the modified transition approach and has therefore not restated the prior period comparatives for the separate recognition of the refund asset and the increase in the refund provision.

In addition to the changes to the accounting policies, the Group is required to disclose how the adoption of the new accounting standard has affected the financial statements. There is no impact on the Consolidated Income Statement, however the impact on the Consolidated Statement of Financial Position for the change in accounting for the refund provision is as follows:

At 30 March 2019, the refund provision on the balance sheet was accounted for on the gross basis under IFRS 15. There is a liability of £22.2m and a related refund asset of £8.9m. If accounted for on a net basis, the refund provision on the balance sheet would be £13.3m.

**New accounting standards in issue but not yet effective**

New standards and interpretations effective as of 1 January 2019 and therefore applicable to the Group for the 52 weeks ending 28 March 2020 are listed below:

- Annual improvements to IFRS Standards 2015-2017 Cycle.
- Amendments to IFRS 9 Financial instruments, on prepayment features with negative compensation.
- Amendments to IAS 28 Investments in associates, on long term interests in associates and joint ventures.
- Amendments to IAS 19 Employee benefits on plan amendment, curtailment or settlement.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- IFRS 16 Leases.

With the exception of the adoption of IFRS 16, the adoption of the above standards and interpretations will not lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

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

**Impact of application of IFRS 16 'Leases'**

As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right of use asset and corresponding liability for future lease payables. The right of use asset will be subsequently depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability. This will result in earlier recognition of expense for leases currently classified as operating leases, although over the life of a lease the total expense recognised will not change.

Right of use assets recognised by the Group comprise of property, motor vehicles and equipment, including those in scope under certain logistics contracts. The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets, and lease payments associated with those assets, will be recognised as an expense on a straight-line basis. In addition, amounts for leases with variable consideration, such as turnover leases, will continue to be recognised on a straight-line basis.

As a lessor, subleases previously classified as operating must be reassessed in consideration of the remaining contractual term and conditions with reference to the right of use asset arising from the head lease. The Group will reclassify certain sublease agreements as finance leases and recognise a net investment in lease, resulting in a change in timing of recognition of sublease income.

1 Accounting Policies continued

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

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the relative maturity of the lease portfolio. Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

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

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

The Group has had in place a working group and steering committee to assess the impact and oversee the implementation of the new standard. The adoption of the new standard is nearing completion, including the implementation of appropriate internal controls and a governance framework to ensure the requirements of the new standard continue to be met including an assessment of new contracts requiring judgement as to whether they are in scope of the standard.

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures (APMs), which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like revenue growth; like-for-like revenue growth adjusted for Easter; gross margin; profit before tax and adjusting items; adjusted earnings per share; net debt; free cash flow; and return on capital employed. Each of these APMs, and others used by the Group, are set out in the Glossary including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 30 March 2019:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices;
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (GMP) and other pension equalisation.
- Significant costs arising from establishing the new joint venture with Ocado.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Other adjusting items, in the prior year, including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

Refer to note 3 for a summary of the adjusting items.

## 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 Operating Committee. The Operating Committee reviews 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 Operating Committee.

The UK segment consists of the UK retail business, UK franchise operations, M&S Bank and M&S Energy. The International segment consists of Marks & Spencer owned businesses in Europe and Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit referred to as management group operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors 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 sub-category and gross profit within the UK segment by sub-category. The following is an analysis of the Group's revenue and results by reportable segment:

