Never the Same Again

Forging a reshaped M&S

Marks and Spencer Group plc
Annual Report & Financial Statements & Notice of Annual General Meeting 2021
M&S IS A BRITISH VALUE FOR MONEY RETAILER
focused on own label businesses, including Food, Clothing & Home and Bank & Services in the UK and internationally.

Today, we operate a family of businesses, selling high-quality, great-value own-brand products in the UK and internationally, from 1,509 stores and over 100 websites globally. Together our 70,000 colleagues across our stores, support centres, warehouses and supply chain serve nearly 30 million customers each year.

The objective of our transformation programme is to restore the M&S business and brand, to deliver long-term, sustainable, profitable growth for our investors, colleagues and wider communities.

In a year defined by the pandemic, through our Never the Same Again programme, we have accelerated our transformation and forged a reshaped business as we emerge from the crisis.

**GROUP OVERVIEW**

- **£9.0bn** (–11.8%) Group revenue
- **£(201.2)m** (19/20: £67.2m) Group loss before tax
- **(9.8)p** (19/20: 1.3p) Basic loss per share
- **£41.6m** (–89.7%) Profit before tax and adjusting items
- **£1.11bn** (–20.1%) Net debt excluding lease liabilities
- **1.1p** (19/20: 16.7p) Adjusted earnings per share

No dividend paid for 20/21

**Alternative performance measures**
The report provides alternative performance measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards as adopted by the EU. We believe these APMs provide readers with important additional information on our business.

We have included a glossary on pages 191 to 195 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

**53 week year**
This year we are reporting statutory results on the 53 weeks to 3rd April 2021. In order to provide a meaningful comparison with last year’s 52 week period financial information above has been presented on a 52 week basis. Statutory results: Group revenue: £9,155.7m, Loss before tax: £(209.4)m, Basic loss per share: (10.1)p.

1. Net promoter score (NPS) equals percentage of ‘promoters’ minus the percentage.
Join our Digital First community and sign up for online communications only, in time for next year’s report. It’s much less fuss, much more interactive and you’ll be helping M&S to reduce its impact on our environment.

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

Access to more detailed and interactive content
The money saved on printing and postage will help lower our costs
Reduces our carbon footprint and saves paper
CHAIRMAN’S LETTER

Dear shareholder,

In the last year the Covid-19 pandemic has thoroughly distorted our trading and operations in all our businesses. For large parts of the year, the majority of our floor space has been closed and even in Food large parts of the business have been unable to trade. As a result, financially it has been a “lost year”. Shareholders and colleagues alike have borne the burden of no bonus, no pay increase in 2020 and no dividend.

With that, Covid-19 and the associated lockdowns have accelerated changes in the market that were previously proceeding in the slow lane. In many areas, it has been a case of “five years in one”. The dramatic increase in the move to online, including in food, the shift to “informal” in clothing demand, the use of technology to connect colleagues, suppliers and customers, and the demise of many high streets and shopping centres are trends which will never reverse.

To add to this, Brexit has made it much more costly to trade our businesses in the EU and Northern Ireland. For customers, competitors and suppliers, the landscape has changed forever.

For a business like M&S in the third year of a gargantuan transformation programme, still wrestling with an old slow culture and only halfway through profound change, this posed a huge additional challenge. Early on, therefore, we launched our “Never the Same Again” programme to recognise that things would never go back to “normal” and it was time to change for good. We were and are determined to embrace the changes and get ahead of them.

Probably the most profound acceleration strategy in the year has been the substantial shift to online and digital. In September, M&S Food and a selection of clothing basics successfully launched on the Ocado platform through our partners. In November, we announced the creation of MS2, our integrated Clothing & Home online and data business. We have as a result pivoted towards online in both sales and management organisation to become a business selling through multiple channels. The next stage will be to create a seamless single face to the customer to become “omni-channel”.

At the same time bringing forward technology innovation in the store channel has moved us to a much faster, more flexible way of working, which in turn enabled a significant reduction in the numbers of colleagues. As a result, some 8,000 colleagues left the business, mostly through voluntary redundancy, in 2020.

For all of our businesses, we believe we will come out of the pandemic year not just changed but stronger. For our Clothing & Home ranges were already going through profound change to improve style and buy fewer products in greater depth. The Food business, which was performing strongly prior to Covid-19, coped well with the headwinds caused by lockdowns, the closure of travel locations and hospitality, and the shift to scratch cooking.

Archie Norman, Chairman

The ‘Magic’ of M&S Food

Market-leading innovation, such as our Taste Buds range which was developed with Great Ormond Street Hospital for children aged 4-10, is a key part of our Food strategy.

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Some people have commented that our transformation seems “perpetual” and I understand why they say that, but we are addressing decades of torpitude at a time when the world is moving on at an ever faster pace. One of our values is “talking straight” and we are a long, long way from declaring victory. There is more to do in every aspect of the business but especially in reforming our supply chain and modernising the legacy store estate where the need to speed up is absolute.

Retail is at heart a people business and tackling what is probably the biggest turnaround in UK retailing needs a top team supported by an experienced and engaged Board. We continue to strengthen the talent in the business at all levels and the Board has had a busy year, often coming together for short sharp weekly meetings to support the executive as events came up through the windscreen into view. We have been delighted to welcome Eoin Tonge as a strong new Chief Financial Officer and Richard Price as Managing Director of Clothing & Home. At non-executive Board level, Tamara Ingram and Sapna Sood joined nearly a year ago and Evelyn Bourke, the former Chief Executive of BUPA, joined in February. Fiona Dawson, Global President of Mars Food, has recently joined the Board and she brings extensive experience in food retailing and transformational change. Pip McCrostie, who lit up our boardroom for three years with her good humour and insight, stood down with our heartfelt good wishes and thanks. With great regret, we learned shortly afterwards that she has left us. Her contribution and what she stood for will remain bright in our memory for years to come.

For everyone in our business and all our shareholders, this year has been a year like no other. But we are emerging stronger, leaner and fitter. It has brought out the best in the M&S family of colleagues, suppliers and customers. Many colleagues have had to change role to put all hands to the pump. Others have been furloughed and come back in good heart. And some have lost colleagues or family members from the pandemic. It has truly been a year of “all in it together” and we thank them all.

As ever,

Archie Norman, Chairman

Focusing on contemporary design and customer relevancy in the wake of the pandemic has underpinned our reshaped Clothing business.

Reopening

As retail across the UK reopened, we concentrated on helping customers look ahead to brighter days and highlighted our flexible, easy shopping experience.

Renewed C&H Product Engine
Our 2020/21 report bears the impact of the pandemic, spanning the beginning of the first UK-wide lockdown through to near to the end of the third lockdown in the UK. However, it also reflects an acceleration of transformation which has enabled the business to deliver a resilient performance thanks to the enormous efforts our colleagues. Within its chapters we outline how we have used this period to accelerate transformation under our Never the Same Again programme to ensure a reshaped business emerges from the crisis.

A RESILIENT FINANCIAL PERFORMANCE IN A YEAR OF DISRUPTION

The Group has delivered a profit before tax and adjusting items this year of £41.6m (19/20: £403.1m) alongside a statutory loss of £201.2m.

Disciplined cost management has helped us to deliver a stronger balance sheet than first thought. In addition, reduced discretionary costs, managed stock flow and a focus on working capital resulted in net debt, excluding lease liabilities down £278.6m to £1.11bn and strong liquidity. We are grateful for total government support of £306.1m which has partly offset the effect of lost trade.

Strong underlying Food performance

M&S Food delivered strong underlying life-for-like (LFL) growth of 6.9% adjusting for the closure of hospitality and the adverse impact on franchise sales. Operating profit before adjusting items of £213.6m (19/20: £236.7m) reflected the negative effects of product mix and the impact of Covid-related costs on convenience and hospitality businesses. The strong underlying LFL growth was delivered in the face of further additional headwinds, including the exposure to office and shopping centre locations. Unlike some competitors M&S Food reported sales do not benefit from a direct online grocery presence, with these sales reported through Ocado Retail.

Lockdown also resulted in steep declines in convenience categories, such as Food on the move given reduced footfall and ready meals as customers switched to home cooking. However, the repurposing of space towards core categories, such as grocery, household and meat, fish and poultry, together with the continued transformation of our ranges and value position, helped to offset the loss of convenience trade.

Our Food business had a good Christmas and a very strong Easter in 2021, which fell into week 53 of the financial year. The Food business incurred extra costs to support customer and colleague safety of £49.4m and incentives for non-furloughed colleagues working through the pandemic of £22.0m. Customer and colleague safety is vitally important to us and we believe we ran the most secure stores in the industry. In addition £9.9m of costs were incurred as a result of Brexit which are set out in more detail in the Financial Review.

Exceptional Ocado Retail contribution to results

Ocado Retail delivered 43.7% revenue growth over the 52 weeks ended 28 February 2021 and contributed a share of net income of £78.4m. This has been an exceptional period for grocery online and Ocado Retail performed strongly. Higher than normal basket size and a smoothed trading profile across the week, together with reduced marketing costs, delivered a strong improvement in profitability. The overall result included the Group's share of insurance receipts related to business interruption at the Andover customer fulfilment centre (“CFC”)

The well planned switchover went smoothly as we took M&S Food online for the first time, with an overall positive customer response and the M&S share of basket exceeded the Waitrose level prior to switchover.

Accelerated Online growth of 53.9% partially offsetting store decline of 56.2% in Clothing & Home

The overall Clothing & Home result for the year was heavily impacted by lockdowns, ongoing social distancing, steep decline in formal and occasionwear, the location of many of our stores in towns and shopping centres, and the priority to clear stock.

As we implemented MS2 and took multiple steps to improve online operating performance, we were able to capitalise on the change in customer shopping patterns and saw a progressive increase in online sales through the year. This was a result of strong traffic, active customer growth, improving frequency and lower returns. The business had a good service and fulfilment performance supported by previous investment in the Castle Donington distribution centre and substantial expansion of our fulfilment from store capability.

As reported for Food, stores in high streets, shopping centres and city centres created an extra drag on sales performance, with these channels representing c.70% of prior year store sales.

Within categories, casual clothing, kids and home outperformed but not sufficiently to offset the adverse sales mix in categories such as formal clothing and holiday. As a result total revenue declined 31.5%.

Clothing & Home recorded an operating loss before adjusting items of £129.4m as lower sales were only partly offset by reduced operating costs. Losses substantially reduced in the second half as the actions we took to accelerate online growth partly compensated for losses in store. Overall, online had strong profitability, with an operating margin of c.14%, for the year. Conversely, the operating loss in stores represented a
margin on sales of c.(26)%. Stringent action to reduce or postpone orders, together with measures to hibernate a small amount of stock, resulted in a relatively clean stock position by the end of the year.

**Resilient International profit as a result of franchise partnerships and strong online growth**

International sales reflected the pandemic impact across markets, offset by the strong switch to online, which saw sales growth of 114.3% at constant currency. Operating profit before adjusting items of £45.1m reflects in large part the lower Clothing & Home sales.

The International business incurred Brexit-related costs of £6.2m in the year.

**Relaunched Sparks loyalty scheme and M&S Bank customer offer**

We relaunched the Sparks loyalty scheme in July, shifting from a points-based plan which was delivered through a physical card to a more customer friendly digital experience. Since relaunch total membership has grown to over 10m customers. Alongside Sparks we are repositioning M&S Bank, closing down branches and moving away from traditional banking accounts, focusing instead on credit, currency services and payments.

**Balance sheet strengthened**

At year end, the Group’s net debt excluding lease liabilities declined by £278.6m and total net debt was down £434.7m. Cash flow was preserved through a combination of actions, to improve working capital, including new terms with suppliers, adjustment to arrangements with landlords, reduced discretionary costs, careful management of capital and government support.

During the period, the business strengthened its overall liquidity position by reducing net debt, refinancing its 2021/22 debt maturities and managing its standby liquidity facility with its banks.

**Adjusting items reflect cost restructuring and the accelerated store rotation programme**

We have reported adjusting items of £259.7m for the 53 week period. Significant charges include £133.7m relating to the costs of organisational change, including the restructuring of operations announced in the summer of 2020 and in the Republic of Ireland. We have also provided £95.3m for accelerated depreciation and impairment as we increase rotation of the estate, to address the drag of legacy stores unsuitable for modern trading or in declining locations. A charge of £79.9m has been recognised for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid-19 inventory provision made in the prior year.

**A reshaped M&S emerging from the pandemic period**

Over the past three years, the objective of the transformation has been to restore M&S to sustainable growth through “facing the facts” that the business had failed to address. From the start of the pandemic, we recognised that it would accelerate market trends, providing an opportunity to bring forward the transformation to emerge as a reshaped business under our Never the Same Again programme:

- **Broadening M&S Food appeal**: The Food business is broadening its appeal through more relevant family-focused innovation and improved value perception led by the expansion of “Remarkable Value” lines. Growth is supported by significant cost reduction, including synergies from growth on Ocado, systems upgrades to reduce waste and the Vangarde supply chain programme, which is delivering better availability.

- **Transition to M&S product on Ocado Retail completed**: Penetration of M&S lines on Ocado is consistently over 25% of Ocado Retail sales, outperforming Waitrose. The next stage is to grow capacity by c.50% in the next 18 months and to realise the further potential of the joint venture.

- **Omni-channel Clothing & Home business emerging**: Substantial reshaping has created a product engine providing a more contemporary, focused M&S range. In addition we are beginning to partner with a curated range of guest brands. This helps us build strength in hero categories and relevance where we are weaker. We are already trading with over 21 partners and the customer response has been positive. The creation of MS2 has brought together our data and online teams to prioritise online trading and growth while leveraging our store estate more effectively. MS2 draws on the data engine and the relaunched Sparks loyalty scheme, which has grown to over 10m members enabling a more personalised relationship with customers.

- **Accelerating rotation of the store estate**: The drag on performance of the legacy estate has been exacerbated by Covid-19, bringing forward the decline of some locations but also creating opportunities for rotation. We are increasing the speed of change to create a group of well-invested full line stores in c.180 prime and core markets. The costs of the rotation programme will be largely funded by the release of cash from the development of freehold and long leasehold sites.

- **An international business focused on major partnerships and online**: Online sales doubled in 2020/21 and we are now investing in increasingly localised fulfilment, expanding our presence on marketplaces such as Zalando and the launch of websites including in a further 46 markets announced in March. Digital trading improvements, partner store modernisation and supply chain development are positioning the business for rapid recovery as lockdowns end. Following Brexit, the business is reconfiguring trading with its EU businesses to reflect the challenges of exporting to the EU.

**Business positioned well for the medium-term despite near-term uncertainty**

Overall trading for the first six weeks of the financial year has been ahead of the comparable period two years ago in 2019/20 and our central case. Core Food is in strong growth although hospitality and franchise remain adversely affected, with Clothing & Home sales growing since reopening and online remaining robust. While encouraging, it is unclear how the recovery will develop and if consumer activity will sustain in Clothing & Home as well as what the eventual pace and shape of recovery in hospitality and convenience in Food will be. We have a strong programme of capacity growth at Ocado Retail although we expect some normalisation of shape of week with

**Driving app growth**

With store restrictions in place, we made sure M&S was at our customers’ fingertips through our app. Knowing app shoppers are among our most engaged and valuable customers, Sparks was relaunched in summer as a Digital First loyalty programme, fully incorporated into our app. New digital services improved the app further – from Sparks Book & Shop – allowing customers to reserve a shopping slot at a time that suits them – to our Scan & Shop checkout-free payment service, enabling them to shop direct from their mobile. In 2020 downloads increased by over 150% on the previous year and in the Autumn the M&S app topped the Apple download chart following the Sparks relaunch.
respects to its economics. The business also continues to face headwinds with ongoing disruption in various International markets, both the Clothing & Home and Food supply chains and the costs of Brexit.

Our central case for the current year therefore assumes a gradual return towards more normal customer behaviour in stores in Clothing & Home and hospitality and franchise in Food. With that, we are assuming the receipt of business rates relief in line with government guidance. Our scenario does not assume further lockdowns.

In this central case, UK costs normalise to levels broadly consistent with 2019/20, underpinned by the benefit of the restructuring announced last year, which will largely offset an increase in base pay rates, costs related to transformation and higher variable costs such as online fulfilment.

The business is now exposed to additional costs following Brexit, largely due to the administrative burden on exports of food, particularly to the island of Ireland. This includes additional supply chain costs at Motherwell and Faversham depots, as well as costs of a digital track and trace platform, additional variable cost per tray, veterinary certification, and costs of change. Potential tariffs relate to duty on exports of Clothing & Home and elements of the Food catalogue into the EU.

The total estimated cost impacts for the business are included in the Financial Review. Around £27-33m relate to operations on the island of Ireland. We have provided a range of potential tariffs depending on the solutions implemented. We are also working on longer term initiatives including a review of European business models, local sourcing and re-routing product through European hubs.

Capital investment for the Group will increase to similar levels to 2019/20 as we invest in the transformation, restart a programme of store maintenance and accelerate rotation.

Our central case is therefore that we will generate profit before tax and adjusting items between £300-350m and our ambition is for a further reduction in net debt.

A path to a transformed business in the medium term

As the business emerges from Covid-19, we have an ambitious plan for future growth with a clear path to a transformed business.

Food is delivering growth in core categories with larger baskets and is now positioned to expand further in convenience, build sales through larger renewed stores and progressively improve profitability. In addition, Ocado Retail has already announced plans which will increase peak day capacity by c.50% and has a structurally profitable long-term model for growth.

In Clothing & Home the new buying approach and expanded online capability is gaining traction with customers. We have more active online customers and stores are positioned for recovery. We are targeting in excess of 40% of Clothing & Home revenue online in three years, with an overall operating margin ahead of 2019/20 levels. International has ambitious plans to grow online sales, working with partners in key markets and in time to offset the costs of Brexit.

Capital Allocation to prioritise the transformation

The priority is to fund investment in the transformation and to rebuild balance sheet metrics towards levels consistent with investment grade. Our approach will prioritise building omni-channel capability, including investment in the supply chain and maintenance of the changing estate, with an expectation of capital investment recovering to pre-Covid levels. As above we are seeking to fund the costs of rotation of the store estate with the realisation of funds from our asset management programme.

As we recover balance sheet metrics consistent with investment grade, we will assess the reintroduction of dividend payments, although as we focus on restoring profitability this is unlikely in the current year.

In a year like no other we have delivered a resilient trading performance, thanks in no small part to the extraordinary efforts of our colleagues. In addition, by going further and faster in our transformation through the Never the Same Again programme, we moved beyond fixing the basics to forge a reshaped M&S. With the right team in place to accelerate change in the trading businesses and build a trajectory for future growth, we now have a clear line of sight on the path to make M&S special again. The transformation has moved to the next phase.

Steve Rowe, Chief Executive

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**Bringing the best together**

**M&S and Ocado**

1st September marked the beginning of the transformational partnership between M&S and Ocado, as customers were able to order their favourite M&S products online and have them delivered as part of their weekly shop. The launch has brought together M&S’ 6,000-strong high-quality, innovative Food products and 800 great-value everyday Clothing & Home products, with Ocado’s award-winning online service. Over 750 new M&S Food products were created for the launch to offer customers a bigger, better range at the same or even better value. Ocado Retail can currently reach over 74% of British households and is making significant investment to expand capacity, which will increase by c.50% over 18 months and much further beyond.
OUR STRATEGIC PRIORITIES

The aim of our transformation is to restore the business to sustainable, profitable growth and make M&S special once again. This objective remains unchanged. This year, under our Never the Same Again programme, we have accelerated the parts of our transformation necessary to increase our relevance in a changed consumer landscape. As a result of the action taken, a substantially reshaped M&S is emerging from the pandemic.

Within the chapters of this report, we set out our strategic priorities for the year ahead, as follows:

1. A strong Food business positioned for growth
   - p10
2. A successful transition to M&S product on Ocado Retail and growing capacity
   - p14
3. An omni-channel Clothing & Home business driven by a re-shaped product engine
   - p16
4. Accelerated rotation of the Store Estate
   - p24
5. An International business focused on major partnerships and online
   - p22
MARKET CONTEXT

2020/21 has been a year beyond comparison for retailers globally. The impact of the pandemic on the sector, with three UK-wide lockdowns and restrictions on non-essential retail around the world during most of the year, has been profound and led to radical shifts in how, where and what customers shopped.

Following the first ever decline recorded for retail sales in 2019, total retail sales in 2020 contracted a further 0.3% year on year, the worst year on record according to the BRC/KPMG Retail Sales Monitor. This continued into the early months of 2021 as the impact of the UK’s national lockdown continued to be felt. In contrast, 2020 was also the year where online shopping boomed, with online retail sales experiencing five years’ worth of growth in just one year, as customers across all demographics turned to digital channels to make purchases.