| | 52 weeks ended 30 March 2019 | | | | 52 weeks ended 31 March 2018 (restated[3]) | | | |
|---|---|---|---|---|---|---|---|---|
| | Management[1] | Logistics Adjustment[2] | Adjusting items | Statutory | Management[1] | Logistics Adjustment[2] | Adjusting items | Statutory |
| | £m | £m | £m | £m | £m | £m | | £m |
| Food revenue | 5,903.4 | - | - | 5,903.4 | 5,940.0 | - | - | 5,940.0 |
| Clothing & Home revenue | 3,537.3 | - | - | 3,537.3 | 3,671.0 | - | - | 3,671.0 |
| UK revenue | 9,440.7 | - | - | 9,440.7 | 9,611.0 | - | - | 9,611.0 |
| Franchised | 409.1 | - | - | 409.1 | 360.6 | - | - | 360.6 |
| Owned | 527.5 | - | - | 527.5 | 726.6 | - | - | 726.6 |
| International revenue | 936.6 | - | - | 936.6 | 1,087.2 | - | - | 1,087.2 |
| **Group revenue** | 10,377.3 | - | - | 10,377.3 | 10,698.2 | - | - | 10,698.2 |
| Food gross profit[3] | 1,834.7 | | | | 1,854.8 | | | |
| Clothing & Home gross profit[3] | 2,021.2 | | | | 2,090.6 | | | |
| UK gross profit[3] | 3,855.9 | (384.9) | - | 3,471.0 | 3,945.4 | (370.0) | - | 3,575.4 |
| UK operating costs | (3,409.6) | 384.9 | (400.3) | (3,425.0) | (3,450.3) | 370.0 | (477.5) | (3,557.8) |
| M&S Bank | 27.6 | - | (20.9) | 6.7 | 40.3 | - | (34.7) | 5.6 |
| M&S Energy | 0.1 | - | - | 0.1 | - | - | - | - |
| UK operating profit | 474.0 | - | (421.2) | 52.8 | 535.4 | - | (512.2) | 23.2 |
| International operating profit | 127.0 | - | (17.4) | 109.6 | 135.2 | - | (1.9) | 133.3 |
| **Group operating profit** | 601.0 | - | (438.6) | 162.4 | 670.6 | - | (514.1) | 156.5 |
| Finance income | 33.8 | - | - | 33.8 | 24.1 | - | - | 24.1 |
| Finance costs | (111.6) | - | - | (111.6) | (113.8) | - | - | (113.8) |
| **Profit before tax** | 523.2 | - | (438.6) | 84.6 | 580.9 | - | (514.1) | 66.8 |

[1] Management profit excludes the adjustments (income and charges) made to reported profit before tax that are significant in value and/or nature (see note 3). Please refer to the accounting policy in note 1 and the glossary for more details on these adjustments.

[2] Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £384.9m (last year: £370.0m).

[3] During the year, as a result of a change to internal management reporting, the reporting of cards and gift-wrap has been transferred from Clothing & Home to Food for both revenue and gross profit. The prior period comparatives have been restated to reflect this, £70.1m of revenue has been transferred from Clothing & Home to Food with a corresponding transfer of gross profit of £26.1m.

### Other segmental information

| | UK[1] | International | Total | UK[1] | International | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Additions to property, plant and equipment and intangible assets (excluding goodwill) | 283.1 | 13.9 | 297.0 | 322.4 | 13.2 | 335.6 |
| Depreciation and amortisation | 613.0 | 13.1 | 626.1 | 615.7 | 24.6 | 640.3 |
| Impairment and asset write-offs | 126.3 | 1.6 | 127.9 | 228.3 | 5.3 | 233.6 |
| Total assets | 6,900.1 | 300.1 | 7,200.2 | 7,242.4 | 307.8 | 7,550.2 |
| Non-current assets | 4,558.9 | 199.7 | 4,758.6 | 5,024.5 | 210.0 | 5,234.5 |

[1] UK assets include centrally held assets largely relating to IT systems that support the International business of £20.9m (last year: £24.9m).

## 3 Adjusting items

The total adjusting items reported for the 52 week period ended 30 March 2019 is a net charge of £438.6m (last year: £514.1m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

| | Notes | 2019<br>£m | 2018<br>£m |
|---|---|---|---|
| Strategic programmes - UK store estate | 10 | 222.1 | 321.1 |
| Strategic programmes - Organisation | 10 | 51.8 | 30.7 |
| Strategic programmes - Operational transformation | | 16.4 | - |
| Strategic programmes - IT restructure | | 15.6 | 15.5 |
| Strategic programmes - UK logistics | 10 | 14.3 | 13.1 |
| Strategic programmes - Changes to pay and pensions | | 6.2 | 12.9 |
| Strategic programmes - International store closures and impairments | | 5.3 | 5.0 |
| UK store impairments and other property charges | 10 | 62.1 | 63.4 |
| M&S Bank charges incurred in relation to the insurance mis-selling provision | | 20.9 | 34.7 |
| GMP and other pension equalisation | | 20.5 | - |
| Establishing the Ocado joint venture | | 3.4 | - |
| Other | | - | 17.7 |
| Adjustments to profit before tax | | 438.6 | 514.1 |

### Strategic programmes - UK store estate (£222.1m)

In November 2016, the Group announced a strategic programme to transform the UK store estate. During 2017/18 the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £222.1m in the year which relates in part to the accelerated and expanded store closure programme which now includes a number of Simply Foods stores. The charge primarily relates to accelerated depreciation (due to shortening the useful economic life) and impairment of buildings and fixtures and fittings. Refer to note 10 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change through out the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges (before restatement to reflect the impact of the adoption of IFRS 16) are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m.

### Strategic programmes – Organisation (£51.8m)

During 2016/17 the Group announced a wide ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building.

The Group has now conducted a review of the retail field and management team organisational structure. The proposals will result in a net reduction of c.700 retail roles achieved through a combination of natural attrition and redundancies. A charge of £18.6m has been recognised in the period for redundancy costs associated with these changes.

In addition, a further £33.2m of costs have been recognised in the period associated with centralising the Group's London Head Office functions and rationalisation of Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisational cost are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in value, and are consistent with the disclosure of other similar charges in prior years.

### Strategic programmes – Operational transformation (£16.4m)

The Group is undertaking a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group's Clothing & Home and Food end-to-end processes. A charge of £16.4m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across Clothing & Home and Food.

These costs are considered to be adjusting items as they relate to a strategic programme and the total costs are significant in quantum and as a result not considered to be normal operating costs of the business. Further operational transformation initiatives are planned for 2019/20 which will result in additional related charges within adjusting items.

3 Adjusting items continued

### Strategic programmes – IT restructure (£15.6m)

In 2017/18 as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a faster, more agile and more commercial technology function. A charge of £15.6m has been recognised in the year relating primarily to transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group is retiring early as a result of the transformation strategy. Further charges of c.£2m are expected in 2019/20 and 2019/20 is expected to be the final year of the IT restructure programme.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the programme.

### Strategic programmes – UK logistics (£14.3m)

In 2017/18 as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £14.3m has been recognised in the year for redundancy, accelerated depreciation and project costs.

The Group considers these costs to be adjusting items as they are significant in value and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network. Further charges are expected in 2019/20 of c.£12m.

### Strategic programmes – Changes to pay and pensions (£6.2m)

In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to affected employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. The charge in the year in relation to these transition payments to employees is £6.2m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the year within adjusting items is consistent with disclosure of the same costs in 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

### Strategic programmes – International store closures and impairments (£5.3m)

In 2016/17 the Group announced its intention to close its owned stores in 10 international markets. A net charge of £5.3m has been recognised in the year reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred.

The net charge is considered to be an adjusting item as it is part of a strategic programme which over the three years of charges has been significant in both value and nature to the results of the Group. No further significant charges are expected.

### UK store impairments and property charges (£62.1m)

The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

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). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 10 for further details on the impairments.

In addition, the Group has entered in to property arrangements impacting 10 stores. The Group has recognised a net charge of £9.3m associated with the sale and leaseback or lease surrender costs for these stores.

The charges have been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group.

### M&S Bank charges incurred in relation to the insurance mis-selling provision (£20.9m)

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 profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the year is £20.9m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each year to the results of

3 Adjusting items continued

the Group. The estimated liability for redress will continue to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

GMP and other pension equalisation (£20.5m)

The Group has recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of GMP following a high court ruling in October 2018 and other pension equalisation charges. Additional detail on the Group's GMP assessment is detailed in note 8.