FOOD

What customers bought
The impact of lockdowns led to marked shifts in which categories customers were buying into. With local restrictions in place and more time spent at home, hospitality and our convenience categories such as Food on the move and prepared meals declined. Customers instead turned to scratch cooking, and we saw increases in our core categories such as meat, fish and poultry in comparison to last year, as well as grocery and household items, with this shift best illustrated in the tables below. The adversely impacted categories together accounted for around a third of prior year sales. We reset our ranges in stores to adapt to this and played to our events strengths across Easter and Christmas during the year in order to maintain a relevant offer, helping to also offset the loss of convenience trade.

<table>
<thead>
<tr>
<th>Category</th>
<th>% change to 19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat, fish, poultry, deli</td>
<td>+13</td>
</tr>
<tr>
<td>Produce &amp; flowers</td>
<td>+8</td>
</tr>
<tr>
<td>Beers, wines, spirits</td>
<td>+25</td>
</tr>
<tr>
<td>Grocery &amp; household</td>
<td>+27</td>
</tr>
<tr>
<td>Frozen</td>
<td>+36</td>
</tr>
<tr>
<td>Total</td>
<td>+15</td>
</tr>
</tbody>
</table>

Where customers shopped
Online continued to be the fastest growing channel in the market with 87% year on year growth versus 5% decline in stores, as more customers turned to home deliveries as lockdowns came in to force, resulting in declining footfall in stores particularly in city centres. Our partnership with Ocado launched M&S Food online for the first time in September and positioned the business strongly for growth (as outlined in more detail on page 14).

CLOTHING & HOME

What customers bought
Demand across categories was polarised as customers increased time at home off the back of the pandemic restrictions, with declines in formal and holiday clothing, and customers instead buying into casual clothing, kidswear and Home, with these changes in customer trends versus last year illustrated in the tables below. Categories in the right-hand table below accounted for c.18% of prior year sales. Our Goodmove activewear range performed strongly off the back of this and our recent shift to a more contemporary product offering across our ranges positions the business well as more casual trends become established long term.

<table>
<thead>
<tr>
<th>Category</th>
<th>% change to 19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casual</td>
<td>-56</td>
</tr>
<tr>
<td>Kids</td>
<td>-43</td>
</tr>
<tr>
<td>Lingerie &amp; men’s essentials</td>
<td>-54</td>
</tr>
<tr>
<td>Home &amp; beauty</td>
<td>-47</td>
</tr>
<tr>
<td>Total</td>
<td>-51</td>
</tr>
</tbody>
</table>

Where customers shopped
Online saw a step change in growth by 56.1 percentage points to account for 58.9% share of total clothing sales across the market vs 29.9% last year, and supermarkets continued to make headway through stores growing share by 13.2 percentage points on last year to account for 26.8% of store sales. The actions we took to improve M&S.com under our Never the Same Again programme, alongside the launch of MS2 this year, helped us capture increased online demand from customers with our reshaped business set to enable more customers to shop with ease across all channels (as detailed on page 20).
BUSINESS MODEL

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

OUR CUSTOMERS

M&S serves nearly 30 million customers every year from across the UK. Our Food, Clothing & Home and other retail businesses are focused on developing products and services to make us more relevant, more often to our customers and beyond, who we reach through a channel network of 1,509 stores and online services in the UK and across over 100 international markets.

OUR COLLEAGUES

We employ c.70,000 colleagues across our stores, support centres, logistics operations and international teams, who demonstrate extraordinary passion for the business, deliver outstanding customer service and bring extensive technical skills and expertise in areas such as sourcing, fit and product development.

A FAMILY OF ACCOUNTABLE BUSINESSES

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

THE GROUP

Our central team includes Group Finance, Corporate Governance, Strategy and support functions such as Communications and Human Resources. The Group supports the business as a whole, setting direction of its growth strategy, allocation of capital and overseeing cost efficiencies.

OCADO

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

MS2

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

**FOOD**

**Financial highlights**

£6.0bn  
UK Food revenue  
-0.6%  

£213.6m  
Operating profit before adjusting items  
-9.8%  

**Market fresh**

Our Fresh Market Update campaign celebrated the efforts our Select Farm partners – including Scottish salmon farmer Sarah Last (pictured) – take to bring M&S customers great value, sustainable food. By building long-term trusted partnerships with our suppliers, we deliver exceptional-quality fresh produce and meat.
PERFORMANCE

The action taken over the last two and a half years to broaden the appeal of M&S Food meant we entered the crisis with momentum, growing ahead of the market and with the reshaping of the business well under way. However, our strong market position in convenience categories and hospitality, and substantial presence in city centre, travel and shopping centre locations meant the business was impacted by recurring Covid-19 restrictions as shopping habits changed. With ‘stay at home’ orders in place, there was a shift away from these formats to larger out-of-town retail parks, meaning we saw more customers doing fewer, but fuller shops at M&S. Lockdown conditions saw customers switch from popular convenience ranges, such as ready meals and Food on the move, and enjoy more scratch cooking at home.

In the face of these Covid-19 headwinds, M&S Food delivered a strong underlying performance, with LFL growth of 6.9% when adjusted for the closure of hospitality and the adverse impact on our travel franchise business. Our operating profit before adjusting items of £213.6m reflects the negative impact on our product mix alongside the suspension of hospitality and the Covid-related costs to secure our operations, only partially offset by cost saving programmes and government support, as our colleagues worked hard to play their part in feeding the nation throughout the pandemic.

The good underlying LFL growth was delivered in the face of further additional headwinds, including the exposure to office and shopping centre locations. Unlike some competitors, M&S Food reported sales do not benefit from a direct online grocery presence, with online sales of M&S product instead reported through Ocado Retail. The strong growth and exceptional contribution made by Ocado Retail in the first full year of our partnership is set out on page 14.

The resilient performance is a result of the progress made against our transformation plan during and prior to the pandemic coupled with the incredible efforts of our colleagues and trusted supplier partners to respond swiftly to customers’ changing needs and behaviours.

As customers shifted away from convenience, we dedicated more space towards the core grocery products our customers were now searching for, resulting in sales increases on last year. This action, combined with the significant overhaul of our ranges and value position already in train, progressively offset the loss of convenience trade.

In the absence of a direct online grocery offer, the team responded quickly to make our ranges more accessible to shielding customers through temporary partnerships with delivery firms and added capacity and new ranges such as two ambient essentials boxes to our gifting on M&S.com in response to sustained demand.

Dine-ins

Special event ranges offered our customers the chance to celebrate in style while staying at home. Our special Valentine’s Day Dine In featured the Love Linguine and heart-shaped Churros.

Trick or treats

Identifying opportunities and trading hard in smaller events, including Halloween, drove a strong performance in our Food business.

Like-for-like sales performance improved in the face of Covid-19 headwinds.

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>+1.3%</td>
</tr>
<tr>
<td>19/20</td>
<td>+1.9%</td>
</tr>
</tbody>
</table>

Availability

We continued our drive to improve availability and reduce waste through the Vangarde programme, designed to improve the running of our stores.

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>95.5%</td>
</tr>
<tr>
<td>19/20</td>
<td>93.3%</td>
</tr>
</tbody>
</table>

Quality perception

The proportion of customers who rated us highly on quality. Our food strategy of “protect the magic” includes maintaining the quality our food products are famous for.

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>88% (19/20: 86%)</td>
</tr>
</tbody>
</table>

Value for money perception

The proportion of customers who rated us highly on value for money. Our relaunched Remarkable range of trusted value, high-quality products now accounts for 10% of sales.

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>67% (19/20: 63%)</td>
</tr>
</tbody>
</table>

These figures are reported on a 52-week basis.
As customers celebrated events at home, we played to our strengths in special occasions. We had a good Christmas and a very strong Easter, which fell into the 53rd week of the year. Alongside award-winning great-value seasonal ranges, we offered more relevant innovation – making our special event ranges more accessible, such as extending Plant Kitchen, and introducing 30 products at Christmas which drove sales up 55% on the previous year. We also identified opportunities in smaller events, including Halloween and Burns Night, where we have historically under-traded and delivered 22% sales growth on last year in stores.

As families spent more time together, we provided more reasons to shop at M&S with the relaunch of the popular Dine In, including a family of four offer for £15. The new family offer is rotated with a different monthly theme, such as Italian, providing a great platform to show our new innovations and larger family pack sizes.

### Remarksable Value

In August 2020, we relaunched our Remarksable Range – as a way of talking to customers about trusted value, with a promise to never compromise our quality or sourcing standards. Our TV campaign aimed to shift the dial on value perception, by reassuring customers they can shop with us for those everyday essentials found in their fridge, freezer and cupboards – showcasing products such as our sliced bread with added fibre and vitamin D for 65p and RSPCA assured milk for 85p.

Our Remarksable Value offer now consists of over 340 products and accounts for c.10% of volumes.
Food on the move: Despite the impact in office locations during Covid, we expect our sales in Food on the move to recover over time with further opportunities for growth through new channels to market. In addition, the M&S café offer has now been refreshed and simplified and this year will implement modern quick to serve menus, which are lower touch to prepare.

Upgraded systems: High waste and low availability in some instances reflect a cumbersome and under-invested supply chain and high touch forecasting and range management systems. We are now commencing a programme to upgrade core systems to reduce manual interventions and improve efficiency. Most importantly, we are updating forecasting and ordering technology with an objective of reducing waste by more than 10%. In addition, we are replacing the space and range and display system, improving the tailoring of ranges to store.

Rolling out supply chain improvements: The Vangarde programme is now operating in c.350 stores served by five depots, with sales uplifts from the first depot at over 3%, compared with control stores, partly as a result of improved availability. We will be rolling this out to the full estate over the rest of this year.

A new ambient distribution centre: To support growth of ambient ranges and enable customers to do a fuller shop, we made a further investment in supply chain capacity, opening a depot in Milton Keynes. This enabled growth of 13% in ambient sales over the Christmas peak, with the next phase of capacity planned for 2021/22.

Lower cost to operate: We have now delivered over £180m of cost of goods savings over the past two years to help mitigate inflation and enable the investment in trusted value. This includes optimising volume with strategic suppliers, reducing packaging costs and re-specifying ingredients.

LOOK AHEAD

M&S Food is well positioned to recover momentum, especially as the travel, hospitality and the convenience sectors begin to return. Our commitment to ‘protect the magic’ and modernise the rest – coupled with the accelerated actions taken under the Never the Same Again programme – mean M&S Food is set up for the future.
PERFORMANCE

Over the 52 weeks ended 28th February 2021, Ocado Retail delivered 43.7% revenue growth and contributed a share of net income of £78.4m.

This financial year reflects a truly extraordinary period for the online grocery market, and Ocado Retail performed strongly: Higher than normal basket size and a smoothed trading profile across the week, together with reduced marketing costs, delivered a strong improvement in profitability. The result included insurance receipts related to business interruption at the Andover customer fulfilment centre (“CFC”).

Within the year, September marked a milestone in our transformation, as the M&S Food range was made available online for the first time. The launch has brought together M&S’ market-leading quality food and Ocado’s award-winning service and given us a new platform to demonstrate the breadth and value of our range to new family customers and leverage our buying scale, through volume growth.

Ahead of the launch, the two businesses spent 12 months working closely together in preparation, resulting in a seamless switchover. M&S Food worked closely with Ocado Retail to create a “one business” mentality, setting common operating procedures and business plans, and sharing talent. Ocado customers were introduced to a bigger, better range at even better value as M&S matched and improved on the approximately 4,000 Waitrose products with an extended range of M&S products (see opposite). Over 6,000 M&S Food lines and over 800 Clothing & Home lines launched on 1st September 2020 – including school uniform and other quality staples.

The customer response has been positive and M&S ranges consistently account for over c.25% of the average Ocado basket and around half of Ocado fresh category sales. The most popular products reflect our investment in everyday value and broader range, with our Remarksable Value range staples like super soft bread and British semi-skimmed milk topping customers’ shopping lists.

The partnership supports our cost saving programme and the increased volumes sold through the Ocado switchover, generating over £20m of synergies in the year.
OCADO RETAIL BRINGING MULTI-CHANNEL TO M&S FOOD

The investment in 50% of Ocado Retail Limited ("ORL"), combined with the successful switchover to M&S own brand positions the business for a multi-channel offer working closely with our Ocado Group partners. The next stage is to aggressively grow capacity and to create further opportunities for both joint venture partners.

We have begun to explore opportunities for further collaboration across new product development, data and joint sourcing.

Over the next 18 months, Ocado Retail is investing in a 50% increase in peak day capacity, which will help meet unfulfilled demand. In March this year, a new mini CFC was opened in Bristol and Ocado Retail will also open two larger CFCs in Purfleet and Andover later in the year. These CFCs alone will provide an eventual 40% increase in sales capacity at full utilisation.

Further investments to increase the reach of the business into parts of the UK that Ocado Retail does not currently serve fully are likely in the months ahead. In addition, it plans to open more than 12 Zoom sites expanding its immediacy proposition across London and major UK cities.

We have a strong programme of capacity growth at Ocado Retail although we expect some normalisation of shape of week with respect to its economics.

In addition, Ocado Retail has already announced plans which will increase peak day capacity and has a structurally profitable long-term model for growth.

M&S and Ocado: Bringing the best together

Last summer, we officially welcomed Ocado into the M&S family. Our aim was to create the UK’s best online grocer by bringing the best together: Ocado’s market leading service with our delicious quality food range.

While the launch marked the beginning of our long term partnership, it was also an opportunity to show customers the full range of M&S products so they can see that we are serious about value whilst still maintaining our high standards.

As more families shop for M&S products online and reappraise our range, they will find that delicious, great quality M&S Food costs less than they think.

Penetration of M&S products on Ocado

<table>
<thead>
<tr>
<th>Month</th>
<th>24%</th>
<th>26%</th>
<th>28%</th>
<th>30%</th>
<th>32%</th>
<th>34%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept</td>
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<td>Oct</td>
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Exceptional growth

Revenue growth over the 52 weeks ended 28 February 2021

£78.4m

Share of net income

43.7%
CLOTHING & HOME

PERFORMANCE

In recent years before the impact of the pandemic, we had set out a pathway to reversing the decline of our Clothing & Home (C&H) business. We set out to build a confident Clothing business which would offer modern, contemporary stylish products of great quality and value. But to achieve this, we needed to:

- Restore our style and value credentials and broaden our appeal.
- Reduce our range and option counts.
- Back our bestsellers and increase high-volume wardrobe staples in our market-leading categories.
- Modernise our end-to-end supply chain.
- Build to one-third of sales online by 2022.

Going into Covid-19, we were seeing the early green shoots of work done to reset categories. However, the impact of Covid-19 across the total market has been profound, which is best illustrated in the decline in customer spend (with 590m fewer items purchased in 2019 vs 2020).

As reported at the half year, the dependence on stores in high streets, shopping centres and city centres created an extra drag on store sales performance, and many customers shifted their spend online instead. This store location headwind was combined with an adverse move in sales mix towards casual clothing and away from formal and occasion wear, markets in which M&S has strong shares. Kids and Home outperformed but not sufficiently to offset the demand mix.

In response to the initial impact of Covid-19, the team took swift and decisive action to mitigate the immediate effect on the business and adapt to the longer-term impacts:

- **Sold through and managed excess stock:** Stringent action to reduce or postpone orders together with measures to hibernate a small amount of stock after strong sell-through rates resulted in a relatively clean stock position by the end of the year.

- **Adapted our services and space:** Took action to accelerate online growth and adapted to the on-off restrictions across the UK ensuring that our clothing space and services traded in line with government guidance and enabled our customers to shop with confidence.

- **Responded to pandemic-driven product choices:** Boosted our product offer and quickly responded to changing customer trends by working collaboratively with our sourcing offices and suppliers. By improving efficiency and reducing duplication of work we were able to turn around products like our ‘casual comforts’ range from Turkey in 12 weeks.

The C&H result for the year is a reflection of this, with lockdowns, sharp changes in trends and purchasing behaviours, and our priority of clearing stock; partially offset by very strong growth in our online business of 53.9%.

Losses substantially reduced in the second half as the actions we took to accelerate online growth partly compensated for losses in store. Overall, online had strong profitability, with an operating margin of c.14%, for the year.

As a result, total revenue declined 31.5% and we recorded an operating loss before adjusting items of £129.4m (19/20 Profit of £223.9m).

Financial highlights

| **£2.2bn** | -31.5% |
| **UK Clothing & Home revenue** |
| **£(129.4)m** | -157.8% |
| **Operating loss before adjusting items** |
Brands at M&S

We’ve adapted our Clothing business to be more relevant more often to customers, by unveiling our Brands at M&S offer. It includes exclusive collaborations from contemporary womenswear brands Ghost (pictured), Finery and other adjacent third party brands.
A RESHAPED AND INCREASINGLY OMNI‑CHANNEL CLOTHING & HOME BUSINESS

Our objective is to deliver an omni-channel Clothing & Home business in the UK, backed by exceptional data and highly personalised customer relationships. All channels will be driven by a ‘product engine’ providing a more contemporary focused M&S range bought in greater depth alongside a family of internal and external partner brands with distinctive appeal to our customers.

A strengthened Clothing & Home ‘product engine’: M&S own-brand product, with contemporary design and sustainable sourcing, is our competitive advantage. Over the last three years, we have substantially reshaped our ranges, reducing option count, increasing depth of buy on core lines – we have made the big, bigger – such as our denim business which continues to go from strength to strength. By Autumn 2021 total option count is expected to be c.25% lower than 2018 with the team implementing new range management tools to maximise rate of sale of each option. We continue to focus on relevancy by responding to customer trends. For example the launch of the Goodmove activewear range in January 2020 delivered an exceptional performance over the past year (+40%) and a number one market share in full-price sales in its category. As a result of the work done, we have seen improvements in customer perceptions of style incorporating more contemporary fit and styling.

Launched MS2: In November, we announced the launch of MS2 which has brought together our digital, data and online teams to shift the focus of the business from a conventional model where M&S.com was run as an extension of stores, to prioritising online first. The actions taken alongside the rise in customers looking to shop online through the pandemic resulted in a strong online performance, as outlined in more detail over the next page. We also looked to drive the relevance of M&S by giving our customers more reasons to shop on M&S.com through the launch of a curated range of complementary third-party brands on our website for the first time, as seen here in our case study opposite.

Distribution networks to support online demand: We had already invested to simplify our distribution network and grow capacity at Castle Donington. As customer demand spiked, we supported this by permanently increasing our colleague numbers from the summer, as well by recruiting for peak with an increase of 1,000 colleagues for Christmas 2020 vs Christmas 2019. We also grew our in-store pick operation from c.80 stores to over 200 stores at our peak, and permanently expanded our Bradford distribution centre to support increased online demand, underpinned by cost-efficient automation across the site, helping to boost efficient and dispatch capacity. This will enable us to postpone the investment in a new fulfillment centre for 2-3 years.

LOOK AHEAD

Our Clothing business is well placed as we start to emerge from the pandemic, in part due to the strong steps taken under Never the Same Again to revitalise our Clothing & Home product offering.

Over the last three years, huge strides have been made in reshaping the ranges around new trading principles, most notably to buy fewer lines in greater depth from fewer strategic suppliers. The extent of the shift in range has been obscured by Covid-19 and the related trading turmoil but we believe there is a marked underlying improvement in style, shape of buy, and value, which combined with our expanded online capabilities is helping to broaden our appeal.

STRATEGIC KEY PERFORMANCE INDICATORS

<table>
<thead>
<tr>
<th>Like-for-like sales</th>
<th>Quality perception</th>
<th>Value for money perception</th>
<th>Clothing &amp; Home space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like-for-like sales reflect the impact on store sales of lockdowns and restrictions throughout the year. However, performance improved through the year as the online business built momentum.</td>
<td>The proportion of customers who rated us highly on quality. Our reshaped Clothing &amp; Home product engine is providing a more contemporary focused M&amp;S range.</td>
<td>The proportion of customers who rated us highly on value for money. We are accelerating our move towards trusted value for customers.</td>
<td>We are focused on accelerating the reshape of our store estate for customers.</td>
</tr>
<tr>
<td>-29.8% (-29.8%)</td>
<td>80% (19/20: 79%)</td>
<td>64% (19/20: 67%)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>19/20</td>
<td>20/21</td>
<td>10.4m sq ft</td>
<td>10.3m sq ft</td>
</tr>
</tbody>
</table>

These figures are reported on a 52-week basis.

Marks and Spencer Group plc
Seasalt

Womenswear brand
Seasalt was one of the first wave of guest brands to launch online at M&S.com in spring 2021, alongside Hobbs, Joules, Sosandar and White Stuff.