The amounts recognised in relation to GMP and other pension equalisation charges are considered to be adjusting items as they are significant in nature and value to the results of the Group in the current period.

Establishing the Ocado joint venture (£3.4m)

In February 2019 the Group announced the creation of a new 50/50 joint venture (JV) with Ocado Group Plc (Ocado), the UK's leading pure play digital grocer, that will transform online grocery shopping for UK consumers. Transaction costs of £3.4m were incurred during the period.

The Group considers the costs directly associated with the Ocado transaction to be an adjusting item on the basis that they relate to a major transaction and as a result are not considered to be normal operating costs of the Group. Further costs of c£30.0m will be incurred in 2019/20, the majority of which will be capitalised within the cost of investment upon completion or included within the cost of equity as part of the rights-issue.

Other (£nil)

Other in the prior year included the profit on the disposal of our retail business in Hong Kong and charges for potential liabilities for certain employee related matters in the prior period. These amounts were considered to be adjusting items as they were significant in nature and value to the results of the Group in the prior period.

The prior year profit on disposal is analysed as follows:

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| Proceeds | - | 33.9 |
| Disposal costs | - | (0.9) |
| **Net disposal proceeds** | - | 33.0 |
| Fair value of net assets disposed | - | (28.6) |
| Provision for IT transition services | - | (0.8) |
| Net foreign exchange amounts recycled from reserves | - | 2.2 |
| **Profit on disposal** | - | 5.8 |

4 Finance income/costs

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| Bank and other interest receivable | 7.6 | 6.0 |
| Other finance income | 0.4 | 0.4 |
| Pension net finance income | 25.8 | 17.7 |
| **Finance income** | 33.8 | 24.1 |
| | | |
| Interest on bank borrowings | (0.6) | (1.2) |
| Interest payable on syndicated bank facility | (2.3) | (2.3) |
| Interest payable on Medium Term Notes | (77.4) | (90.0) |
| Interest payable on finance leases | (1.7) | (1.9) |
| Ineffectiveness on financial instruments | (3.5) | (2.3) |
| Unwind of discount on provisions | (17.3) | (5.2) |
| Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 9) | (8.8) | (10.9) |
| **Finance costs** | (111.6) | (113.8) |
| **Net finance costs** | (77.8) | (89.7) |

5 Income tax expense

The effective tax rate was 55.9% (last year: 56.4%) and after excluding adjusting items the effective tax rate was 20.3% (last year: 21.6%).

## 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 adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 3). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

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

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| Profit attributable to equity shareholders of the Company | 33.5 | 25.7 |
| Add/(less) (net of tax): | | |
| Strategic programmes - UK store estate | 194.6 | 264.7 |
| Strategic programmes - Organisation | 46.3 | 28.0 |
| Strategic programmes - Operational transformation | 13.2 | - |
| Strategic programmes - IT restructure | 12.7 | 12.5 |
| Strategic programmes - UK logistics | 11.8 | 10.7 |
| Strategic programmes - Changes to pay and pensions | 5.1 | 10.4 |
| Strategic programmes - International store closures and impairments | 5.1 | (4.1) |
| UK store impairments and property charges | 54.2 | 61.6 |
| M&S Bank charges incurred in relation to the insurance mis-selling provision | 16.9 | 28.1 |
| GMP and other equalisation | 16.6 | - |
| Establishing the Ocado JV | 3.4 | - |
| Other | - | 14.5 |
| Profit before adjusting items attributable to equity shareholders of the Company | 413.4 | 452.1 |

| | Million | Million |
|---|---|---|
| Weighted average number of ordinary shares in issue | 1,624.1 | 1,624.0 |
| Potentially dilutive share options under Groups share option schemes | 3.8 | 5.4 |
| Weighted average number of diluted ordinary shares | 1,627.9 | 1,629.4 |

| | Pence | Pence |
|---|---|---|
| Basic earnings per share | 2.1 | 1.6 |
| Diluted earnings per share | 2.1 | 1.6 |
| Adjusted basic earnings per share | 25.4 | 27.8 |
| Adjusted diluted earnings per share | 25.4 | 27.8 |