Following an initial phase of wardrobe replenishment later this year, we expect there to be a permanent shift in demand, including a reduction in formalwear and tailoring.

With that, we have shifted to focus on growth categories, such as the ‘new’ office wear, kids, casual ranges and the Goodmove activewear range.

The emergence of platforms and the increasing cost of online customer acquisition for smaller retailers creates an opportunity for M&S to leverage its customer base, infrastructure and Sparks to partner with guest brands on the M&S platform. We can offer time-pressured customers a curated group of value for money, contemporary, stylish brands with sustainability credentials.

This work is being led by a stronger team under Richard Price. New additions include Heidi Woodhouse (joined in July to run Home) and Fiona Lambert (joined in February as MD of Jaeger). Anna Braithwaite will join shortly as Director of Marketing, with changing brand perception an important part of setting ourselves up for the future with energy, confidence and style.

Brands at M&S

Last year, we announced we would add complementary and curated guest brands to M&S.com for the first time, offering our customers more reasons to browse and buy on the platform. Our first brand, Nobody’s Child, launched in October and the sustainability minded offer has stretched appeal with nearly 10% of purchasers new to M&S Womenswear. To date, we have launched 21 brands under owned, wholesale, consignment or collaboration models – such as our three drops of the exclusive Ghost x M&S range. Popular brands have included Elle Junior for Kidswear and Seasalt Cornwall and Sosander for Womenswear. These brands complement our own ranges and in-house brands (Autograph, Goodmove & Per Una), with each brand offering a curated range for M&S.com. Initial results from the brands launched have been encouraging; for instance, the top 10 lines in the dress collaboration with Finery sold strongly after just one week of trading.

As part of our brand strategy, in January we purchased much-loved heritage brand Jaeger for £6m and work is now well under way to reimagine the brand. We have made product we purchased from the sale of Jaeger available to buy on M&S.com and in selected outlet stores – the first capsule collection under the new in-house team will be available from Autumn/Winter 2021. The team is focused on protecting the independence and heritage of the brand for customers by creating product that is unique, stylish and has tangible quality, and leveraging M&S’s reach, infrastructure and scale to achieve efficiencies.
At our Half Year Results, we announced the creation of MS2 to prioritise online growth, bringing together our data and online teams.

Growth in the past year means Clothing & Home now has a base of over 9m active online customers making it one of the largest platforms in the UK. With that, we have an objective to achieve in excess of 40% of Clothing & Home revenue through MS2 in three years’ time.

The MS2 plan focuses on three core objectives:

**Improving the online offer:** Our priority is to increase availability in the online channel from historic levels of 80% in recent years introducing additional online only ranges, recognising the different rate of sale across channels, trialling “test and repeat” products. Given that around one-third of the M&S range is year-round product, we will also expand bestseller and never out of stock programmes.

Combined with a curated range of third-party brands, we expect a substantial improvement in the online offer in the coming year.

**Creating a digital-led customer experience:** Recognising that a mobile-led customer experience is central to online success, we have increased investment in optimising the site for mobile and growing the M&S app, which generated over 3.5m downloads last year as we relaunched Sparks. In addition, within the app we have built digital services such as scan and shop to pay by phone and video-powered retail services such as bra fit, beauty and furniture sales.

To support the programmes of change and deliver rewarding and convenient experiences with M&S for customers, M&S Bank, which is hosted by HSBC, announced the transformation of its product and service offering to create a digitally enabled and uniquely rewarding shopping and payment experience for M&S customers.

**Relaunching our Sparks loyalty programme**

The purpose is not to drive often unwanted promotions to large groups of customers, but to make their shopping easier by reflecting their personal requirements in the products and sizes we offer, when and where they need them.

The relaunched Sparks enables M&S to build on recent investment in data science to create a more personalised relationship with members as opposed to the traditional model of targeted promotions.

Combined with a curated range of third-party brands, we expect a substantial improvement in the online offer in the coming year.
Due to launch in the summer, this will include a new reward credit card offering and a digital payment solution for M&S’ growing Sparks customer base. This repositioning will offer customers a number of new ways to pay, while delivering personalised and rewarding experiences with M&S at the same time.

Maximising M&S’s omni-channel advantage: Unlike pure play retailers, M&S has an advantage in its store network which provides an opportunity for rapid collection and returns and drives incremental in-store sales. Investment in Castle Donington, expansion of our site at Bradford and the repurposing of the Thorncliffe warehouse means that M&S has sufficient capacity for online deliveries for the next 2-3 years.

Building on the success of our “buy online ship from store” (BOSS) for fulfilment from store stock, we are investing in technology improvements to enable a low-cost rapid click and collect offer from store stock within hours. In addition as part of the omni-channel strategy, we have launched five “10x” stores. In these stores, we are targeting a substantial increase in the use of digital services, such as contactless click and collect and returns and digital payment and specific benefits for Sparks members.

Through MS2 and the outlined programmes of change, M&S is enabling more customers to shop their way, following the radical shift in purchasing behaviours seen in the last year, and is well positioned for further online growth as a result. Given this, we are targeting in excess of 40% of Clothing & Home revenue online in three years.

The creation of the MS2 division brings together our data and online teams to focus on creating a best-in-class online offer.

Strategic Key Performance Indicators

50.5% (19/20: 22.5%)
Percentage of UK Clothing & Home sales online

13.5m +40%
Traffic (visits per week)

51 (19/20: 57)
M&S.com net promoter score¹

¹ Net promoter score (NPS) equals percentage of promoters minus the percentage of detractors.
Our International business is doubling down on digital growth by modernising our operations, digitising our support for partners, and driving growth online through MS2.

**Highlights**

- £45.1m Operating profit before adjusting items
- 85 Net promoter score
- 103 International websites
PERFORMANCE
Previously, we have outlined the decisive actions our International business has taken to reshape itself: exiting loss-making markets, working with and supporting select partners in large markets with growth opportunities, and building our online international sales channels for customers.

After the initial onset of the pandemic in the final months of our 2019/20 financial year, last year we outlined the first actions taken which would be the basis for the year ahead in responding to the pandemic including: flexing our support for partners, optimising online channels and relevant product for customers and upskilling colleagues where needed. This resulted in:

- An ongoing flexible support model for partners in key markets – with key examples including partners having the facility to call off stock regularly rather than receiving infrequent shipments, or buy the relevant product for their customers through our remote buying fairs.
- Expanding our dedicated international e-commerce platform resulting in one adaptable website which we can localise and tailor to different markets and make it relevant and compelling for local customers.

Overall, International sales for the year reflected the pandemic impact and local restrictions across our owned and partner markets, offset by the strong switch to online sales from customers.

Clothing & Home sales declined 21.6% at constant currency, largely driven by lower store sales in the Republic of Ireland and working with partners to manage the effects of the pandemic in their markets partly offset by online sales which more than doubled.

Food sales were more resilient, particularly in the Middle East and Asia as Covid-19 disruption changed customer demand to favour eating in. This helped to offset a weaker performance in travel franchise sales in Europe and disruption from Brexit in quarter four.

Operating profit before adjusting items of £45.1m reflects in large part the lower sales in Europe and disruption from Brexit.

In quarter four, clothing & home sales declined 21.6% at constant currency, largely driven by lower store sales in the Republic of Ireland and working with partners to manage the effects of the pandemic in their markets partly offset by online sales which more than doubled.

Based on the strong online performance this year, we have an ambition to more than double International online retail sales. This will be delivered by investing in digital marketing, expanding our presence on major marketplaces such as Zalando, and entering into new markets such as the 46 countries announced in March. As the business scales up, we expect to build local warehouse and fulfillment capacity to drive more rapid customer service and to lower costs.

We are also modernising operations and digitising our trading interface for partners. This includes:

- Launching a fully “digital showroom”. This transforms partners’ ability to create curated ranges relevant to their markets and plan floors, windows and campaign without the cumbersome and costly buying fairs previously held.
- Driving faster rotation of the store estate with new digitally enabled stores. This includes a first “10x” trial, offering partners omni-channel innovations such as fitting room assistance, self-checkout and QR codes to access online ranges.
- Creating a UK hub for export at Hemel Hempstead. This avoids the need for International stock to enter the UK network where it is broken down for needless storage and keeps product consolidated for onward shipment. In addition, partners can continue to call off stock regularly and have flexibility in receiving shipments.

LOOK AHEAD
Alongside the continuing uncertainty around the impact of the pandemic on all our International markets and our ongoing response, Brexit will be a major focus for the business.

The full cost implications are outlined in the Financial Review, but for our International business the most challenging effect of the Brexit deal is to make the supply of fresh and chilled product, especially prepared food, into the EU very lengthy and bureaucratic creating an enduring impact on availability and trading costs.

This situation is unlikely to improve in the near term and we therefore need to reconfigure trading with our EU businesses.

The most significant impact is on our Food operations in the island of Ireland and we are implementing multiple medium-term solutions to stabilise the business both in the North and the Republic. We have already modified food export into the Czech Republic and are working with our partners in France to review the model.

While these operations are relatively small in the context of the Group, changes to our EU businesses as a result of Brexit related costs may result in future restructuring charges.

Expanding our international online business

As part of our focus to turbocharge our online business under our Never the Same Again programme, in March this year we launched 46 international flagship websites in new markets, instantly expanding our online reach to over 100 countries and enabling millions more customers to purchase M&S products online.
We’re pressing fast forward on our plans to fully modernise our store estate and ensure our bricks-and-mortar presence is fighting fit for the future.

PERFORMANCE
Prior to the pandemic, we had outlined the challenges we faced with an underinvested and ageing store estate, which needed to be modernised to be fit for the future through:
- A store rotation programme.
- Redeveloping sites to unlock additional value and make the most of our space across the estate.
- Trialling new store formats.

Last year, in the face of the initial impact of Covid-19, we made it clear that establishing a store estate that could support the rapidly changing behaviours of our customers in terms of how and where they were choosing to shop was a key part of our transformation.

Since then, we have seen that a continued headwind to M&S brand perception and performance continues to be the legacy estate of full-line stores (selling both Clothing & Home and Food), often in declining locations or centres, with inefficient space which is difficult to shop and costly to replenish. We have closed or relocated 59 full-line stores overall, 16 Food stores and 8 outlets but the effect of the pandemic means we can move faster.

There has rarely been a better time to acquire new replacement space on good terms and we have approved 17 new or expanded full-line stores to open over the next two years, including a number of Debenhams stores, with the pipeline continuing to grow.

While long leases have historically constrained our ability to rotate, we plan to largely fund the future closure costs through the redevelopment of freehold and long leasehold properties.

ACCELERATING ROTATION OF THE STORE ESTATE

M&S had 254 full-line stores at year end. While practically all Clothing & Home departments in these stores contribute positive cash, a number are in long-term decline, struggle to cover their allocated central costs as a percentage of sales and cannot justify future investment.

Our objective for the full-line estate is to achieve a fully modernised core of c.180 stores. Our current best view of the future, based on stress tests, regional modelling, and current retail and efficiency requirements, is as follows:
- Around 100 stores in prime retail markets growing from the current base of c.80. In these markets we will invest in renewal, redevelopment or replacement of existing stores.
- Around 80 stores in core markets, growing from the current base of c.65 stores through investments such as the relocation of high street units to retail parks.
- In c.110 remaining, locations we will rotate the estate. This will mean either relocating to a Food only store or another full-line store as above, or consolidating multiple stores into one. In around 30 locations which can no longer support a store we will close, recapturing trade in nearby stores or online.

The overall benefit of well-located space is illustrated by the profitability metrics of each group shown right. The average Clothing & Home cash contribution margin in 2019/20 of prime leasehold stores was 25% of sales or £3.0m per store. This represents a higher percentage margin and more than 3x the average cash contribution per store of those out of which we plan to rotate.

<table>
<thead>
<tr>
<th>Store Grouping</th>
<th>C&amp;H cash contribution margin</th>
<th>Average cash contribution £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime stores</td>
<td>25.4%</td>
<td>3.0</td>
</tr>
<tr>
<td>Core stores</td>
<td>23.4%</td>
<td>1.3</td>
</tr>
<tr>
<td>Rotation stores</td>
<td>18.5%</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22.5%</strong></td>
<td><strong>1.4</strong></td>
</tr>
</tbody>
</table>

The financial benefits of rotation are compelling, for instance the table below illustrates the benefit of consolidating Northampton and Kettering stores into one at Rushden Lakes Retail Park prior to the pandemic. The previous stores were ageing, with sales in decline and no investment case to bring them up to modern standards. The new retail park, built between the two towns incorporates shopping, dining and leisure facilities on a site with good access and car parking. The disposal of the freehold of one store, helped to fund the closure and the lease costs of the remaining term of the other. The new store has generated a substantial uplift in cash profit and LFL sales were in growth pre-Covid. The net investment cost of the new store was just £2.1m resulting in a strong payback on the net capital invested.

<table>
<thead>
<tr>
<th>Store Grouping</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kettering closure</td>
<td>Sales</td>
</tr>
<tr>
<td></td>
<td>14.3</td>
</tr>
<tr>
<td>Northampton closure</td>
<td>Sales</td>
</tr>
<tr>
<td></td>
<td>24.2</td>
</tr>
<tr>
<td>Rushden Lakes</td>
<td>Sales</td>
</tr>
<tr>
<td></td>
<td>39.0</td>
</tr>
</tbody>
</table>

LOOK AHEAD
To reduce investment risk and maximise returns to shareholders we have set a target payback for relocations including recapture of less than 4 years, with standard lease terms of 10 years.
Returns outside of these parameters are considered where they enable an exit of long-term liability or in exceptional locations. We will work with landlords to negotiate appropriate terms at exit and repurpose or develop space. However in some cases it will be more economic and brand enhancing to have a vacant store rather than lose the opportunity to move to a better location.

Reflecting this at year end, further costs of c.£268m are estimated over the life of the programme, including for accelerated depreciation and impairment. When combined with the operational costs of closure, we currently expect to incur total cash costs of c.£260m over this period.

To fund the programme, we have a number of freehold and long leasehold properties which offer an opportunity to release cash from development. This includes our Marble Arch proposal (outlined in our case study on the right) and additional stores including a number for residential development. These properties tend to be in locations where land values for alternative use are higher than for existing use. We have an objective to release at least £200m from these projects.

While we acknowledge that the turbulence of the past year means uncertainty remains, we are currently forecasting for a gradual return to more normal customer behaviour, underlining the importance of reshaping our store estate to enable our customers to shop their way with M&S.

### Rewards of Marble Arch

As part of our efforts to emerge stronger from the pandemic under our Never the Same Again programme, in March we announced a proposal to redevelop our flagship store on Oxford Street – Marble Arch. First opened in 1930, the building has been expanded and altered many times and as a result, despite being a much loved store, today offers an inefficient and confusing experience for customers.

M&S is in the unique position where 40% of our owned space is freehold or long leasehold enabling us to unlock value and fund our rotation of the estate through a programme of redevelopment and alternative use of space. These largely arise in locations where the rental cost of the existing store is below the cost for alternative use such as office or residential space – such as in the case of Marble Arch.

The redevelopment of the store will see M&S work with partners in creating a new building which combines a modernised M&S store offering a full range of trusted value products across the bottom three levels, while repurposing the upper levels to offer best in class, Prime Grade A sustainable office space, where we anticipate a rebound in demand in the coming years.
OUR PEOPLE & CULTURE

The M&S family has been at its best during the myriad of challenges presented by the pandemic. Our colleagues reacted to difficulty and uncertainty with pace, resilience and innovation.
Prior to the pandemic, we outlined how we were seeking to establish a culture that would draw on the foundations on which M&S was built and apply them in a modern setting, to build a renewed and reinvigorated workplace. Our aim was to create the most engaging, involving place to work in UK retail, with a fast-moving, empowered organisation and flat structure.

Over the past year, some of what we are aiming to achieve has been accelerated and our colleagues have shown M&S at its best. With a focus on cost and clarity of purpose, colleagues have been adaptable, resilient, pacey, less hierarchical, commercially minded and innovative, all in service of doing what’s right for our customers. At the same time, the way colleagues have supported each other, and the engagement from leadership with the front line, has rekindled the feeling of being part of the M&S family.

To embed these changes, and in recognition of the critical role our people have in our transformation, the executive team took direct accountability for our People Plan to drive real ownership and delivery as part of our Never the Same Again programme.

Our People Plan has six key aims:

1. Transforming our organisational design to drive ownership, pace and commerciality.
2. Becoming a data enabled and digitally focused business.
3. Creating empowered, responsive and commercial leaders who are close to the front line.
4. Putting the voice of the stores back at the core of the business.
5. Creating a culture of plain speaking; data driven and focused on performance.
6. Moving away from hierarchy to an involving, engaging culture where everyone has a voice and can get on.

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

The crisis has enabled M&S to adapt and modernise, and we have built on the previous work to devolve accountability to each of the family of parallel businesses under our Never the Same Again programme this year. Radical changes have been made to our business in order to best serve our customers and support our long-term transformation.

2. Becoming a data enabled and digitally focused business

In August, the Group announced a programme to streamline its store operations, regional management structures and support centres. This included:
- A new retail management structure that reduced management layers and removed duplication through better use of technology and insight and enabled more time on the shop floor. All store manager offices have been opened up to symbolise this shift, and each store manager is now fully accountable to drive customer service, deliver their P&L, lead their team and manage performance, as well as maintaining store standards.
- A substantial restructuring and store cost reduction programme, which introduced new, more flexible working for store teams across departments, and a shift in focus and time to front of house customer service rather than backstage.

For our support centre colleagues, an M&S Flexible Framework has been put in place, moving to more dynamic arrangements rather than permanently office-based. The framework devolves accountability to colleagues and line managers to decide where and how they do their best work. This means spending more time with customers and suppliers, with a minimum of two days per month in stores and with partners, and spending c.3 days a week in support centres to enable collaboration, networking and development, while recognising that every role and every week is different.

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

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5. Creating a culture of plain speaking; data driven and focused on performance

We remain firmly committed to our target of having 50% women and 15% BAME colleague representation in our senior management team by 2022, but have more to do to hit our targets. This year we continued to support and engage with our wide range of colleague diversity networks across the business.

6. Moving away from hierarchy to an involving, engaging culture where everyone has a voice and can get on

The progressive engagement score from our monthly ‘Colleague Voice’ survey.

Our engagement score through the year was strong at 82%, with 91% of colleagues feeling proud to work for M&S. Nearly 50,000 of our colleagues chose to participate and voice their feedback and ideas, helping to give us an informed picture of how colleagues feel about the business.

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All of these changes have been underpinned by the efficacy of our market-leading technology, as the lead retail partner of Microsoft.

2 Becoming a data and digitally enabled business

As outlined throughout this year’s report, the shift to online by customers during the pandemic has had a profound impact on the retail sector. This year, we have taken decisive steps towards omni-channel retailing – including the roll-out of efficient digital solutions in stores, and capability and capacity upgrades to M&S.com and our supply centre, Castle Donington – helping us achieve strong online growth this year.

However, with this shift not expected to recede as we emerge from the pandemic, we know we have to accelerate our focus and culture to take advantage of the online opportunity. The creation of MS2 is set to drive our focus to establish an online first culture through:

- Bringing together our data, digital and trading teams under MS2, jointly led by Katie Bickerstaffe and Richard Price.
- Boosting our digital capabilities to support growth – in May, we announced the creation of 85 new technology roles, including 70 software engineers, as part of M&S’s new Chief Technology Officer Mike Yorwerth’s team, and 15 new trading roles in e-commerce.
- Empowering our colleagues through technology – over 90% of our front-line colleagues are now communicating through Microsoft Teams, either on their own devices or on tablets which have been rolled out to all management teams.

- A focus on placing data at the heart of decision-making. M&S has over 800 terabytes of data at our disposal and our data community is now over 800 strong, helping to decipher patterns and deliver the insights we need to support our growth.
- Launching a Beam Academy led by the Digital & Data team, hosting over 100 business-wide upskilling events on data with over 22,000 colleagues participating including our third Hackathon.
- Trialling new technology and omni-channel trading initiatives – such as video-powered retailing – in five “10x” digital trial stores, with data and digital teams working directly with store teams.

3 Creating empowered, responsive and commercial leaders who are close to the front line

M&S continues to be a destination for industry-leading talent. Eoin Tonge joined as Chief Financial Officer and Richard Price joined as Clothing & Home Managing Director in July, with Katie Bickerstaffe moving from the Board to the executive team as Chief Strategy and Transformation Director earlier in the year. They now make up half of the streamlined and strengthened central leadership team led by CEO Steve Rowe.