## 7 Dividends

| | 2019<br>per share | 2018<br>per share | 2019<br>£m | 2018<br>£m |
|---|---|---|---|---|
| Dividends on equity ordinary shares | | | | |
| Paid final dividend | 11.9p | 11.9p | 193.1 | 193.1 |
| Paid interim dividend | 6.8p | 6.8p | 110.4 | 110.3 |
| | 18.7p | 18.7p | 303.5 | 303.4 |

The directors have approved a final dividend of 7.1p per share (last year: 11.9p per share), which, in line with the requirements of IAS 10 "Events after the Reporting Period", has not been recognised within these results. This final dividend of c.£115.4m (last year: £193.1m) will be paid on 12 July 2019 to shareholders whose names are on the Register of Members at the close of business on 31 May 2019. The ordinary shares will be quoted ex dividend on 30 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 21 June 2019.

## 8 Retirement benefits

| | 2019 £m | 2018 £m |
|---|---|---|
| Opening net retirement benefit surplus | 948.2 | 692.8 |
| Current service cost | (0.2) | (0.3) |
| Administration cost | (3.9) | (3.5) |
| Curtailment charge | - | - |
| Net interest income | 25.8 | 17.7 |
| Employer contributions | 42.0 | 40.7 |
| Past service cost | 18.0 | - |
| Remeasurements | (79.9) | 200.9 |
| Exchange movement | 0.3 | (0.1) |
| **Closing net retirement benefit surplus** | 914.3 | 948.2 |

| | 2019 £m | 2018 £m |
|---|---|---|
| Total market value of assets | 10,224.7 | 9,989.3 |
| Present value of scheme liabilities | (9,301.3) | (9,029.6) |
| Net funded pension plan asset | 923.4 | 959.7 |
| Unfunded retirement benefits | (3.5) | (3.6) |
| Post-retirement healthcare | (5.6) | (7.9) |
| **Net retirement benefit surplus** | 914.3 | 948.2 |
| Analysed in the statement of financial position as: | | |
| Retirement benefit asset | 931.5 | 970.7 |
| Retirement benefit deficit | (17.2) | (22.5) |
| **Net retirement benefit surplus** | 914.3 | 948.2 |

### Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 "Employee Benefits" in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 2.45% (last year: 2.65%) and 3.25% (last year: 3.15%). The inflation rate of 3.25% (last year: 3.15%) reflects the Retail Price Index (RPI) rate.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate decreased by 0.25% the surplus would decrease by c.£70m. If the inflation rate decreased by 0.25%, the surplus would decrease by c.£25m.

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's DB pension schemes. This judgement concluded the schemes should be amended in order to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement have resulted in an increase in the liabilities of the Marks & Spencer UK DB Pension Scheme of £18.0m. This increase has been reflected in the results as a past service cost.

## 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"). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.4bn (last year: £1.5bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks & Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £272.4m (last year: £335.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferable financial instrument. During the year to 30 March 2019 an interest charge of £8.8m (last year: £10.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £278.5m (last year: £345.4m).

The second partnership interest is not a transferable financial instrument as the Scheme Trustee does not have the right to transfer it to any party other than a successor Trustee. It is therefore not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly, the associated liability is not included on the Group's statement of financial position, rather the annual distribution is recognised as a contribution to the scheme each year.

## 10 Property, plant and equipment

| | Land and buildings | Fixtures, fittings and equipment | Assets in the course of construction | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Year ended 30 March 2019** | | | | |
| Opening net book value | 2,417.9 | 1,897.2 | 78.8 | 4,393.9 |
| Additions | 0.9 | 30.9 | 170.1 | 201.9 |
| Transfers and reclassifications | (3.2) | 166.7 | (168.8) | (5.3) |
| Disposals | (2.5) | (0.4) | - | (2.9) |
| Asset impairments | (11.5) | (58.2) | - | (69.7) |
| Asset write-offs | (35.3) | (8.6) | - | (43.9) |
| Depreciation charge | (89.7) | (352.0) | - | (441.7) |
| Exchange difference | (2.7) | (1.1) | - | (3.8) |
| **Closing net book value** | 2,273.9 | 1,674.5 | 80.1 | 4,028.5 |
| **At 30 March 2019** | | | | |
| Cost | 2,923.9 | 5,729.1 | 98.1 | 8,751.1 |
| Accumulated depreciation, impairments and write-offs | (650.0) | (4,054.6) | (18.0) | (4,722.6) |
| **Net book value** | 2,273.9 | 1,674.5 | 80.1 | 4,028.5 |

Asset write-offs in the year include assets with gross book value of £1,467.9m (last year: £784.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

The net book value above includes land and buildings of £31.1m (last year: £41.6m) and equipment of £nil (last year: £nil) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year: £nil) were financed by finance leases.

### Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of outlet stores, which are considered together as one CGU. Shop Your Way (SYW) sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 3).

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 3.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 9% to 21% (last year: 8% to 15%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

#### Impairments – UK stores (excluding the UK store estate programme)

During the year the Group has recognised an impairment charge of £52.8m and no impairment reversals as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £11.9m). These impairments have been recognised within adjusting items (see note 3).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.3%, adjusted to 0% where management believe the current trading performance and future expectations of the store do not support the growth rate of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The rate used to discount the forecast cash flows for UK stores is 9.1%.

The cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 2% from the three-year plan would result in an increase in the impairment charge of £7.1m and a 20 basis point reduction in gross profit margin would increase the impairment charge by £2.2m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. Reasonably possible changes of the other key assumptions, including reducing the long term growth rate to 0% across all stores, would not result in an increase to the impairment charge.

### Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £16.9m relating to the on-going UK store estate programme (last year: £196.2m). The impairment charge relates to the accelerated and expanded store closure programme and has been recognised within adjusting items (see note 3).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 9.1%.

The cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £31.4m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £4.9m. Neither a 25 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

## 11 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.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data. No level 3 instruments were in place at the year end.

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

| | | | | 2019 | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Assets measured at fair value** | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - trading derivatives | - | 0.7 | - | 0.7 | - | 2.0 | - | 2.0 |
| Derivatives used for hedging | - | 59.4 | - | 59.4 | - | 32.2 | - | 32.2 |
| Short-term investments | - | 141.8 | - | 141.8 | - | 13.7 | - | 13.7 |
| Unlisted investments[1] | - | - | 9.9 | 9.9 | - | - | 9.9 | 9.9 |
| **Liabilities measured at fair value** | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | | |
| - trading derivatives | - | (0.4) | - | (0.4) | - | (0.2) | - | (0.2) |
| Derivatives used for hedging | - | (9.7) | - | (9.7) | - | (104.3) | - | (104.3) |

[1]There were no transfers between the levels of the fair value hierarchy. The Group holds £9.9m in unlisted equity securities measured at fair value through other comprehensive income (last year £9.9m measured as available-for-sale) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,224.7m (last year: £9,989.3m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,008.6m (last year: £7,152.4m). Additionally, the scheme assets include £3,216.1m (last year: £2,836.9m) of Level 3 financial assets. See note 8 for information on the Group's retirement benefits.

The following table represents the changes in Level 3 instruments held by the Pension Schemes:

| | 2019 £m | 2018 £m |
|---|---|---|
| Opening balance | 2,836.9 | 1,444.9 |
| Fair value gain/(loss) recognised in other comprehensive income | 136.3 | (74.9) |
| Additional investment | 242.9 | 1,466.9 |
| Closing balance | 3,216.1 | 2,836.9 |

### Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 9), 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 £1,673.8m (last year £1,659.9m), the fair value of this debt was £1,724.0m (last year £1,761.0m).