Following financial year end, the leadership team underwent a realignment in responsibilities as we move on from the “Fixing the Basics” phase of our transformation, with Katie Bickerstaffe and Stuart Machin becoming Joint Chief Operating Officers, to bring even more impetus to our core businesses. Alongside this Eoin Tonge took on responsibility for strategy and transformation planning as part of his CFO remit.

There is more to do to engender our wider leadership team with a sense of shared mission and accountability and putting in place a leadership development framework and reviewing leadership banding is a focus for this year.

4 Putting the voice of the stores back at the core of the business

The adoption of Microsoft Teams, already in train but sped up over the past year, has been a key enabler to connecting all colleagues, but critically also connecting the trading areas to the store teams. Whereas c.10% of colleagues were using Yammer, now 90% of colleagues are using Teams at least once a week, with 85% on their mobile devices. Teams has been key for connecting leaders to the front line, and every store colleague is part of a Team for operational and local communications, which is the relevant trading area they are part of, as well as receiving “all company” corporate news. Shifts are booked via Teams, with operational task management being rolled out on Teams currently. This is not only more efficient and delivers the right, targeted information to colleagues, but is also an enabler for building a more digitally adept workforce.

While Teams has been critical to the business operating over the past year, with many advantages, face-to-face contact remains key, and there has latterly been a focus on equipping managers and store colleagues with weekly briefs to support regular huddles. There is, however, more to do to ensure face-to-face engagement is happening regularly across every store, and that every leader in the trading businesses is engaging their best sellers to drive a virtuous cycle of engagement to get the right insight and buy-in to sell more.

Over the past year, the Suggest to Steve scheme – where anyone in the business can make a suggestion directly to the CEO – received 5,000 suggestions. Fantastic ideas have been progressed: from being the first retailer to introduce sunflower lanyards, creating “We’re all in this together” charity bags, to ideas that were integrated into the relaunch of Sparks. While there was a peak during the early days of the pandemic, engagement began to drop off and steps have been taken to reinvigorate the scheme through moving it onto Teams and reconnecting it personally to the CEO, with calls and visits to successful or regular suggesters.

5 Creating a culture of plain speaking; data driven and focused on performance

Last year, we launched four core behaviours, with Talk Straight the one colleagues felt was most needed and relevant. While there is a need to “go again” on embedding the behaviours, slowly but surely a culture of more plain speaking is beginning to emerge.
The way the business reviews and rewards performance has been re-set, led by Stuart Machin as the executive lead for talent, with the aim to foster this more plain speaking style and drive a more performance-driven culture. In our stores, we have redefined what we expect of our colleagues, which is backed up by training and regular one-to-ones away from the shop floor to check in and update on performance. We’re measuring this through specific questions in the colleague survey, proportion of check-ins being delivered every month, as well as the overall impact on customer NPS and sales. In the support centres, a clearer cadence and process around performance management has been put in place with a simplified but consistent approach to objective setting, more regular check-ins on performance, and a bigger focus on development and potential.

At the same time as improving our approach to performance, we have reviewed our pay and benefits package to modernise it and align reward more to the right behaviours and performance. Over 14,000 colleagues responded to tell us what mattered most to them. Getting the basics right was a strong message which is one of the reasons why we have invested significantly ahead of inflation for hourly paid colleagues so all permanent colleagues earn at least £9.50 per hour. Flexibility to support work-life balance was valued, prompting the re-introduction of Holiday Buy – more popular than previously, wellbeing was a key theme, and in addition to regular one-to-ones away from the shop floor to check in and update on performance. We’re measuring this through specific questions in the colleague survey, proportion of check-ins being delivered every month, as well as the overall impact on customer NPS and sales. In the support centres, a clearer cadence and process around performance management has been put in place with a simplified but consistent approach to objective setting, more regular check-ins on performance, and a bigger focus on development and potential.

Underpinning our nascent, but now more focused, aim of driving a high-performing culture is the new people IT system – MyHR – which launches in August. It will remove bureaucracy and paperwork, better track the full colleague lifecycle and performance, and move to a more self-service model for managers and colleagues.

Moving away from hierarchy to an involving, engaging culture where everyone has a voice and can get on

BIG, our Business Involvement Group, has undergone its own transformation to drive a more engaging and involving place to work. It began with feedback through the BIG Conversation, with thousands of colleagues taking part. The output of this has been framed as making “BIG Bigger” with four key areas of focus: a simplified, more accessible constitution rebadged as the “Doing Business with BIG Charter”; investing in representatives so they have the right capabilities, with better induction, clearer accountability for line managers, and investment in their learning and development; more digital and dynamic communications, which are a move on from the more arcane, bureaucratic previous approach; a more structured dialogue with the leadership through “the BIG commitment”, which sets out the rhythm and routine of BIG representatives and business leaders and holds leadership to account on what they have agreed to. The Chair of National BIG attends the Board four times a year, and holds quarterly meetings with the Executive Committee.

Leadership focus on formal colleague engagement surveys dissipated somewhat during the pandemic, with a focus on “in the moment” direct feedback. However, this has now been reactivated with an improved survey; more accessible to colleagues via Microsoft Teams, and – crucially – a much bigger focus from the executive team. Ensuring the feedback received is acted upon swiftly, and collaboratively, is a key priority for the year ahead.

Learning and development remains an area where delivery is patchy, but following the Academies trialled in the Food business to develop behavioural and leadership skills, they are beginning to be rolled out more broadly. In addition, 34 Academy stores have been established as centres of excellence for learning. Academy teams have been supported with a bespoke learning offer to enhance their capability, including performance, emotional intelligence and resilience sessions. For the coming year, leadership capability and coaching skills will also be offered.

Building on our long-established Marks & Start programme, through which we welcomed 360 young people into the business in the last year, we are proud to be a lead partner for the government’s new Kickstart programme. It is designed to help young people currently on Universal Credit who are at risk of long-term unemployment to jumpstart their careers, and not get left behind in the pandemic. We have offered 350 Kickstart places in our stores and have invested to ensure that the experience we offer is positive and consistent.

Clearly, other than the pandemic, the death of George Floyd was one of the defining moments of the last year. We were, like everyone, horrified by what happened and the groundswell of action it spawned was a wake-up call for all businesses – including ours – to do more. We can point to some small steps forward: inclusion and diversity training offered to all colleagues in an accessible way, with high levels of completion; participation in schemes such as the Black Interns Initiative; an enlivened Culture and Heritage network; and improved guidance on a wider range of issues for managers, such as about colleagues participating in Ramadan. We also continue to participate in the 30% Club. However, representation in our senior management population remains flat, progress has been frustratingly slow, and the fact is we have a huge amount more to do in the coming year.

Finally, fostering a sense of family within the business has led us to launch an alumni network, under the moniker “M&S Family”, to capitalise on the pride and sense of belonging we know colleagues feel who have worked for M&S. The network is the first-scale alumni programme in the UK, and since launching in February has over 6,000 behaviours and is beginning to be a pipeline for recruitment. In the future, we are looking at how we can harness the power of this network, whether through mentoring or developing products and services.
PLAN A REVIEW

WE'RE ALL IN THIS TOGETHER

The enduring community spirit of M&S has borne out in our response to the crisis. We rallied these collective efforts under the banner “We’re all in this together”, as our incredible colleagues and trusted supplier partners stepped up to deliver for each other, our customers and the communities they serve. In turn, we supported our M&S family by topping up pay for colleagues on furlough, providing a financial hardship fund and investing in the wellbeing of the team – providing all colleagues with free access to Unmind – an independent workplace mental health app.

Whilst we know our colleagues continued to support their local communities, our structured community programmes were suspended and we were not able to formally track volunteering hours in 2020/21. The impact of the pandemic placed a huge strain on our NHS this year, and our customers and colleagues were keen to find ways they could support. In response, our 2020/21 community programme focused on raising funds for NHS Charities Together. We acted quickly to launch a range of products and promotions allowing our customers to raise money from purchases – such as our Rainbow Sale, which donated 10% of the cost of every clothing item sold to NHS Charities Together, or our All in this Together t-shirt – which sold one t-shirt each second at launch with all profits donated onwards. As a result M&S donated £8.3m to support our fantastic NHS heroes during the crisis, and over 28,000 customers continue to support by selecting NHS Charities Together as their chosen Sparks charity, with M&S donating 1p for every purchase.

REINVIGORATING PLAN A

In the face of an unprecedented crisis, we did not lose sight of the goal of our transformation; to return M&S to sustainable, profitable growth and deliver long-term value for all our stakeholders.

Through Plan A – our multi-year sustainability action plan – we address the risks and opportunities that environmental and societal issues present to us as business. It drives us to make better choices to ensure M&S, and the precious resources and planet we rely on, are in better shape for the future.

While Plan A was launched in 2007, its roots can be traced back to our founders, who recognised the enormous value derived from building trusted partnerships, treating people fairly and taking a long-term approach to innovation and investment.

Throughout the year, we have made progress in embedding Plan A into our operating model as a family of accountable businesses and putting sustainability into the heart of our commercial plans. In doing so, we have set better standards, which help us deliver on our customer promise of trusted value.

As part of our commitment to prevent deforestation, we are exploring alternatives to soy-based animal feed. In Food, we completely eliminated soya feed in our RSPCA Assured milk by replacing it with nutritious alternatives such as rapeseed oil and sugar beet, avoiding 4,000 tonnes of soy being used each year.

We made good progress on our commitment to redistribute all food surplus by 2025, thanks to the collaborative efforts of colleagues across the Food team and our stores. Working together, the roll-out of a new digital app to all our Food stores helped deliver a 126% increase in food redistribution.

Alongside the operational delivery of our Plan A priorities, over the course of the year we have committed to act on the bigger sustainability challenges facing businesses, our society and our planet.
Our most sustainable denim yet

All our cotton is responsibly sourced, with the majority through the Better Cotton Initiative—helping farmers to reduce their water usage and increase their profits. The wash is the process that gives denim its distinctive look and finish but it’s typically a water-intensive process. M&S partnered with Jeanologia—the leader in sustainable finishing technologies—and innovated together to produce a range, which means that M&S jeans are now finished with 86% less water compared with the industry norm for denim finishing. As part of our enhanced chemical policies, M&S is switching from standard indigo dyes to cleaner alternatives that require less water and chemicals to produce. 50% of the 2021 spring/summer range has been made with this lower-impact dye.

Environment:
Now moving towards net zero

In November 2020, we extended our climate change commitment, with a pledge to build on the carbon neutral operations we have today towards net zero emissions by 2035. This builds on our existing science-based targets with a greater emphasis on delivering reductions in emissions that we currently offset.

We are preparing for the future adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We have demonstrated our progress on aligning our climate reporting with these recommendations and set out our plans for next year in our ESG Committee Report.

Further detail on our climate disclosures is on pages 74–76.

Social:
Leading on human rights

Sourcing ethically—and reporting transparently on our supply chain practices—is core to how we do business. It’s part of the promise we make to our customers and this year we have provided additional assurance that they can shop from M&S with confidence. In January 2021, we were the first major UK retailer to publicly support the Coalition to End Forced Labour in the Xinjiang Region’s “Call to Action”, ensuring our supply chains are not linked to the human rights abuses in the Xinjiang region.

Setting standards in our own supply chains, however rigorous, can only set a baseline. To be serious about ensuring everyone who works with M&S is treated with decency and respect, we must hold a mirror up to make sure the reflection is true. That is why we asked Oxfam to conduct a gap analysis of our supply chain and we published the findings in full. As part of our response, we have taken action to scale our worker voice programmes and committed to share our learning to help drive meaningful industry-wide change.

Too good to waste:
Increasing food redistribution

Founded in 2015, our redistribution partnership with Neighbourly has been updated with newly designed app technology that enables stores to donate any food surplus more efficiently to those that need it most. Stores across the UK and ROI are matched to a network of more than 1,400 community partners—such as our Glasgow Pollok store, which partners with Indigo Eats to deliver childcare services for families with children from 6 weeks to 16 years old in the local area—who collect and deliver surplus such as fresh fruit, vegetables and bakery products daily. The new app was designed with our store colleagues, and their input ensured that it was successfully integrated into our store routines and processes. Since its launch, most of our stores have more than doubled the amount of stock they are donating. We donated a total of 11.8m meals in 2020/21 and reduced food waste in store by almost 5,000 tonnes.

Governance:
Our new ESG Committee

Helping our customers, colleagues, and communities lead happier, healthier and fulfilling lives is core to the M&S brand and great work continues to be delivered, but we need to continue to reinvigorate Plan A and put it back at the centre of our customer story. In December, we established a new Board Sub-Committee on Environmental, Social & Governance (ESG), chaired by Tamara Ingram, to provide focus and oversight of our Plan A programme across the business. The invaluable insight and experience of our Committee members provide robust challenge to our thinking as we look to reinvigorate Plan A in 2021.

Further detail about the activity of the Committee is set out on page 73.

Read more on Plan A:
corporate.marksandspencer.com/Plan-A-Report-2021
PLAN A REVIEW CONTINUED

PLAN A MEASUREMENTS

<table>
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<tr>
<th>Measurement</th>
<th>Progress</th>
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<tr>
<td>FOOD WASTE</td>
<td>11.8m meals +126% on 2019/20</td>
</tr>
<tr>
<td>PACKAGING</td>
<td>87% +10% on 2019/20</td>
</tr>
<tr>
<td>WASTE TO LANDFILL</td>
<td>Zero</td>
</tr>
<tr>
<td>M&amp;S GREENHOUSE GAS EMISSIONS (CO₂e)</td>
<td>298,000 tonnes CO₂e -13% on 2019/20</td>
</tr>
<tr>
<td>MARKS &amp; START</td>
<td>350 -81% on 2019/20</td>
</tr>
<tr>
<td>COLLEAGUE VOLUNTEERING</td>
<td>Paused due to Covid-19 n/a</td>
</tr>
<tr>
<td>COMMUNITY AND CHARITIES</td>
<td>£2.4m -64% on 2019/20</td>
</tr>
<tr>
<td></td>
<td>£14.9m +210% on 2019/20</td>
</tr>
</tbody>
</table>

In 2020/21, a number of Plan A measurements were materially impacted by the consequences of Covid-19. Whilst colleagues continued to support their local communities, a number of our structured programmes were suspended or disrupted. In 2021/22 we will rebuild participation in the Marks & Start scheme in addition to supporting the UK Government’s Kickstart programme with 360 placements.

STREAMLINED ENERGY AND CARBON REPORTING

ENERGY AND TRANSPORT FUEL CONSUMED

<table>
<thead>
<tr>
<th></th>
<th>This year 2020/21 (GWhs)</th>
<th>Last year 2019/20 (GWhs)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK operations</td>
<td>787</td>
<td>827</td>
<td>-5%</td>
</tr>
<tr>
<td>International operations</td>
<td>18</td>
<td>23</td>
<td>-21%</td>
</tr>
<tr>
<td>Group</td>
<td>805</td>
<td>850</td>
<td>-5%</td>
</tr>
</tbody>
</table>

2020/21 saw a significant impact to the operational space in our stores as we reacted to the national lockdowns, with entire trading floors closed for several months at a time. The closure of this space will have materially reduced the amount of energy consumed.

The principle measures taken to improve energy efficiency in 2020/21 include continued roll-out of new refrigeration shelf-edge technology, conversions to LED lighting and the trialling of new fan technologies at certain locations.

GREENHOUSE GAS (GHG) EMISSIONS

<table>
<thead>
<tr>
<th></th>
<th>This year 2020/21 (000 tonnes)</th>
<th>Last year 2019/20 (000 tonnes)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (scope 1)</td>
<td>157</td>
<td>173</td>
<td>-9%</td>
</tr>
<tr>
<td>of which UK:</td>
<td>156</td>
<td>172</td>
<td>-9%</td>
</tr>
<tr>
<td>In-direct emissions from electricity (scope 2)</td>
<td>141</td>
<td>168</td>
<td>-16%</td>
</tr>
<tr>
<td>of which UK:</td>
<td>129</td>
<td>154</td>
<td>-16%</td>
</tr>
<tr>
<td>Total gross/location-method scope 1+2 GHG emissions</td>
<td>298</td>
<td>341</td>
<td>-13%</td>
</tr>
<tr>
<td>of which UK:</td>
<td>285</td>
<td>325</td>
<td>-12%</td>
</tr>
<tr>
<td>GHG intensity per 1,000 sq ft of salesfloor</td>
<td>15</td>
<td>17</td>
<td>-12%</td>
</tr>
<tr>
<td>Procured renewable energy</td>
<td>120</td>
<td>143</td>
<td>-16%</td>
</tr>
<tr>
<td>Total market-method scope 1+2 GHG emissions</td>
<td>177</td>
<td>198</td>
<td>-11%</td>
</tr>
<tr>
<td>of which UK:</td>
<td>164</td>
<td>183</td>
<td>-10%</td>
</tr>
<tr>
<td>Procured carbon offsets</td>
<td>177</td>
<td>198</td>
<td>-11%</td>
</tr>
<tr>
<td>Total net scope 1+2 GHG emissions</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

GHG emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2019 Scope 2 Guidance using DEFFRA/ BEIS 2020 Greenhouse Gas Reporting Conversion Factors, which include a 9% lower carbon intensity rating for UK grid electricity that reduces our emissions by 14,787 tonnes CO₂e compared with our location-based 2019/20 figures. For full details, please see our 2021 Plan A Report.

* Performance has been restated to use actual data sourced from international operations, in place of previous year estimates.
NON-FINANCIAL INFORMATION STATEMENT

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

PEOPLE

We are committed to providing all of our colleagues with a safe working environment and an organisational culture which promotes diversity, inclusivity, personal development and mutual respect. We want people to enjoy coming to work and for the workplace to be free from discrimination, harassment and victimisation. We know that our Board and leadership team play a vital role in this commitment, which is why we have laid out our progress in balanced leadership on pages 64 to 65. Further detail on social matters can be found in People and Culture on pages 26 to 29 and our Section 172(1) statement on pages 34 to 36 and 68 to 69.

Read more on our commitment to people in our:
- People Principles
- Code of Conduct
- Responsible Marketing Principles
- Equal Opportunities Policy

COMMUNITIES AND ENVIRONMENT

We have supported our local communities throughout our 137 year history, because we know that vibrant communities are essential for our success. We aim to take a progressive approach to our community engagement, which is reflected in our Plan A commitments. Sustainability is also core to Plan A and to the M&S brand. The framework brings together individual business unit strategies into a shared programme to drive behavioural change and ensure the whole business operates in a more sustainable way.

Read more on our commitment to communities and the environment on our dedicated corporate website areas:
- Community Engagement
- Delivering Plan A

Read more on our activities in these areas this year:
- Environmental commitments and progress can be found in the ESG Committee report on pages 73 to 76 and the Plan A review on pages 30 to 32, which includes details of our Greenhouse Gas ('GHG') emissions.
- Our contributions towards, and consideration of, communities is integrated throughout the report and can also be found in our Section 172(1) statement on pages 34 to 36 and 68 to 69 and the ESG Committee report on pages 73 to 76.

HUMAN RIGHTS

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

Read more on our commitment to human rights in our:
- Modern Slavery Statement
- Human Rights Policy
- Code of Conduct
- M&S Global Sourcing Principles
- Child Labour Procedure
- M&S grievance procedure for Food and Clothing & Home supply chains
- Confidential Reporting Procedures

ANTI-BRIBERY AND ANTI-CORRUPTION

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

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

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

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

Read more on our commitment to Anti-Bribery and Anti-Corruption in our:
- Business Partner Anti-Bribery and Anti-Corruption Policy
- Code of Conduct
- Confidential Reporting Procedures
SECTION 172(1) STATEMENT

ENGAGEMENT & DECISION-MAKING

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

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

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

Read more:
- Strategic Report, p2-57
- Key Board Decisions & S172(1) Considerations, p68-69
- At marksandspencer.com/thecompany

STAKEHOLDER ENGAGEMENT & CONSIDERATIONS

SHAREHOLDERS

Why they matter
Securing our shareholders trust through continuous engagement ensures their ongoing investment and support.

Key priorities
For some, delivering sustainable, profitable growth over the long term. For others, seeing immediate returns on their investment. Increasingly, seeing proactive and conscientious “ESG” plans being formed and corresponding to the needs of the company.

Engagement approach
- Last year’s Digital AGM was the Board’s most engaging and constructive yet because we were able to reach shareholders directly in their homes, instead of only those able to attend a London-based meeting. Private shareholder engagement was nearly trebled with c.1,500 individual shareholders engaging with our AGM platform, either to watch, vote or submit questions. The webinar of the meeting has been available to watch on our website throughout this year.
- Our Private Shareholder Panel is a group of randomly selected private shareholders who have the opportunity to attend regular meetings with our Board and senior management, during which they can hear more about M&S and provide their input on the business’ direction of travel. Due to the impact of the pandemic on planned activities, we extended the tenure of our 2019/20 Panel and continued to hold meetings with them digitally, to ensure that they had ample opportunity to share their views.

CUSTOMERS

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

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

Engagement approach
- We monitored Customer Mood during Lockdown, surveying 1,000 customers a week to understand their thoughts, feelings, and mood, what they wanted from retailers, and how they felt about M&S during this period. With the insights directly influencing senior management in shaping our tone and content in communications and marketing.
- Having a great online shopping experience became even more important during lockdown. To improve our Dotcom Experience, we conducted 50 in-depth customer interviews across the whole end-to-end online journey, covering 135 interaction evaluations, and then did a similar exercise for a range of competitors to assess user experiences. The findings are directly contributing to the optimisation of our website to maximise online growth.
- We regularly conduct focus groups, in-depth interviews and surveys across the business. For example, this year, we held 8 focus groups and 20 in-depth interviews, and surveyed 2,000 customers to hear their thoughts on our Lingerie offer. Using the findings, management identified key customer priority areas to focus on and ensure we retain our number 1 market share position.

Governance considerations
- Approval of various organisational and operational changes for the business to adapt to the Covid-19 lockdowns, ensuring that customers could shop confidently and safely in stores, and that there was continuity of supply to meet customer demand online.
- Oversight of the programme for launching M&S product on the Ocado platform, ensuring workstreams were proceeding to schedule, with the ultimate aim of providing new and existing customers access to M&S Food products online for delivery.
Key priorities
A fair and valuable contribution to society and the economy, and for M&S to be a socially responsible corporate, that cares about its long-term impact on the communities and environment it operates in.

Engagement approach
- This year, our Charitable Donations reached over £4.9m to charities and good causes, including £3.8m donated to NHS Charities Together to support NHS workers and patients through the Covid-19 pandemic. In addition, we continued to support our long-term partners, such as Macmillan, Breast Cancer Now and the Royal British Legion, and expanded the Sparks rewards scheme to support 35 charity partners.
- We supported local communities with over £23m of product donations, including the donation of 11.8m Meals to Community Groups through our foods surplus redistribution scheme.
- The M&S Company Archive focused on digital opportunities for people to explore the rich heritage of M&S. The Archive included downloadable learning packs for schools and home learning, and digital reminiscence resources that have supported older people in over 2,000 care settings across the UK. Visit marksandspencer.com for more details.

Governance considerations
- Creating a Board Sub-Committee to oversee ESG matters. These included the refresh of our Plan A sustainability programme, in recognition of growing community and government interest in how we are addressing the climate crisis.
- Board oversight of initiatives to support communities throughout the Covid-19 pandemic, including clothing and food donations to local hospitals and the addition of charitable partners to our Sparks scheme.

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

Key priorities
A long-term, productive relationship with M&S, sourcing and producing goods they expect.

Engagement approach
- The Chairman hosts a rolling programme of Listening Groups with suppliers.
- Our pool of dedicated dairy farmers are guaranteed a set price for fresh milk under our Milk Pledge Plus programme. Our price accounts for the cost of production and ensures that our supplying farms have sufficient profit to invest in infrastructure, animal welfare and environmental improvements to maintain their leading position. As a result, we were the first major food retailer to have all its milk-producing dairy farms assured by the RSPCA and have also removed soya from the cows’ diet to guarantee a non-deforestation position for the environment.

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

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

Engagement approach
- Our Business Involvement Group (BIG), a network of elected representatives from across all parts of the business, facilitates our engagement with colleagues, with local BIG teams regularly feeding back to National BIG.
- Colleague updates on performance and strategy is provided by ExCo members and senior management through regular business area “huddles”, as well as by email, virtual meetings, and our Microsoft Teams communication and collaboration platform. Colleagues are encouraged to be involved in these forums by voicing their views, ideas and questions with the leadership team directly.
- The ExCo this year updated our Inclusion & Diversity (I&D) strategy, publishing seven new I&D training modules and a suite of new policies and line manager guides, aimed at supporting and highlighting to colleagues the importance of delivering an inclusive culture within a diverse environment. Our seven colleague-led I&D networks also continued to provide peer support and subject matter expertise to the business.
- Our monthly Colleague Voice Pulse Survey gives the Board and ExCo an informed picture of how colleagues feel about the business. The progressive colleague engagement score through the year was 82%, with 91% of colleagues participating saying that they feel proud to work for M&S.

Governance considerations
- The chair of BIG represents the collective colleague voice by attending Board and Remuneration Committee meetings throughout the year, while ExCo members attend National BIG meetings to understand the issues that are important to colleagues.
- Commissioning a comprehensive Reward and Wellbeing Survey across the business, aimed at ensuring colleague pay and benefits packages are fundamentally fair, reward the right behaviours and performance, and are competitively placed for us to retain talent.
### “NEVER THE SAME AGAIN” CONSIDERATIONS

During the year, as the Board made decisions implementing our strategy and Never the Same Again (NTSA) priorities, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered. In some cases, the interests and impacts between stakeholder groups conflicted, and the Board had to assess these conflicts and attempt to balance them in their decision-making.

Here, we provide an overview of how decisions taken in furtherance of each of our NTSA priorities were influenced by, and impacted, our six stakeholder groups. Further analysis of stakeholder considerations in some of the Board’s key decisions made during the year can also be found on pages 68 to 69.

<table>
<thead>
<tr>
<th>Faster Food growth with Ocado Retail</th>
<th>Capture value in the Food supply chain</th>
<th>Simplify range and value in C&amp;H</th>
<th>Turbocharge growth at M&amp;S.com</th>
<th>Store estate for the new world</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key influences</strong></td>
<td><strong>Key influences</strong></td>
<td><strong>Key influences</strong></td>
<td><strong>Key influences</strong></td>
<td><strong>Key influences</strong></td>
</tr>
<tr>
<td>– Customers, and their increasing demand for online delivery services, particularly during lockdowns.</td>
<td>– Shareholders, and the efficient use of their investment to maximise returns through our Food business.</td>
<td>– Supplier relationships, and balancing the need to support smaller suppliers against the need to have fewer, strategic suppliers for a more simplified range.</td>
<td>– The need to maximise shareholder return, and the opportunities for doing so presented by the shift in customer behaviours towards shopping online.</td>
<td>– Various customer perceptions; for some, we have a declining store estate which generates a negative shopping experience. For others, they expect an M&amp;S presence in the local community to be maintained, regardless of store condition.</td>
</tr>
<tr>
<td>– The potential for significant volume growth for existing suppliers, and introduction of new brand suppliers to the M&amp;S Food offer.</td>
<td>– Customer demand for good availability of products at great prices.</td>
<td>– Customer perceptions of our existing range, and their shifting demand throughout the year towards more lounge and athleisure wear.</td>
<td>– Colleagues at distribution centres, and the pressures they have been experiencing while operating at maximum capacity to fulfil online orders.</td>
<td>– Colleagues and the importance of their job security in the event of any store closures.</td>
</tr>
<tr>
<td>– Improving M&amp;S’ share of Ocado Retail’s returns, to ultimately contribute to shareholder value.</td>
<td>– The environment, and the need to reduce our waste levels and ensure that we can minimise our use of resources.</td>
<td>– The potential impact on colleagues of simplifying the range and, as a result, streamlining operations.</td>
<td>– The ongoing impact on the environment and customer perceptions of an inefficient distribution network, where orders are fulfilled and delivered from various locations.</td>
<td>– Removing the burden of long-term store leases on our balance sheet, to unlock shareholder value.</td>
</tr>
<tr>
<td><strong>Impacts</strong></td>
<td><strong>Impacts</strong></td>
<td><strong>Impacts</strong></td>
<td><strong>Impacts</strong></td>
<td><strong>Impacts</strong></td>
</tr>
<tr>
<td>– Valuable job opportunities have been provided in communities, by opening new customer fulfilment centres (“CFCs”).</td>
<td>– The continued roll-out of the Vangarde supply chain programme has improved availability in participating M&amp;S Food stores, contributing to improving colleague and customer feedback.</td>
<td>– Operational efficiency with our suppliers has improved, as we are now buying fewer product lines in greater depth.</td>
<td>– The creation of our MS2 division is improving the customer experience of M&amp;S.com – with website and mobile app developments, and by using Sparks to have more personalised relationships with customers.</td>
<td>– Customer perceptions and store performance will improve as our ageing, high-street stores are relocated to new premises that provide a better customer experience.</td>
</tr>
<tr>
<td>– While CFC capacity struggled to meet customer demand at the start of the Covid-19 pandemic, Ocado Retail’s improving operations mean that it is now sustainably performing at capacity. The opening of a new CFC in Bristol and openings in the forthcoming year will continue to grow rapidly customer access to M&amp;S Food.</td>
<td>– Supply chain optimisation has been an enabling factor in our continued investment in Remarkable Value, meaning that customer value perception is improved.</td>
<td>– This more economic buying has improved the use of shareholder investment.</td>
<td>– While closing stores has inevitably led to some job losses, much of our store rotation is being achieved with relocations, where the vast majority of colleagues from closing stores are redeployed.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>– However, restructuring our C&amp;H operations to be fit for future streamlined activities has unfortunately resulted in colleague redundancies in support centres.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>– New partnerships have been formed by introducing third-party brands on M&amp;S.com, adding to our style credentials with customers.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Marks and Spencer Group plc
KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>10.7</td>
<td>10.4</td>
<td>10.2</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Group revenue before adjusting items on a 52-week basis decreased 11.8%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5%, and International revenue down 17.5%.

RETURN ON CAPITAL EMPLOYED (ROCE)

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>14.0</td>
<td>11.8</td>
<td>10.0</td>
<td>3.8</td>
</tr>
</tbody>
</table>

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

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBT</td>
<td>580.9</td>
<td>511.7</td>
<td>403.1</td>
<td>41.6</td>
</tr>
</tbody>
</table>

The Group delivered profit before tax and adjusting items of £41.6m in a year characterised by unprecedented lockdowns, resilient performance and disciplined management of costs.

ADJUSTED EARNINGS PER SHARE (EPS)

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>27.8</td>
<td>23.8</td>
<td>16.7</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Adjusted basic earnings per share was 1.1p (last year earnings of 16.7p) due to lower adjusted profit year on year.

DIVIDEND PER SHARE

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend</td>
<td>18.7</td>
<td>13.3</td>
<td>3.9</td>
<td>Nil</td>
</tr>
</tbody>
</table>

We did not pay a dividend in 2020/21. As we recover balance sheet metrics consistent with investment grade, we will assess the reintroduction of dividend payments, although as we focus on restoring profitability this is unlikely in the current year.

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow</td>
<td>417.5</td>
<td>580.8</td>
<td>Restated to 205.7</td>
<td>296.4</td>
</tr>
</tbody>
</table>

The business generated free cash flow of £296.4m, largely driven by working capital inflow, reduced capital expenditure and lower tax payments, which more than offset the lower adjusted operating profit.

APM

Alternative performance measures as outlined on the inside cover.

52

These figures are reported on a 52-week basis.

53

These figures are reported on a 53-week basis.
### FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>53 weeks ending</th>
<th>52 weeks ending</th>
<th>Change % (52 week)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 April 21 £m</td>
<td>27 March 21 £m</td>
<td>28 March 20 £m</td>
</tr>
<tr>
<td>Group revenue before adjusting items</td>
<td>9,166.9</td>
<td>8,972.7</td>
<td>10,181.9</td>
</tr>
<tr>
<td>UK Food</td>
<td>6,138.5</td>
<td>5,994.8</td>
<td>6,028.2</td>
</tr>
<tr>
<td>UK Clothing &amp; Home</td>
<td>2,239.0</td>
<td>2,198.6</td>
<td>3,209.1</td>
</tr>
<tr>
<td>International</td>
<td>789.4</td>
<td>779.3</td>
<td>944.6</td>
</tr>
<tr>
<td>Group operating profit before adjusting items</td>
<td>222.2</td>
<td>209.7</td>
<td>590.7</td>
</tr>
<tr>
<td>UK Food</td>
<td>228.6</td>
<td>213.6</td>
<td>236.7</td>
</tr>
<tr>
<td>UK Clothing &amp; Home</td>
<td>(130.8)</td>
<td>(129.4)</td>
<td>223.9</td>
</tr>
<tr>
<td>International</td>
<td>44.1</td>
<td>45.1</td>
<td>110.7</td>
</tr>
<tr>
<td>M&amp;S Bank and Services</td>
<td>1.9</td>
<td>2.0</td>
<td>16.8</td>
</tr>
<tr>
<td>Share of result in associates and joint ventures</td>
<td>78.4</td>
<td>78.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Interest payable on lease liabilities</td>
<td>(124.9)</td>
<td>(122.5)</td>
<td>(133.4)</td>
</tr>
<tr>
<td>Net financial interest</td>
<td>(47.0)</td>
<td>(45.6)</td>
<td>(54.2)</td>
</tr>
<tr>
<td>Profit before tax &amp; adjusting items</td>
<td>50.3</td>
<td>41.6</td>
<td>403.1</td>
</tr>
<tr>
<td>Adjusting items</td>
<td>(259.7)</td>
<td>(242.8)</td>
<td>(335.9)</td>
</tr>
<tr>
<td>(Loss)/profit before tax</td>
<td>(209.4)</td>
<td>(201.2)</td>
<td>67.2</td>
</tr>
<tr>
<td>(Loss)/profit after tax</td>
<td>(201.2)</td>
<td>(194.4)</td>
<td>27.4</td>
</tr>
<tr>
<td>Basic (loss)/earnings per share</td>
<td>(10.1)p</td>
<td>(9.8)p</td>
<td>1.3p</td>
</tr>
<tr>
<td>Adjusted basic earnings per share</td>
<td>1.4p</td>
<td>1.1p</td>
<td>16.7p</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>–</td>
<td>–</td>
<td>3.9p</td>
</tr>
<tr>
<td>Net debt</td>
<td>£3.52bn</td>
<td>n/a</td>
<td>£3.95bn</td>
</tr>
</tbody>
</table>

1. Due to a change in the Group’s accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, the comparative amounts for net debt and free cashflow have been restated.

**Notes:**
This year, we are reporting on the 53 weeks to 3 April 2021. Profit metrics are provided on a 53-week basis in the Financial Statements. To provide a meaningful comparison with last year’s 52-week period, all performance commentary in this section is stated on an unaudited 52-week basis, and all cash and net debt commentary is on a 53-week basis, unless otherwise noted.

There are a number of non-GAAP measures and alternative profit measures (“APMs”), discussed within this announcement and a glossary and reconciliation to statutory measures is provided on page 191. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.
GROUP RESULTS

Group revenue before adjusting items was £9,166.9m on a 53-week basis. On a 52-week basis, it decreased 11.9%, with UK revenue down 11.3% driven by Clothing & Home revenue declining 31.5% and International revenue down 17.5%. The Group generated an adjusted profit before tax of £50.3m and a statutory loss before tax of £(209.4)m on a 53-week basis (or £41.6m and £(201.2)m respectively on a 52-week basis).

Statutory loss before tax includes total charges for adjusting items of £259.7m on a 53-week basis, including charges of £133.7m related to organisational change, £95.3m in relation to store closures identified as part of transformation plans, £79.9m for intangible asset impairments, offset by a £90.8m gain largely relating to the release of a portion of the Covid inventory provision made in the prior year. For full details on adjusting items and the Group’s related policy see notes 1 and 5 to the financial statements.

UK: FOOD

UK Food revenue decreased 0.6%. Like for like (LFL) revenue grew in the first three quarters but declined in the fourth quarter as the UK-wide lockdown forced the hospitality business and parts of our franchise business to close again. M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

Excluding franchise and hospitality, core M&S Food categories performed strongly, particularly over key events, with LFL revenue growth of 6.9% for the year.

% change to LY Q1 Q2 Q3 Q4 FY
Food -2.1 1.6 2.2 -4.4 -0.6
Food LFL 2.0 3.4 2.6 -2.7 1.3
Food LFL ex franchise and hospitality 7.7 8.6 8.4 2.8 6.9

Operating profit before adjusting items decreased 9.8%, largely due to an adverse mix impact on gross margin, which was only partially offset by reduced costs which benefitted from government support.

Operating profit before adjusting items £m
2019/20 236.7 2020/21 213.6

Gross profit (60.7) Lost gross profit from hospitality/ franchise (154.0)
Store staffing 30.8 Gross profit growth from core categories 93.3
Other store costs 56.3 Direct Covid costs (69.0)
Distribution and warehousing (46.8) Government support 101.0
Central costs (2.7) Other cost savings 5.6

– Gross profit decreased £60.7m or c.84bps primarily as a result of hospitality closures and lower convenience sales, partly offset by strong growth in core categories and cost saving programmes, including initial synergies of £21.4m from Ocado supply.

– Store staffing costs declined £30.8m, primarily driven by £45.5m of efficiencies enabled by technology improvements in store. We incurred Direct Covid costs within store staffing relating to incentives for retail colleagues of £20.8m and door host costs of £33.7m. Store staffing costs include government furlough support of £28.8m.

– The movement in other store costs largely relates to government business rates relief of £70.8m, partly offset by additional Covid-related cleaning and hygiene costs.

– Distribution and warehousing reflects the increased costs as a result of online orders, as well as Brexit-related costs of £9.0m and Covid-related hygiene and social distancing measures. The Food business incurred total costs relating to Brexit of £9.9m in the year; a detailed breakdown is given in the Brexit section below.

52 weeks ended 27 March 21 28 March 20 Change %
Revenue 5,994.8 6,028.2 -0.6
Operating profit before adjusting items 213.6 236.7 -9.8
Operating margin 3.6% 3.9% -35bps

The table below sets out the drivers of the movement in operating profit before adjusting items. To improve understanding we provide additional information on Covid-related impacts with adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 2019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£41.9m), were also incurred in 2019/20 and so are not visible. The full costs and government support for furlough income and business rates are detailed in a separate section.
The Group holds a 50% interest in Ocado Retail Ltd ("Ocado Retail"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Full year results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 31 May 2020, 30 August 2020, 29 November 2020 and 28 February 2021.

Group share of consolidated results of Ocado Retail Ltd

<table>
<thead>
<tr>
<th>£m</th>
<th>52 weeks ended 28 Feb 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,353.2</td>
</tr>
<tr>
<td>EBITDA before exceptional items</td>
<td>189.9</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>50.5</td>
</tr>
<tr>
<td>Operating profit</td>
<td>204.2</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>156.8</td>
</tr>
</tbody>
</table>

M&S 50% share of profit after tax 78.4

Ocado Retail Ltd is reported as an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2020. A prior year comparative is not provided here as the investment in Ocado Retail Ltd was made part-way through 2019/20.

Revenue grew 43.7% on an annual basis due to strong demand for online grocery, higher than normal basket size and a smoothed trading profile across the week. Following switchover on 1 September, M&S products have accounted for over 25% of the average Ocado basket.

Ocado Retail EBITDA before exceptional items was £189.9m, driven by the strong revenue growth and cost performance reflecting a period of sustained high demand. Units per hour throughput increased in customer fulfilment centres, with operational improvements across the network. Trunking and delivery costs reduced as a percentage of sales due to fewer deliveries per van, as a result of a higher number of items per basket.

In addition, Ocado Retail has recognised £50.5m of exceptional income before tax, largely related to insurance receipts for business interruption for the period up to 28 February 2021 arising from the Andover fire in 2019.

As a result of strong EBITDA growth and insurance receipts, Group share of Ocado Retail profit after tax was £78.4m. After a charge of £14.2m in adjusting items relating to the amortisation of the intangible asset created by the investment, Ocado Retail contributed £64.2m to Group profit after tax.

UK: CLOTHING & HOME

Clothing & Home revenue decreased 31.5% as a result of the impact on store sales of lockdowns and restrictions throughout the year. Performance improved following store reopening in quarter two and either side of the national lockdown in quarter three, and the online business built momentum through the year.

<table>
<thead>
<tr>
<th>% change</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing &amp; Home</td>
<td>-61.5</td>
<td>-21.3</td>
<td>-25.1</td>
<td>-18.7</td>
<td>-31.5</td>
</tr>
<tr>
<td>Clothing &amp; Home stores</td>
<td>-83.8</td>
<td>-39.5</td>
<td>-46.5</td>
<td>-60.6</td>
<td>-56.2</td>
</tr>
<tr>
<td>Clothing &amp; Home online</td>
<td>21.5</td>
<td>46.4</td>
<td>47.5</td>
<td>105.8</td>
<td>53.9</td>
</tr>
<tr>
<td>Clothing &amp; Home LFL</td>
<td>-59.3</td>
<td>-21.2</td>
<td>-24.1</td>
<td>-15.5</td>
<td>-29.8</td>
</tr>
</tbody>
</table>

To enable greater insight into these movements, we are providing further detail on the performance of each channel.