## 12 Contingencies and commitments

### A. Capital commitments

| | 2019 £m | 2018 £m |
|---|---|---|
| Commitments in respect of properties in the course of construction | 90.1 | 121.8 |
| Software capital commitments | 6.8 | 17.2 |
| | 96.9 | 139.0 |

### B. Other material contracts

In the event of termination of our trading arrangements with certain warehouse operators, the Group has a number of options and commitments to purchase some property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf. These options and commitments would have an immaterial impact on the Group's Statement of Financial Position.

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

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

### Cash flows from operating activities

| | 2019 £m | 2018 £m |
|---|---|---|
| Profit on ordinary activities after taxation | 37.3 | 29.1 |
| Income tax expense | 47.3 | 37.7 |
| Finance costs | 111.6 | 113.8 |
| Finance income | (33.8) | (24.1) |
| **Operating profit** | **162.4** | **156.5** |
| Decrease/(increase) in inventories | 73.8 | (38.2) |
| (Increase)/decrease in receivables | (1.0) | 28.8 |
| Decrease in payables | (13.7) | (87.4) |
| Adjusting items net cash outflows | (124.4) | (153.1) |
| Non-cash share-based payment charges | 19.2 | 18.9 |
| Depreciation, amortisation and write-offs | 544.9 | 580.6 |
| Defined benefit pension funding | (37.9) | (41.4) |
| Adjusting items M&S Bank | (20.9) | (34.7) |
| Adjusting operating profit items | 438.6 | 514.1 |
| **Cash generated from operations** | **1,041.0** | **944.1** |

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

| | 2019 £m | 2018 £m |
|---|---|---|
| **Statement of financial position and related notes** | | |
| Cash and cash equivalents | 285.4 | 207.7 |
| Current financial assets | 141.8 | 13.7 |
| Bank loans and overdrafts | (72.3) | (88.4) |
| Medium Term Notes – net of hedging derivatives | (1,624.3) | (1,621.7) |
| Finance lease liabilities | (46.5) | (48.0) |
| Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9) | (272.4) | (335.5) |
| | (1,588.3) | (1,872.2) |
| Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme | 43.2 | 44.7 |
| **Total net debt** | (1,545.1) | (1,827.5) |

## 15 Related party transactions

There were no related party transactions other than key management compensation during the year to 30 March 2019.

## 16 Subsequent events

Subsequent to the year end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Company's exposure to changes in longevity, interest rates, inflation and other factors.

## Glossary

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets.