**Online**

UK Clothing & Home online revenue increased 53.9%. Following initial disruption in April, online sales remained strong and built momentum, with quarter four revenue up 105.8%. Online customer traffic increased 35.2% driven by both direct and paid search helping to drive 52.5% growth in active customers to 9.0m. Growth was led by mobile, with over 3.5m downloads of the M&S app driven by the relaunch of Sparks. This led to increased app usage, with 2.3m monthly active users (2019/20: 1.2m), which also helped to drive better conversion. In addition, there was a benefit from a c.0.9 percentage point reduction in returns rates compared with last year due to changes in customer behaviour and product mix during lockdown. This offset headwinds from lower in-store orders, which are attributed to the online channel, as well as a small decline in average order value as customers’ purchases focused on core product.
Stores

52 weeks ended 27 Mar 21 28 Mar 20 % change

Footfall, m (average/week) 1.9 5.9 -67.8
Transactions, m (average/week) 1.0 2.1 -52.4
Basket value (£) 30.6 32.3 -5.3
Revenue £m 1,088.9m 2,487.8m -56.2

UK Clothing & Home store revenue decreased 56.2%: the impact of national lockdowns, local restrictions and the shape of the store estate adversely impacted the business with footfall down 67.8% and overall transactions down 52.4%. Basket value fell 5.3% in stores in line with online as customers’ purchases focused on core product.

Total Clothing & Home

The Clothing & Home business in total generated an underlying operating loss before adjusting items for the year of £129.4m compared with a profit of £223.9m in the prior year. While online growth resulted in a substantial improvement in online operating profit, this was more than offset by the decline in stores, with lower costs insufficient to offset reduced overall sales.

52 weeks ended 27 Mar 21 £m 28 Mar 20 £m Change %
Revenue 2,198.6 3,209.1 -31.5
Operating (loss)/profit before adjusting items (129.4) 223.9 -157.8
Operating margin -5.9% 7.0% -12.9pts

The table below sets out the drivers of the movement in Clothing & Home operating (loss)/profit before adjusting items. To improve understanding, we provide additional information on Covid-19-related impacts within adjusted profit. Some direct Covid costs and government support are visible within the right-hand table as they were incremental to 2019/20, whereas other costs, for example the ongoing costs of furloughed colleagues (£129.1m), were also incurred in 2019/20 and so are not visible. The full costs and details of government support for furlough income and business rates are detailed in a separate section.

International

International revenue decreased 17.3% at constant currency (“CC”) as stores were adversely impacted by rolling Covid lockdowns and restrictions. Online sales remained strong throughout, particularly in markets in which the Group has a store presence and through partner websites, with sales growth of 114.3% to £165.7m.

- Cross profit decreased £611.7m or (218)bps. Adverse currency movements and under-recovery of fixed logistics costs within margin impacted by (78)bps. Discounting increased (140)bps driven by an increased mix of clearance sales made at a higher depth of cut than last year.
- Store staffing costs declined £147.6m, mostly as a result of £42.6m of efficiencies enabled by technology improvements in store. Store staffing costs include government furlough support of £88.6m.
- The movement in other store costs largely relates to business rates relief of £101.4m.
- Distribution and warehousing reflects the higher costs to serve online demand, both from the Castle Donington warehouse and shipments from store partially offset by volume savings from reduced deliveries to store. The overall increase in distribution and warehousing costs was offset by delivery income within revenue.
- The decline in central costs was largely driven by lower marketing activity, lower headcount and a reduction in depreciation of technology assets as we move to cloud-based solutions and assets reach the end of their useful lives.

Clothing & Home online generated an operating profit margin of c.14%, with higher volumes leading to increased leverage of the online fixed cost base. Profitability also benefited from a reduced returns rate, although this was partially offset by the adverse impact of lower in-store orders. Conversely, the operating loss in stores represented a margin on sales of c.(26)%.

INTERNATIONAL

International revenue decreased 17.3% at constant currency (“CC”) as stores were adversely impacted by rolling Covid lockdowns and restrictions. Online sales remained strong throughout, particularly in markets in which the Group has a store presence and through partner websites, with sales growth of 114.3% to £165.7m.

% change to 2019/20 Q1 CC Q2 CC Q3 CC Q4 CC FY CC
Total revenue -40.7 -9.2 -10.4 -10.2 -17.3 -17.5

<table>
<thead>
<tr>
<th>27 Mar 21</th>
<th>28 Mar 20</th>
<th>Change %</th>
<th>Change CC %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£m</td>
<td>£m</td>
<td></td>
</tr>
<tr>
<td>Clothing &amp; Home</td>
<td>483.2</td>
<td>620.7</td>
<td>-22.1</td>
</tr>
<tr>
<td>Food</td>
<td>296.1</td>
<td>323.9</td>
<td>-8.6</td>
</tr>
<tr>
<td>Total</td>
<td>779.3</td>
<td>944.6</td>
<td>-17.5</td>
</tr>
</tbody>
</table>

Memo:
- Online revenue 165.7 77.2 114.6 114.3
The decline in Clothing & Home sales was driven by lower store sales in the Republic of Ireland and India, and lower franchise shipments, particularly to Asia, partly offset by online growth. Food sales were more resilient, particularly in the Middle East and Asia, as Covid disruption shifted habits to favour eating in. This helped offset the steep decline in travel franchise sales in Europe and Brexit related disruption in quarter four.

Operating profit before adjusting items was down 59.3% driven by the lower Clothing & Home sales and incremental costs relating to Brexit. A detailed breakdown of this is given in the Brexit section below.

<table>
<thead>
<tr>
<th>Operating profit before adjusting items</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019/20</td>
<td>110.7</td>
</tr>
<tr>
<td>Gross profit</td>
<td>(87.9)</td>
</tr>
<tr>
<td>Store staffing</td>
<td>14.0</td>
</tr>
<tr>
<td>Other store costs</td>
<td>16.4</td>
</tr>
<tr>
<td>Distribution and warehousing</td>
<td>(11.7)</td>
</tr>
<tr>
<td>Central costs</td>
<td>3.6</td>
</tr>
<tr>
<td>2020/21</td>
<td>45.1</td>
</tr>
</tbody>
</table>

Gross profit decreased £87.9m as lower store sales were only partially mitigated by strong online growth. Store staffing and other store costs declined. The costs of £10.8m relating to salary costs of colleagues on furlough were partially offset by government furlough support of £6.3m and reduced overtime hours, while the group benefited from a further £6.8m of government support for rent and rates across owned markets, and £7.1m of rent relief. The increase in distribution costs largely relates to the growth of online sales and costs incurred as a result of Brexit of £6.2m which was only partly offset by lower distribution costs on shipments to stores. Central cost reductions were enabled by the shift to digital events from buying fairs and reduced travel.

**M&S BANK & SERVICES**

M&S Bank & Services income before adjusting items was down £14.8m to £2.0m. This was the result of a significant decrease in income from credit card and travel money sales. M&S Bank and services income after adjusting items relating to PPI decreased £4.6m to £(0.4)m.

COVID COSTS

In the following table we set out identifiable costs with adjusted profit related to Covid. We incurred a number of direct Covid costs such as door hosts and hygiene of £63.2m, incentives for working through the pandemic for non-furloughed colleagues of £28.5m and there was a slight reduction in colleague holiday hours of £3.9m.

In addition business rates relief of £174.6m partly compensated for the substantial loss of trade from closed space in Clothing & Home and hospitality areas and franchise stores in Food.

Finally, identifiable costs include government grants for furlough income of £131.5m, which were more than offset by the salary costs incurred for furloughed colleagues of £181.8m.

Costs relating to Covid within adjusted profit before tax in 2020/21

<table>
<thead>
<tr>
<th>Costs relating to Covid within adjusted profit before tax in 2020/21</th>
<th>Group £m</th>
<th>C&amp;H £m</th>
<th>Food £m</th>
<th>International £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational costs related to Covid</td>
<td>(63.2)</td>
<td>(13.8)</td>
<td>(49.4)</td>
<td>–</td>
</tr>
<tr>
<td>Incentive for non-furloughed colleagues</td>
<td>(28.5)</td>
<td>(6.4)</td>
<td>(22.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Estimated lower colleague holiday hours</td>
<td>3.9</td>
<td>1.5</td>
<td>2.4</td>
<td>–</td>
</tr>
<tr>
<td>Direct Covid costs</td>
<td>(87.8)</td>
<td>(18.7)</td>
<td>(69.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Year-on-year Covid impacts within segmental profit bridges</td>
<td>218.3</td>
<td>177.7</td>
<td>32.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Salary costs for furloughed colleagues</td>
<td>(181.8)</td>
<td>(129.1)</td>
<td>(41.9)</td>
<td>(10.8)</td>
</tr>
<tr>
<td>Total cost impact in adjusted profit</td>
<td>36.5</td>
<td>48.6</td>
<td>(9.9)</td>
<td>(2.2)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs relating to Covid within adjusted profit before tax in 2020/21</th>
<th>Group £m</th>
<th>C&amp;H £m</th>
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</tr>
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<tr>
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</tbody>
</table>

<table>
<thead>
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<th>Food £m</th>
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<td>(22.0)</td>
<td>(0.1)</td>
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<td>1.5</td>
<td>2.4</td>
<td>–</td>
</tr>
<tr>
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<td>(69.0)</td>
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</tr>
<tr>
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<td>36.5</td>
<td>48.6</td>
<td>(9.9)</td>
<td>(2.2)</td>
</tr>
</tbody>
</table>
BREXIT

The following estimated cost impacts were incurred by the Group in 2020/21 as a result of Brexit.

<table>
<thead>
<tr>
<th>2020/21</th>
<th>UK Food</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative operating costs</td>
<td>9.9</td>
<td>4.1</td>
<td>14.0</td>
</tr>
<tr>
<td>Tariffs</td>
<td>–</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Net costs</td>
<td>9.9</td>
<td>6.2</td>
<td>16.1</td>
</tr>
</tbody>
</table>

Administrative costs include additional supply chain costs at the Motherwell and Faversham depots as well as costs of a digital track and trace platform, additional variable cost per tray, veterinary certification costs and the one-off costs of change. Tariffs relate to duty on exports of Clothing & Home and elements of the Food catalogue into the EU.

In addition, the Group saw adverse trade impacts including the restriction of trade on certain products, port delays and increased operational complexity reducing availability.

NET FINANCE COST

<table>
<thead>
<tr>
<th>52 weeks ended</th>
<th>53 weeks ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 Mar 21 £m</td>
</tr>
<tr>
<td>Interest payable</td>
<td>(89.9)</td>
</tr>
<tr>
<td>Interest income</td>
<td>4.7</td>
</tr>
<tr>
<td>Net interest payable</td>
<td>(85.2)</td>
</tr>
<tr>
<td>Pension net finance income</td>
<td>47.2</td>
</tr>
<tr>
<td>Unwind of discount on Scottish Limited Partnership liability</td>
<td>(4.9)</td>
</tr>
<tr>
<td>Unwind of discount on provisions</td>
<td>(2.7)</td>
</tr>
<tr>
<td>Net financial interest</td>
<td>(45.6)</td>
</tr>
<tr>
<td>Net interest payable on lease liabilities</td>
<td>(122.5)</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(168.1)</td>
</tr>
</tbody>
</table>

Net finance costs decreased £19.5m to £168.1m. This was primarily due to higher pension income due to the increased IAS19 pension surplus at last year end. In addition, there was a decrease in the interest payable on lease liabilities offset by lower interest received on deposits and higher interest payable on debt due to a credit rating downgrade and the premium paid as part of the buyback of bonds.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group profit before tax and adjusting items was £50.3m on a 53-week basis, down £352.8m on last year. The profit decrease was driven by the decline in Clothing & Home and International operating profits.

GROUP LOSS BEFORE TAX

Group loss before tax was £209.4m on a 53-week basis, down £276.6m on last year. This includes adjusting items of £259.7m on a 53 week basis (last year £335.9m).

ADJUSTING ITEMS

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures (APMs) that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. For further detail on these charges/gains and the Group’s policy for adjusting items, please see notes 1 and 3 to the financial statements.

<table>
<thead>
<tr>
<th>Adjusting items</th>
<th>53 weeks ended 27 Mar 21 £m</th>
<th>52 weeks ended 28 Mar 20 £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic programmes – Organisation</td>
<td>(133.7)</td>
<td>(13.8)</td>
<td>(119.9)</td>
</tr>
<tr>
<td>Strategic programmes – UK store estate</td>
<td>(95.3)</td>
<td>(29.3)</td>
<td>(66.0)</td>
</tr>
<tr>
<td>Strategic programmes – Other</td>
<td>(5.8)</td>
<td>(27.3)</td>
<td>21.5</td>
</tr>
<tr>
<td>Directly attributable to Covid</td>
<td>90.8</td>
<td>(163.6)</td>
<td>254.4</td>
</tr>
<tr>
<td>Intangible asset impairments</td>
<td>(79.9)</td>
<td>(13.4)</td>
<td>(66.5)</td>
</tr>
<tr>
<td>Sparks loyalty programme transition</td>
<td>(16.6)</td>
<td>–</td>
<td>(16.6)</td>
</tr>
<tr>
<td>Amortisation and fair value adjustments arising from the investment in Ocado Retail Limited</td>
<td>(14.2)</td>
<td>(16.8)</td>
<td>2.6</td>
</tr>
<tr>
<td>Remeasurement of contingent consideration including discount unwind on Ocado Retail investment</td>
<td>(6.8)</td>
<td>(2.9)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Establishing the investment in Ocado Retail Limited</td>
<td>(1.7)</td>
<td>(1.2)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Store impairments and other property charges</td>
<td>6.9</td>
<td>(78.5)</td>
<td>85.4</td>
</tr>
<tr>
<td>M&amp;S Bank charges incurred in relation to insurance mis-selling and Covid forward economic guidance provision</td>
<td>(2.4)</td>
<td>(12.6)</td>
<td>10.2</td>
</tr>
<tr>
<td>Other</td>
<td>(1.0)</td>
<td>23.5</td>
<td>(24.5)</td>
</tr>
<tr>
<td>Adjusting items</td>
<td>(259.7)</td>
<td>(335.9)</td>
<td>76.2</td>
</tr>
</tbody>
</table>
On a 53-week basis, adjusting items charges were £259.7m, with £16.9m incurred in week 53, largely related to restructuring costs.

A charge of £133.7m has been incurred in relation to organisational change. This included the integration of more flexible management structures into store operations, as well as the streamlining of store and management levels as part of the Never the Same Again programme. This resulted in a reduction of c.8,200 roles across support centres, regional management, and UK stores, with associated redundancy costs of £99.7m. We expect this restructuring to generate annualised cost savings of at least £115m.

A charge of £95.3m has been recognised in relation to store closures identified as part of transformation plans reflecting an updated view of latest closure costs as a result of an increase in the number of stores in the programme. Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated as the programme progresses with total future charges of up to c.£268m estimated over the next 10 years, bringing anticipated total programme costs since 2016 to be up to c.£926m.

A gain of £90.8m has been recognised as being directly attributable to the Covid pandemic relating to the release of a portion of the inventory provision made in the prior year compared to initial estimates offset by further costs relating to cancellations and storage. The sell-through of Clothing & Home stock has been much stronger than anticipated.

A charge of £79.9m has been recognised in relation to impairment of intangible assets, comprising £39.6m for the impairment of Per Una goodwill, and the balance for replaced, retired or decommissioned computer software assets.

Charges of £16.6m have been incurred in relation to the one-off transition costs associated with the closure of the old Sparks loyalty scheme following the launch of the new programme in July 2020.

A charge of £14.2m has been recognised in relation to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail.

A gain of £6.9m was recognised relating to the reversal of previously recognised store impairments offset by newly impaired stores. The Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme) for the current view of pressures impacting the retail industry, which is less negative overall than previously projected.

Charges of £2.4m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The Group’s share of the total insurance mis-selling and forward economic guidance (FEG) provisions of £338.3m exceeds the total offset against profit share of £225.1m to date and this deficit will be deducted from the Group’s share of future profits from M&S Bank.

The effective tax rate on profit before adjusting items was 56.5% (50.3% on a 53 week basis; 2019/20: 20.7%). The effective tax rate on statutory loss before tax was a credit of 3.4% (credit of 3.9% on a 53 week basis; 2019/20: charge of 59.3%) due to the Group statutory loss offset by the impact of disallowable adjusting items. Given the lower level of profits, the effect of the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership (“SLP”) structure has increased compared with previous years. Next year, we anticipate an effective tax rate on profit before adjusting items of c. 26% partly due to the continuation of the recapture of previous tax relief.

### LOSS/EARNINGS PER SHARE

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

Adjusted basic earnings per share was 1.1p (last year earnings of 16.7p) due to lower adjusted profit year on year. Adjusted basic earnings per share on a 53-week basis was 1.4p.

### CAPITAL EXPENDITURE

<table>
<thead>
<tr>
<th>Description</th>
<th>53 weeks ended 3 Apr 21 £m</th>
<th>52 weeks ended 28 Mar 20 £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK store remodelling</td>
<td>27.0</td>
<td>60.3</td>
<td>(33.3)</td>
</tr>
<tr>
<td>New UK stores</td>
<td>14.9</td>
<td>33.3</td>
<td>(18.4)</td>
</tr>
<tr>
<td>International</td>
<td>6.7</td>
<td>15.7</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Supply chain</td>
<td>25.2</td>
<td>39.2</td>
<td>(14.0)</td>
</tr>
<tr>
<td>IT &amp; M&amp;S.com</td>
<td>47.6</td>
<td>81.1</td>
<td>(33.5)</td>
</tr>
<tr>
<td>Property asset replacement</td>
<td>19.2</td>
<td>102.4</td>
<td>(83.2)</td>
</tr>
<tr>
<td>Acquisition of Jaeger brand</td>
<td>6.3</td>
<td>–</td>
<td>6.3</td>
</tr>
</tbody>
</table>

**Capital expenditure before property acquisitions and disposals**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property acquisitions and disposals</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Net capital expenditure</td>
<td>146.6</td>
</tr>
</tbody>
</table>

**Capital expenditure**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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<tr>
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<tr>
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<td>6.3</td>
</tr>
<tr>
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<td>(0.3)</td>
</tr>
<tr>
<td>Net capital expenditure</td>
<td>146.6</td>
</tr>
</tbody>
</table>

**Group capital expenditure before disposals**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food. Spend on New UK stores related to seven Simply Foods</td>
<td>25.2</td>
</tr>
<tr>
<td>Supply chain expenditure reflects investment in Food equipment and fleet to support anticipated volume growth, investment in a second Food ambient national distribution centre in Milton Keynes and spend on improvements to Castle Donington capabilities and our Bradford warehouse to support online expansion.</td>
<td>25.2</td>
</tr>
<tr>
<td>IT &amp; M&amp;S.com spend includes costs related to the licence for the Food ordering and allocation system and investment in digital capability for example, to support integration of more flexible management structures into store operations.</td>
<td>25.2</td>
</tr>
<tr>
<td>Property asset replacement decreased £83.2m due to the prior year asset replacement programme in stores, although this will normalise towards pre-pandemic levels going forwards.</td>
<td>25.2</td>
</tr>
</tbody>
</table>

**TAXATION**

The effective tax rate on profit before adjusting items was 56.5% (50.3% on a 53 week basis; 2019/20: 20.7%). The effective tax rate on statutory loss before tax was a credit of 3.4% (credit of 3.9% on a 53 week basis; 2019/20: charge of 59.3%) due to the Group statutory loss offset by the impact of disallowable adjusting items. Given the lower level of profits, the effect of the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership (“SLP”) structure has increased compared with previous years. Next year, we anticipate an effective tax rate on profit before adjusting items of c. 26% partly due to the continuation of the recapture of previous tax relief.
### CASH FLOW

<table>
<thead>
<tr>
<th>Description</th>
<th>52 weeks ended 28 Mar 20</th>
<th>Restated £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating profit</td>
<td>222.2</td>
<td>590.7</td>
<td>(368.5)</td>
</tr>
<tr>
<td>Depreciation and amortisation before adjusting items</td>
<td>603.1</td>
<td>632.5</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Cash lease payments</td>
<td>(316.6)</td>
<td>(335.7)</td>
<td>19.1</td>
</tr>
<tr>
<td>Working capital</td>
<td>268.1</td>
<td>(67.8)</td>
<td>335.9</td>
</tr>
<tr>
<td>Defined benefit scheme pension funding</td>
<td>(37.1)</td>
<td>(37.9)</td>
<td>0.8</td>
</tr>
<tr>
<td>Capex and disposals</td>
<td>(203.8)</td>
<td>(325.9)</td>
<td>122.1</td>
</tr>
<tr>
<td>Financial interest and taxation</td>
<td>(81.8)</td>
<td>(71.1)</td>
<td>89.3</td>
</tr>
<tr>
<td>Investment in associate Ocado Retail Limited</td>
<td>11.2</td>
<td>(577.8)</td>
<td>589.0</td>
</tr>
<tr>
<td>Investment in joint venture</td>
<td>(2.5)</td>
<td>(2.5)</td>
<td>–</td>
</tr>
<tr>
<td>Employee related share transactions</td>
<td>18.5</td>
<td>9.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Proceeds from rights issue net of costs</td>
<td>–</td>
<td>574.4</td>
<td>(574.4)</td>
</tr>
<tr>
<td>Share of profit from associate</td>
<td>(78.4)</td>
<td>(2.6)</td>
<td>(75.8)</td>
</tr>
<tr>
<td>Cash received from settlement of derivatives</td>
<td>14.0</td>
<td>7.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Adjusting items outflow</td>
<td>(120.5)</td>
<td>(88.0)</td>
<td>(32.5)</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>296.4</strong></td>
<td><strong>205.7</strong></td>
<td><strong>90.7</strong></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–</td>
<td>(191.1)</td>
<td>191.1</td>
</tr>
<tr>
<td><strong>Free cash flow after shareholder returns</strong></td>
<td><strong>296.4</strong></td>
<td><strong>14.6</strong></td>
<td><strong>281.8</strong></td>
</tr>
</tbody>
</table>

#### Opening net debt excluding lease liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>53 weeks ended 3 Apr 21</th>
<th>52 weeks ended 28 Mar 20</th>
<th>Restated £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cash flow after shareholder returns</td>
<td>296.4</td>
<td>296.4</td>
<td>14.6</td>
<td>281.8</td>
</tr>
<tr>
<td>Exchange and other non-cash movements excluding leases</td>
<td>(17.8)</td>
<td>1.5</td>
<td>(19.3)</td>
<td></td>
</tr>
<tr>
<td><strong>Closing net debt excluding lease liabilities</strong></td>
<td><strong>(1,110.0)</strong></td>
<td><strong>(1,388.6)</strong></td>
<td><strong>278.6</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### Opening net debt

<table>
<thead>
<tr>
<th>Description</th>
<th>53 weeks ended 3 Apr 21</th>
<th>52 weeks ended 28 Mar 20</th>
<th>Restated £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cash flow after shareholder returns</td>
<td>296.4</td>
<td>296.4</td>
<td>14.6</td>
<td>281.8</td>
</tr>
<tr>
<td>Decrease in lease obligations</td>
<td>184.3</td>
<td>201.4</td>
<td>(17.1)</td>
<td></td>
</tr>
<tr>
<td>New lease commitments and remeasurements</td>
<td>(48.3)</td>
<td>(204.1)</td>
<td>155.8</td>
<td></td>
</tr>
<tr>
<td>Exchange and other non-cash movements</td>
<td>2.3</td>
<td>19.0</td>
<td>(16.7)</td>
<td></td>
</tr>
<tr>
<td><strong>Closing net debt</strong></td>
<td><strong>(3,515.9)</strong></td>
<td><strong>(3,950.6)</strong></td>
<td><strong>434.7</strong></td>
<td></td>
</tr>
</tbody>
</table>

2019/20 net debt and free cash flow figures have been restated. Due to a change in the Group’s accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

The business generated free cash flow of £296.4m, largely driven by working capital inflow, reduced capital expenditure and lower tax payments, which more than offset the lower adjusted operating profit.

The working capital inflow since year end 2019/20 was driven by higher payables in Clothing & Home and Food (c.£125m) largely due to the extension of payment terms for C&H suppliers and the timing of payments. Lower stock was a result of strong Easter trading and the higher stock at prior year end resulting from lockdown. Franchise receivables reduced due to travel store closures.

Lower capital expenditure largely reflects the reduction of discretionary spending as a result of the pandemic. Cash capital expenditure includes £77.2m relating to prior year capital accruals.

The decrease in financial interest and tax payments to £81.8m is due to the reduction in UK corporation tax paid reflecting the full year taxable loss position.

Defined benefit scheme pension funding of £37.1m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items cash outflow was £120.5m. This included £92.1m relating to the costs of organisational change, £10.9m in relation to the store closure programme, £6.2m paid for deep storage and fabric during the Covid pandemic, £5.6m in relation to the transition to the new Sparks loyalty programme, £2.4m for M&S Bank, and £1.7m relating to costs associated with the launch of M&S product on the Ocado Retail platform.
FINANCIAL REVIEW
CONTINUED

NET DEBT
Net debt excluding lease liabilities decreased £278.6m from the start of the year.

There was a further reduction in the value of discounted lease obligations outstanding. New lease commitments and remeasurements in the period largely relating to 11 properties were £48.3m of which 10 opened in the year. This was more than offset by £184.3m of lease repayments.

The composition of Group net debt is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>53 weeks ended 3 Apr 21 £m</th>
<th>52 weeks ended 28 Mar 20 restated £m</th>
<th>vs £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>674.4</td>
<td>254.2</td>
<td>420.2</td>
</tr>
<tr>
<td>Medium Term Notes</td>
<td>(1,682.1)</td>
<td>(1,536.2)</td>
<td>(145.9)</td>
</tr>
<tr>
<td>Current financial assets and other</td>
<td>83.2</td>
<td>96.1</td>
<td>(12.9)</td>
</tr>
<tr>
<td>Partnership liability</td>
<td>(185.5)</td>
<td>(202.7)</td>
<td>17.2</td>
</tr>
<tr>
<td><strong>Net debt excluding lease liabilities</strong></td>
<td><strong>(1,110.0)</strong></td>
<td><strong>(1,388.6)</strong></td>
<td><strong>278.6</strong></td>
</tr>
</tbody>
</table>

Lease liabilities
- Full-line stores (2,405.9) (2,562.0) 156.1
- Simply Food stores (982.6) (1,054.8) 72.2
- Offices, warehouses and other (494.5) (523.7) 29.2
- International (201.8) (235.8) 34.0

**Group net debt** (3,515.9) (3,950.6) **434.7**

2019/20 net debt and free cash flow figures have been restated. Due to a change in the Group’s accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

Of the outstanding discounted lease commitment at period end, approximately 40% related to full-line stores and 30% to Simply Food stores, with 8% relating to International leases and the balance largely relating to warehousing and offices.

DIVIDEND
We did not pay a final dividend for 2019/20 and the Board has previously announced the decision not to pay a dividend for the 2020/21 financial year.

PENSION
At 3 April 2021, the IAS 19 net retirement benefit surplus was £631.4m (2019/20: £1,902.6m). The surplus at last year end had increased significantly due to unusually high credit spreads as a result of Covid. During the year, credit spreads have reverted to more normalised levels giving rise to the decrease in the surplus.

The Trustee of the UK Defined Benefit Scheme has commenced a triennial actuarial valuation of the Scheme at 31 March 2021 as required by statute. The assumptions to be used are agreed between the Trustee and the Company. The Scheme surplus on a statutory basis was £652m at the last actuarial valuation in 2018.

In September 2020, the Scheme purchased additional pensioner buy-in policies with insurers for approximately £750m. Together with the policies purchased in April 2019 and March 2018, the Scheme has now, in total, insured around 80% of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group’s exposure to changes in longevity, interest rates, inflation and other factors.

STATEMENT OF FINANCIAL POSITION
Net assets were £2,285.8m at the year end, a decrease of 38% since the start of the year largely due to the decrease in the net retirement benefit surplus and the Group loss for the year.

Eoin Tonge, Chief Financial Officer

LIQUIDITY
At year end, the Group held cash balances of £674.4m (2019/20: £254.2m), with undrawn facilities of £1.1bn expiring April 2023. This strong liquidity position is as a result of free cashflow performance and a £300m bond issuance in November, which was used to partly refinance the bond maturity due in December 2021.

The refinancing of the Group’s December 2021 maturity, along with the successful negotiations in March 2021 to extend the relaxation of covenant measures on the revolving credit facility up to and including March 2022 mean that the Group has liquidity headroom of over £1.5bn.
RISK MANAGEMENT

The risks and uncertainties that we face as a business continue to evolve. We see risk management as an essential tool to support the successful delivery of our transformation and broader strategic priorities and allow us to respond effectively to the challenges facing our business, the retail sector and the communities we serve.

APPROACH TO RISK MANAGEMENT

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

The risk management process mirrors the M&S operating model, with each business and functional area being responsible for the ongoing communication and feedback of their existing and emerging risks. This process comprises the identification, assessment and effective mitigation of their risks, as well as continuous monitoring for changes to their risk profiles (see diagram below). This includes:

- Risks consistently identified, measured and reported against set criteria which considers both the likelihood of occurrence and potential impact to the Group, with clear ownership.
- Each business and functional area maintaining detailed risk registers with mitigation plans which are approved by their respective leadership teams and discussed with appropriate Executive Committee members.
- Direct reporting to the Audit Committee of risk and mitigating activities by each of our business and functional leadership teams on an annual basis.
- A formal half-yearly review of all risk registers by the Group Risk team.
- Forming an overarching summary view of risks, combining both top-down and bottom-up perspectives, to provide a consolidated view of Group-level risks.
- Swift and continuous action to reassess risks across the business in response to significant changes or events.
- Proactive consideration of emerging risks where the full extent and implications may not be fully understood but need to be monitored nevertheless.

The overall assessment of our principal risks and uncertainties considers the impact of changes in the external environment, our strategy, our transformation programme, core operations and our engagement with external parties.

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

Underpinning this process is the Group Risk Management Policy which continues to be reviewed to ensure that it remains appropriate for our business needs and governance responsibilities. An overview of the key features of the Policy and the principal risks and uncertainties are set out on the following pages.

The directors’ assessment of the long-term viability of M&S is also reviewed annually, mindful of the principal risks faced. The approach for assessing long-term viability can be found on page 57.

RISK MANAGEMENT PROCESS AND GOVERNANCE OVERVIEW

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

---

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

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

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

---

**Parties involved**
- M&S Board
- Audit Committee
- Executive Committee
- Group Risk team

**External reporting**
- A summarised version of principal risks for external reporting
- Review and approval by the Board and Audit Committee

---

**Internal reporting**

1. Risk identification & ownership
2. Risk assessment
3. Risk response
4. Risk monitoring, reporting & escalation

---

**Ongoing communication & feedback**

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**Top-down**

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**Bottom-up**

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The business has continued to follow our risk management disciplines and managed risks in line with good practice. Our established processes have operated to allow consideration of the principal risks and uncertainties to be undertaken in accordance with the methodology outlined on the previous page, and in line with our annual timetable. The impact of the pandemic during the year triggered the need to consider the specific consequences of the virus on the risks we manage, both at Group and at business and functional level. This activity has continued throughout the year.

Our disclosure therefore provides an overview of the key actions we have implemented and maintained as a result of the pandemic, including those that we will retain as a permanent feature of business activity. The longer-term consequences of the pandemic on our principal risks and the mitigations that feature alongside have been included within the narrative on pages 51 to 56. This should be read in conjunction with the narrative included in the business updates of the strategic report to provide an understanding of the risks and, in some instances, opportunities, facing M&S.

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**CHANGES TO OUR RISK PROFILE**

We have made the following changes to our principal risks to emphasise areas where our focus has changed, and to those where we want to strengthen the articulation of our risks and reflect their connectivity:

We are including **social, ethical and environmental considerations** as a new area of focus. This reflects our awareness of the impact of our own, and associated third-party, activities across these areas of responsibility, and our commitments to act in a manner that meets with the expectations of our stakeholders.

Following the launch of M&S products online, our previously disclosed Food Online risk has changed direction. This has been replaced with a new risk that emphasises our focus on shaping our long-term investment in Ocado Retail to drive further synergies and growth, while continuing to maintain our supply obligations.

Our articulation of the following risks have evolved more materially:

- **The focus of our Brexit risk has shifted** from the uncertainty of the event itself, to understanding and responding to the specific unknowns that remain prominent, like the implications at the end of the EU-GB grace period on the flow of product into the UK, and the long-term status of the Northern Ireland Protocol on our operations and performance.

- Our strategic third party relationships play a significant role in supporting a wide range of business activities and risk mitigation, like supporting our source-to-shelf processes, our compliance obligations and in helping maintain key infrastructure. To reflect the extensive role of our third-party relationships, we have disaggregated our previously disclosed **Third Party Management risk** and incorporated key elements into other principal risks.

- **Taking a similar approach, our Brand, loyalty and customer experience risk** has also been fragmented. A key component of this risk was the state of our loyalty programme, which had previously not evolved in line with the market and expectations. Following the successful relaunch of our Sparks programme, this risk element has been removed, but we continue to recognise the strategic importance of our loyalty programme in supporting our trading performance. In addition, delivery of good customer experience underpins a number of our other risks and we believe that all of our risks may have an overarching, adverse impact on our brand and reputation should they materialise.

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**EMERGING RISKS**

As well as understanding the spectrum of risks that we face today, awareness of emerging risks is important in driving effective strategic planning. This allows us to monitor and understand future impacts and build these into our decision-making processes. Key emerging risks that we are monitoring include:

- The impact of climate change on our operations, supply chain, regulatory environment and our ability to continue providing high quality products to our customers. Linked to this, our response to climate change risks arising from our business operations are explained in our climate-related disclosure on pages 74 to 76.

- The impact of regulatory changes, such as the potential introduction of an attestation over internal controls, similar in nature to the US Sarbanes-Oxley (“SOX”) legislation, in the UK and the replacement of the Financial Reporting Council with a new regulatory body, which could impact the strength and oversight received as well as increase the scrutiny on auditing and future reporting requirements.
WHAT WE HAVE LEARNT FROM THE PANDEMIC

The impacts of the Covid-19 pandemic as it evolved over the past year have influenced the profile of our principal risks and directed a stronger control environment, with improved flexibility, that allows key mitigating activities to be adapted in response to such events.

We have taken the opportunity to strengthen the overall governance and effectiveness of our organisational activities by re-examining our disciplines and ways of working in key areas as a result of what we have learnt from the pandemic. Many of these activities now form a part of permanent business activity.

What we have done well

The business has demonstrated great resilience and capability in responding to one of the biggest crises experienced. Our ability to determine, plan and execute changes swiftly and effectively with streamlined processes, leaner teams and enhanced technology and digital enablement are some of our key success factors. These also underpin our Never the Same Again programme that has allowed us to bring forward our transformation and emerge as a more responsive, adaptable and faster-moving business.

Key achievements include:* Maximising commercial opportunities by:

- Quickly responding to customers wanting greater flexibility, convenience, and safer shopping, by improving our website capabilities, our M&S app, expanding online fulfilment, click & collect and home delivery options.

Refocusing our strategy to:

- Establish our integrated Clothing & Home online and data business division, MS2, to maximise online opportunity.

- Use our stores as fulfilment centres for online orders, enabling better stock rotation and responsiveness to customer demand.

Delivering key transformational projects, and driving other improvements, with more focus and agility through:

- The successful transition of M&S Food online with Ocado Retail.

- Trading performance recovery
- Business transformation
- Brexit
- Ocado Retail
- Talent, culture and capability
- Food safety and integrity
- Technology and digital capability
- Business continuity and resilience
- Information security
- Corporate compliance and responsibility

Leading the pandemic response by:

- Actively influencing government guidance in the retail sector for the safe operating of our stores and warehouses.

Where we have more to do

While we have successfully navigated our business through the pandemic, we recognise that there are some areas where we need to go further to prioritise parts of our transformation and improve our disciplines, such as to:

- Accelerate our store estate transformation to meet with the needs of a modern trading environment. Executing this remains challenging due to parts of our property portfolio being considerably aged and the historic underspend in this area, which are exacerbated by the influence of the pandemic on the property market.

- Address our historically slow performance to drive improved availability and lower levels of waste, through an optimised supply chain. To address this, the business is focusing on delivering faster moving and innovative ranges at trusted value, which will allow for more efficient cost bases and improved range and volume planning.

- Being better prepared to address a similar crisis situation, like the pandemic, by ensuring that we communicate in an even more timely manner with our stores around centrally agreed response plans and activities to allow colleagues more time to prepare and execute changes effectively. This includes equipping colleagues with the required tools and guidance, as well as consistent messaging from across multiple central teams. In addition to this we need to establish stronger discipline in our stores and warehouses to follow guidance, such as around social distancing, to prevent breakouts and multiple self-isolations.

Improving our organisation and Ways of Working by:

- Using technology to enable a permanent shift towards flexible working that continues to allow the business to work remotely (locally and internationally) without the loss of business-critical systems.

- Streamlining and strengthening leadership roles.

- Restructuring our stores to focus on front-of-house service, with leaner multi-tasking teams, more flexible working, roll-out of market-leading store technology and an overall reduction in operating costs.

- Adopting technology to support assurance activities, including third-party audits, and to access live data relating to compliance activities.

- Collaborating with suppliers to use technology capabilities on product innovation, design and sampling.

- Strengthening our governance by:

- Operating a simplified delegation of authority that drives action-orientated decision-making by removing the need for excess hierarchy, which allowed us to execute changes promptly in order to optimise our pandemic response.

- Applying a more consistent approach to return on investment and increased focus on overall cash management, including working capital.

* Principal risks

1. Trading performance recovery
2. Business transformation
3. Brexit
4. Ocado Retail
5. Talent, culture and capability
6. Food safety and integrity
7. Technology and digital capability
8. Business continuity and resilience
9. Information security
10. Corporate compliance and responsibility

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Annual Report & Financial Statements 2021
HOW OUR ASSURANCE PROCESS HAS EVOLVED AS A RESULT OF THE PANDEMIC

Our Never the Same Again programme has been used to implement learnings from Covid-19 as part of our permanent Ways of Working and to support key risk mitigations.

Throughout the pandemic we have maintained robust controls over our compliance responsibilities, such as for Food Safety, and Fire, Health & Safety (FHS), and recognised the importance of continued visibility of this. Responding to the lockdowns and government guidance on safety has allowed us to demonstrate how we can evolve our assurance activities to maintain adequate visibility of controls without significantly impacting the effectiveness of our control environment.

**Assured principal risks**
- Food safety and integrity
- Corporate compliance and responsibility
- Technology and digital capabilities

**Assurance activities**

We have refined some of our assurance programmes to allow for continuous desk-based auditing combined with appropriate in-person validations that replace entirely on-site inspections.

**Where we started**
- Primarily site-based audit programmes across UK and international locations, including stores, warehouses and offices, as well as franchise-owned stores and supplier factories.
- FHS documentation largely stored locally, on paper (risk assessments, evidence of safety checks, etc).
- Manual submission of incident and accident data, used centrally to create management reporting.

**The challenge**
- Government guidance and lockdown restrictions in the UK and internationally making travel and access to sites for FHS inspections unfeasible.
- Resource pressures impacting second line assurance teams as well as the experience in stores.
- A substantial increase in external enforcement activity in the UK and internationally.

**Our response**
- We redesigned our processes by setting up remote audits, including live video streaming.
- Leading the Food industry response by setting up remote supplier factory audits internationally.
- Use of third-party assurance output to support gaps in visibility of supplier sites during remote audits (e.g. pest control reports).
- Introduced compliance self-assessments for sites, central storage of risk assessments, enabled live update of accident data and of store opening and closing checks to a central reporting system and an app.
- Actively worked with our UK Primary Authority Partner to strengthen our Covid-19 risk assessments and agree our revised assurance methodology.

**Never the Same Again**
- Risk-based audit programme with targeted on-site inspections supported by remote assessments using real-time data and digitally stored FHS information.
- Live data migrated to our Big Data platform and accessible through an app.
- Driving greater accountability at sites for actively reporting and supporting remote audits.

- In International, our assurance processes continue to be adapted as local lockdowns change in different countries. However remote audits will continue to be used in the long term, to support more frequent visibility in higher-risk areas and to upskill local teams in FHS.