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial information relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable to similarly-titled measures reported by other companies due to differences in the way they are calculated.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores</td><td>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th colspan="2">52 weeks ending</th></tr>
<tr><th></th><th>30 March 2019 £m</th><th>31 March 2018 £m</th></tr>
<tr><td>Food</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>5,630.4</td><td>5,764.0</td></tr>
<tr><td>Net new space</td><td>273.0</td><td>176.0</td></tr>
<tr><td>Total Food revenue</td><td>5,903.4</td><td>5,940.0</td></tr>
<tr><td>Clothing and Home</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>3,479.3</td><td>3,534.2</td></tr>
<tr><td>Net new space</td><td>58.0</td><td>136.8</td></tr>
<tr><td>Total Clothing & Home revenue</td><td>3,537.3</td><td>3,671.0</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th></th><th>FY 18/19 £m</th><th>FY 17/18 £m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>936.6</td><td>1,081.3</td><td>(13.4)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>5.9</td><td></td></tr>
<tr><td>At reported currency</td><td>936.6</td><td>1,087.2</td><td>(13.9)</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>UK Food like-for-like revenue growth adjusted for Easter</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores & adjustments for Easter dates</td><td>The period-on-period change in like-for-like Food revenue (excluding VAT) adjusted for any differences in the timing of Easter between comparative periods. This adjusted revenue measure is a good indicator of the underlying performance of the Food business, as it eliminates the effect of Easter trading on period-on period reported results.
<table>
<tr><th></th><th>FY 18/19 £m</th><th>FY 17/18 £m</th><th>%</th></tr>
<tr><td>UK Food Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>5,630.4</td><td>5,764.0</td><td>-2.3%</td></tr>
<tr><td>Impact of Easter</td><td>-</td><td>(50.1)</td><td></td></tr>
<tr><td>Easter adjusted LFL</td><td>5,630.4</td><td>5,713.8</td><td>-1.5%</td></tr>
<tr><td>Net new space</td><td>273.0</td><td>176.1</td><td></td></tr>
<tr><td>Statutory Total</td><td>5,903.4</td><td>5,940.0</td><td>-0.6%</td></tr>
</table></td></tr>
<tr><td>International owned retained and franchise revenue growth at constant currency</td><td>Movement in revenue per the Income Statement</td><td>Sales from closure markets</td><td>The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results.
<table>
<tr><th>International Revenue</th><th>FY 18/19 £m</th><th>FY 17/18 £m</th><th>%</th></tr>
<tr><td>Reported currency</td><td>936.6</td><td>1,087.2</td><td>(13.9)</td></tr>
<tr><td>Owned exit</td><td>-</td><td>(66.4)</td><td>100</td></tr>
<tr><td>Owned retained and franchise</td><td>936.6</td><td>1,020.8</td><td>(8.2)</td></tr>
<tr><td>Impact of FX translation</td><td></td><td>(6.1)</td><td></td></tr>
<tr><td>Owned retained and franchise at constant currency</td><td>936.6</td><td>1,014.7</td><td>(7.7)</td></tr>
</table></td></tr>
<tr><td>Management gross margin</td><td>Gross profit margin[1]</td><td>Certain downstream logistics costs<br><br>(See note 2)</td><td>Where referred to throughout the Annual Report, management gross margin is calculated as gross profit on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.</td></tr>
<tr><td>Adjusting items</td><td>None</td><td>Not applicable</td><td>Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.</td></tr>
<tr><td>EBIT before adjusting items</td><td>EBIT[2]</td><td>Adjusting items<br><br>(See note 3)</td><td>Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the Consolidated Income Statement. This measure is used in calculating the Return on Capital Employed for the Group.</td></tr>
</table>

| APM | Closest equivalent statutory measure | Reconciling items to statutory measure | Definition and purpose |
|---|---|---|---|
| Profit before tax and adjusting items | Profit before tax | Adjusting items<br><br>(See note 3) | Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.<br><br>This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans. |
| Adjusted earnings per share | Earnings per share | Adjusting items<br><br>(See note 3) | Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year.<br><br>This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used. |
| Adjusted diluted earnings per share | Diluted earnings per share | Adjusting items<br><br>(See note 3) | Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options. |
| Effective tax rate before adjusting items | Effective tax rate | Adjusting items and their tax impact<br><br>(See note 3) | Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group. |
| Balance Sheet Measures | | | |
| Net debt | None | Reconciliation of net debt (see note 14) | Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK pension scheme less cash, cash equivalents and unlisted and short-term investments.<br><br>This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies. |
| Capital employed | Net assets | Refer to definition | The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items.<br><br>This measure is used in the calculation of return on capital employed. |
| Cash Flow Measures | | | |
| Free cash flow | Net cash inflow from operating activities | See Financial Review | The cash generated from the Group's operating activities less capital expenditure and interest paid.<br><br>This measure shows the cash retained by the Group in the year. |
| Free cash flow pre shareholder returns | Net cash inflow from operating activities | See Financial Review | Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid excluding returns to shareholders (dividends and share buyback).<br><br>This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans. |

| APM | Closest equivalent statutory measure | Reconciling items to statutory measure | Definition and purpose |
|---|---|---|---|
| Other Measures | | | |
| Capital expenditure | None | Not applicable | Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination. |
| Return on capital employed | None | Not applicable | Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below: |

| | FY 18/19 £m | FY 17/18 £m |
|---|---|---|
| EBIT before adjusting items | 601.0 | 670.6 |
| Average capital employed | 4,267.9 | 4,785.3 |

This measure is used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.

[1] Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.
[2] EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.