Behavioural changes driven by the pandemic will keep safety at the forefront of our minds for many years.
## PRINCIPAL RISKS AND UNCERTAINTIES

<table>
<thead>
<tr>
<th>RISK</th>
<th>DESCRIPTION</th>
<th>MITIGATING ACTIVITIES</th>
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| 1    | Trading performance recovery | - Strong senior leadership team capabilities in both Food and Clothing & Home through continued targeted recruitment.  
- An established operating model consisting of a family of accountable businesses who share M&S brand values, support functions, technology and customer data.  
- Managing Directors for each of these businesses with full accountability for their performance.  
- Operating Reviews to enable executive oversight and effective governance of each business.  
- Continued delivery and discipline around cost, range, value, prices and availability to broaden customer appeal.  
- Expanded initiatives to make products available conveniently to customers through contactless home delivery and Scan & Shop. |
|      |             | Link to strategic priorities |

### Trading performance recovery

**Failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including recovery from the pandemic, would adversely impact customer experience, operational efficiency and business performance.**

**Context**
- M&S competes with a diverse range of retailers in an increasingly challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and a broad range of macroeconomic uncertainties, all of which have been exacerbated by Covid-19.
- Responding with commercial agility as we emerge from the pandemic to deliver the right product ranges and style credentials from source to shelf, with clear pricing architecture and availability, has become more imperative. Our ability to predict and meet changing customer expectations and demand as conditions ‘normalise’ will impact our success in doing this.
- Underpinning our recovery is our programme of transformational improvements, delays to which could stem our recovery and negatively impact our performance.

Oversight by Executive Committee

<table>
<thead>
<tr>
<th>Risk movement</th>
<th>Strategic priorities</th>
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<td>4 Accelerated rotation of the Store Estate</td>
</tr>
<tr>
<td></td>
<td>5 International business focused on major partnerships and online</td>
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### Business transformation

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

**Context**

Critical projects underpinning our transformation include:
- Continuing to evaluate our transformation programme in response to longer-term changes in customer behaviour, including those directed by the pandemic and Brexit.
- Reshaping, modernising and delivering a UK store estate that is fit for the future, with the right stores in the right spaces, improved integration between online and store experience as well as creating shopping facilities that drive omni-channel growth and meet the expectations of our target customers.
- Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs. Supported by investment in legacy systems.
- Functionally led transformations relating to people, technology, and digital and data are key to supporting overall business change.

Oversight by Executive Committee, Strategy and Transformation Office

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### Key developments
- **Our Never the Same Again programme clearly aligned with the strategy and objectives for each area of the business.**
- **Established an integrated online division, MS2, to turbocharge online growth for Clothing & Home, and introduced new brands.**
- **Relaunched “Remarksable” in Food to promote trusted value, and established our “Food Innovation Hub”.**
- **Proactive management of excess stock resulting from the lockdowns.**
- **Expanded our international online business, with launch of new websites providing access to more markets.**
- **Evolved our Sparks programme to reach 10m users, with access to more customer data linked to driving commercial decisions and personalised relationships.**

### Overall business change
- **Continued focus on our Never the Same Again approach to prioritise transformation delivery, balanced with robust cash management disciplines.**
- **Applying programme governance principles for all core projects with clear accountabilities and milestones in place.**
- **Maintained momentum to deliver supply chain capabilities and efficiencies across the Food and Clothing & Home businesses.**

**Key developments**
- **Set up of our Strategy and Transformation Office to drive Group-level focus, consistency and challenge.**
- **Key online growth initiatives executed and planned through Ocado Retail and MS2.**
- **Reshaping the store estate strategy to direct accelerated transformation, including prioritised site redevelopments, delivery of more new format stores and planned closures.**
- **Continued development of the Vangarde Supply Chain Programme in Food, which is delivering improved availability.**
### PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

#### Brexit

**Description:**
Failing to mitigate the continuing costs and friction arising from the complexities surrounding the border and further developments in the Trade and Cooperation Agreement ("TCA") may have a significant and long-term impact on our trading performance.

**Context:**
As a result of the implications of the UK’s exit from the European Union (EU), our EU businesses need to be reconfigured to manage new challenges. In addition, a number of uncertainties still remain following Brexit that are largely outside of our control and require continued monitoring and flexibility in our response. Key implications of these include:

- Permanent increases in cost base and time relating to the movement of goods across borders and compliance with the TCA (including the evolving requirements of the Northern Ireland Protocol and eventual end of the EU-GB grace period).
- Increased complexity and cost in effective markets, particularly the Republic of Ireland, Northern Ireland and France.
- Access to and availability of labour for our business and within the supply chain.
- Costs passed on from our suppliers as they set their post-Brexit policies.
- Viability of most-impacted suppliers and impact on product availability.

**Oversight by:** Brexit Steering Committee, the Board

**Mitigating Activities:**
- A cross-business working party remains in place to coordinate post-Brexit activity, including scenario planning with financial and operational impact assessments as long-term implications are understood.
- Risk assessments undertaken by each of our businesses to enable them to plan and execute the operational changes needed to manage Brexit.
- Regular updates to the Board and Audit Committee outlining risks and actions being undertaken.
- Continued engagement with key government and industry bodies to represent M&S’s views, including the UK Border Development Group, with access to the Department for Environment, Food & Rural Affairs, HM Revenue & Customs and the Food Standards Agency.

**Key developments:**
- Worked quickly to expand our understanding of the TCA and address immediate operational issues of product flow to our European markets.
- Continued to actively work with government and industry bodies to drive a simpler customs and exports process.
- Investigated tariff mitigation for the re-export of product, including working with HMRC to reduce the burden of tariffs, for example, Returned Goods Relief.
- Implemented a UK customs warehouse environment.
- Improved and automated activities linked to the customs process to reduce administration costs.

#### Ocado Retail

**Description:**
A failure to effectively manage the strategic and operational relationship with Ocado Retail would significantly impact the achievement of our multi-channel food strategy and our ability to deliver shareholder value.

**Context:**
- The investment in Ocado Retail is part of our strategy for improving our online reach and capability. Since the launch in September 2020, we have seen growth in the online grocery market with an upward trajectory for the future that offers us the opportunity to strengthen our investment.
- There are two core aspects of our relationship with Ocado Retail that we are actively focusing on:
  - Developing our working relationship with Ocado Retail and evolving our ways of working to ensure alignment of our strategies in a way that supports innovation and growth.
  - Maintaining a seamless supply process to support customer fulfilment – existing and in line with future growth – and seeking opportunities to expand and refine product ranges.

**Oversight by:** Ocado Retail Board

**Mitigating Activities:**
- M&S nominated directors are part of the Ocado Retail Board, with collective sign-off of business plans directing the growth of Ocado Retail.
- Established data and technology interfaces with Ocado Retail.
- Continued communication under lockdown with the Board, senior management and among the M&S-Ocado Retail operational teams.
- Continued operation of a dedicated M&S Ocado delivery team, supported by senior leadership, to coordinate sourcing, product development, product ranging, customer data and marketing.

**Key developments:**
- Completed transition of M&S products (Food and Clothing & Home) to the Ocado platform.
- Invested to expand capacity with the launch of a new customer fulfilment centre in March, and plans for two more this calendar year.
### PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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<tr>
<th>RISK</th>
<th>DESCRIPTION</th>
<th>MITIGATING ACTIVITIES</th>
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</table>
| 5    | **Talent, culture and capability**                                          | - Continued investment in external hires to strengthen capability, improve quality and diversity of talent at all levels.                                                                                           
|      |                                                                             | - Investment in internal talent to strengthen the leadership pipeline and develop our future leaders.                                                                                                                       
|      |                                                                             | - Embedded quality new starter experience across all areas to allow effective onboarding, engagement and retention.                                                                                                                               
|      |                                                                             | - Continued the project to update our HR systems.                                                                                                                                                                                                                                           |
|      |                                                                             | - Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including Board meetings.                                                                                                           |
|      |                                                                             | - Capitalising on the popularity of our M&S Alumni to engage, energise and re-attract great talent.                                                                                                                                                                                                                        |
|      | **Key developments**                                                       | - Direct Executive Committee member ownership of HR matters.                                                                                                                                                                                                                                      |
|      |                                                                             | - Progressed our plans for enhancing skills and capabilities through targeted talent, recruitment and development programmes.                                                                                                                                       |
|      |                                                                             | - Launch of an updated performance management process.                                                                                                                                                                                                                                                |
|      |                                                                             | - Total reward review completed with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age. Commenced implementing initiatives that reflect colleague expectations. |
|      |                                                                             | - Launch of a digital-specific apprenticeship programme driving digital literacy and capability building.                                                                                                                                                                                                                           |
|      | Oversight by Executive Committee                                           |                                                                                                                                                                                                                                                                                                                                                 |
| 6    | **Food safety and integrity**                                               | - Food Safety Policy and Standards, with clear accountability set at all levels.                                                                                                                                                                                                                                                                     |
|      |                                                                             | - Defined Terms of Trade, manufacturing standards, specifications for “from farm to fork” and operating procedures.                                                                                                                                                                                                                   |
|      |                                                                             | - Risk-based store, supplier and warehouse audit programmes by an independent third party, including franchise operations.                                                                                                                                                                                                                 |
|      |                                                                             | - Qualified Food Technology team, with continuing professional development.                                                                                                                                                                                                                                                                     |
|      |                                                                             | - Risk assessment process in place for new food initiatives.                                                                                                                                                                                                                                                                                        |
|      |                                                                             | - Quarterly internal review of our control framework.                                                                                                                                                                                                                                                                                              |
|      |                                                                             | - Established processes for the development and legal sign-off for product packaging.                                                                                                                                                                                                                                                                     |
|      |                                                                             | - Food Industry Intelligence Network membership at Board and Executive Committee level.                                                                                                                                                                                                                                                                   |
|      |                                                                             | - Live and tested crisis management plan for food incidents.                                                                                                                                                                                                                                                                                       |
|      | **Key developments**                                                       | - Updated operating procedures in response to lockdown restrictions and for the new initiatives launched, e.g. home delivery channels in the UK and internationally.                                                                                                                                 |
|      |                                                                             | - Remote audit and assurance programme launched for new and existing suppliers.                                                                                                                                                                                                                                                                    |
|      |                                                                             | - Covid-19 tests for technologists to enable urgent site visits.                                                                                                                                                                                                                                                                                      |
|      |                                                                             | - Enhanced monitoring of quality and customer complaints.                                                                                                                                                                                                                                                                                           |
|      |                                                                             | - Additional reporting to the leadership team of Covid-19 implications on our supplier assurance programme.                                                                                                                                                                                                                                       |
|      | Oversight by Consumer Brand Protection Committee                           |                                                                                                                                                                                                                                                                                                                                                 |

#### Risk movement
- No change
- Increased net risk exposure
- Reduced net risk exposure

#### Strategic priorities
- A strong Food business positioned for growth
- A successful transition to M&S product on Ocado Retail and growing capacity
- An omni-channel Clothing & Home business driven by a re-shaped product engine
- Accelerated rotation of the Store Estate
- International business focused on major partnerships and online
## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

### Liquidtiy and funding

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| 7    | An inability to maintain short- and long-term funding to meet business needs or to effectively manage associated risks may influence our ability to transform at pace, as well as have an adverse impact on business viability. | - A £1.1bn undrawn, revolving credit facility in place until April 2023 and £674.4m of cash and cash equivalents. - Measures implemented to manage cash and liquidity at the start of the pandemic to continue to be maintained, including:  
  - Increased scrutiny and challenge over expenditure such as discretionary and capital spend.  
  - Dividend deferral.  
  - Use of government support measures like the temporary furlough of colleagues, business rates holiday and deferral of tax payments.  
  - Agreement to relax/waive covenant conditions for our revolving credit facility.  
  - Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics.  
  - Maintained counterparty credit risk and limits in line with our risk appetite and treasury policy.  
  - Continued dialogue with the market and rating agencies.  
  - Pension fund assets fully offset pension scheme liabilities. |

**Oversight by** Executive Committee, the Board

### Social, ethical and environmental responsibility

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<tr>
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| 8    | Increasingly our customers, colleagues and investors demand reassurance that we are managing ethical and environmental issues across our business, including supply chains. Our inability to uphold adequate oversight of, and respond to, our responsibility commitments may result in failing to meet their expectations. | - Established ethical audit programme, aligned with Sedex, including annual factory audits for manufacturers globally.  
  - Risk-based ethical assessment programme in Food across all suppliers maintained.  
  - Code of Conduct and Global Sourcing Principals in place, shared with third parties and included in legal agreements.  
  - Product and raw material standards outlining environmental considerations, such as deforestation.  
  - Clothing Quality Charter and Environmental and Chemical Policy in place for all suppliers.  
  - Modern slavery training rolled out across relevant teams.  
  - Mandated use of the Sustainable Apparel Coalition’s Higg Facility Environmental Module, that measures social and environmental impacts of factories.  
  - Live and tested capabilities and protocols to respond immediately to an incident. |

**Oversight by** Executive Committee, ESG Committee

- Group Plan A programme reset with clear accountabilities set for each area in our family of businesses to address environmental and ethical standards in products, packaging, greenhouse gas emissions and waste.  
- ESG Committee established.  
- Continued strengthening of our due diligence approaches with the roll out of a Worker Voice programme in the Food business and piloting of transparency initiatives within Clothing and Home.  
- Modern Slavery Intelligence Network launched to alert M&S to issues in the Food supply chain.  
- Minimum standards for responsibility set for Clothing and Home third-party brands.
### Principal Risks and Uncertainties (Continued)

#### Technology and Digital Capability

**Description:** A failure to simplify and improve our core technology, enhance our digital capabilities and reduce our dependency on legacy systems could limit our ability to keep pace with market competition and customer expectations, preventing successful transformation.

**Context:**
- The digital world continues to evolve at an unrelenting pace, influencing consumer expectations and behaviours, as well as placing increasing demands on our technology and ways of working.
- Data underpins everything we do and we remain focused on equipping colleagues with the right tools and capabilities to drive effective decision-making.
- A simplified operating model, applications and architecture will support us in continuing to deliver capability, flexibility and cost-efficiency improvements.
- Increasing the use of tools such as AI and machine learning is fundamental to providing insights and a differentiated service to our customers.

**Oversight by:** Executive Committee

**Link to Strategic Priorities:**
- Increased personalisation of our end-to-end digital experience for customers.
- A strong Food business positioned on Ocado Retail and growing capacity.
- An omni-channel Clothing & Home business driven by a re-shaped product engine.

**Mitigating Activities:**
- An omni-channel technology strategy, supported by prioritised investment and aligned with Group and individual business strategies.
- Quarterly benefits tracking of key programmes in line with spend targets and value outcomes.
- Further investment in technology and digital innovation and capabilities to enhance both customer and colleague experience in store, like supporting the ‘10x’ store plan.
- Improved IT infrastructure, including increased bandwidth.
- Continued the shift to cloud-based technology.
- Ongoing collaboration with our technology partners to drive our Digital First ambition, e.g. TCS and Microsoft.
- Ongoing focus on technology risk, assurance maturity and roll-out of a structured IT control methodology.

**Key Developments:**
- New technology strategy and three-year investment plan that is aligned with business strategies and objectives.
- Increased adoption of our mobile app by existing and new customers providing access to valuable data.
- Successful launch of our BEAM Data Academy with digital learning programmes for all colleagues.
- Increased personalisation of our end-to-end digital customer experiences using in-house capability.
- Transforming our M&S Bank product and service offerings to create a digitally enabled shopping and payment experience for customers.

### Business Continuity and Resilience

**Description:** Failures or resilience issues at key business locations, such as at Castle Donington, our primary online Clothing & Home distribution centre, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the pandemic or a supply chain disruption, would also significantly impact business performance.

**Context:**
- As our online business grows, the scale of risk to our sales and growth ambitions increases from a sustained period off-line and an inability to fulfil online orders due to a major incident at our Castle Donington fulfilment centre.
- The loss of other locations, such as the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK, or support facilities (like for IT), could also impact us.
- Our dependency on major suppliers, service providers and business partners means that significant incidents, long-term resilience issues and recoverability for these third parties would impact our own business.
- The risk stemming from the complexity and fragility of global supply chains continues to be emphasised by the pandemic – notably, the initial impact from China and in turn from key sourcing locations like Bangladesh and India where we have a high supply dependency.

**Oversight by:** Executive Committee, Crisis Management Team

**Link to Strategic Priorities:**
- Improved IT infrastructure, including increased bandwidth.
- Ongoing collaboration with our technology partners to drive our Digital First ambition, e.g. TCS and Microsoft.
- Ongoing focus on technology risk, assurance maturity and roll-out of a structured IT control methodology.

**Mitigating Activities:**
- A dedicated and experienced Business Continuity (BC) team with an established Group Crisis Management process that continued to operate throughout the pandemic.
- Maintained updated BC plans for key activities across our operations, including offices, warehouses and IT sites in response to changing government guidance.
- Group Incident Management procedures in place, including for critical third parties.
- Risk-based BC assessments for stores, sourcing offices and warehouses and validation of key supplier arrangements.
- Insurance to cover remediation and business interruption.
- Enhanced capabilities at Castle Donington to manage technology failure.
- Active engagement with the Retail BC Association and government-led forums.
- National Counter Terrorism Information exchange member.

**Key Developments:**
- Expanded fulfilment capabilities through “buy online ship from store” (BOSS) and the use of other warehouses in our network to meet online growth.
- Continued supporting suppliers through disruptions caused by the pandemic and Brexit.
- Colleagues globally continued to work from home without the loss of any business-critical systems.
- BC dashboard launched to shift our governance programme to a live digital platform.
### Principal Risks and Uncertainties

#### Information Security

**Description**

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

**Context**

- The increasing sophistication and frequency of cyber-attacks in the retail industry and within supply chains highlight an escalating information security threat.
- Our reliance on several third parties hosting critical services and holding M&S and customer data also means weaknesses in their cyber and data controls may impact us, and requires continued assessment and oversight.
- The profile of information technology will change as we develop our data and digital capabilities, expand online services, adopt cloud more widely, deliver ‘intelligent’ stores, and increase our reliance on insightful data.
- Longer-term changes stemming from the pandemic such as the increase in customers using e-commerce, the growing number of digital and mobile shopping channels and changes in the pattern of office/home working, all impact the overall risk.

**Mitigating Activities**

- Dedicated Information Security function, with multi-disciplinary specialists, supported by a 24-hour Security Operation Centre and mature Incident Management.
- Information Security Improvement programme delivery, aligned with our digital and data protection strategy.
- Information security obligations included in appropriate third party contracts and a risk-based assurance programme to monitor our exposure.
- Information security and data protection policies in place, with a mandatory training programme for colleagues.
- Active detection of our threat environment, with continued improvement in controls, policies and procedures.
- Embedded security throughout digital product lifecycle and operations model.
- Focused security assurance, security architecture and security hygiene around significant change activities.
- Network of Data Protection and Security Compliance Managers in priority business areas.

**Key Developments**

- Prioritised investment to improve our ability to detect and respond to the increase in breaches during the pandemic.
- Completion of two independent cyber security reviews.
- Formal review of security controls in international offices.
- Targeted information security and Cyber Resilience review of key suppliers.

**Oversight**

Executive Committee

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Mitigating Activities</th>
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<td>11</td>
<td>Information Security</td>
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</tr>
<tr>
<td>12</td>
<td>Corporate Compliance and Responsibility</td>
<td>- Code of Conduct in place and underpinned by policies and procedures in core areas of regulation and responsibility, including human rights, modern slavery, anti-bribery and corruption, health and safety, food safety, national minimum wage, equal pay, cyber, data security and privacy, and financial services and consumer credit regulations. - Business-wide mandatory training programme for higher-risk regulatory areas, like health and safety, anti-bribery and corruption, data privacy, and information security. - Established in-house regulatory legal team in place, including specialist solicitors, which conducts horizon scanning on key regulatory and legislative changes. - Issue leaders embedded in the business to drive compliance in key risk areas, e.g. GSCOP (Groceries Supply Code of Practice) and ethical sourcing. - Continued proactive engagement with regulators, legislators, trade bodies and policy makers. - Maintained monitoring and regulatory reporting commitments on environmental and social issues. - Continued operating auditing and monitoring systems. - Customer feedback and public sentiment on regulatory compliance is monitored, including social media trends.</td>
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**Key Developments**

- First cycle of reporting Code of Conduct compliance to the Audit Committee.
- Established remote audit programmes for owned and third-party operations during the lockdowns globally.
The UK Corporate Governance Code requires us to issue a ‘viability statement’ declaring whether we believe the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls. In assessing viability, the Board considered a number of key factors, including our business model (see page 9), our strategy (see page 7), approach to risk management (see page 47) and our principal risks and uncertainties (see pages 48 to 56).

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

The Group continues to have to evolve, particularly as there remains significant political and economic uncertainty resulting from the Covid-19 pandemic, and customer behaviours are changing, especially in retail. In the immediate short term, we have taken, and will continue to take, measures to protect the health and safety of our customers and our colleagues. Coupled with this, there has also been disruption to supply chains caused by the pandemic and Brexit, but the Group has worked with suppliers to ensure an effective response and to minimise the impact.

The refinancing of the Group’s December 2021 maturity, along with the successful negotiations in March 2021 to extend the relaxation of covenant measures on the revolving credit facility up to and including March 2022 mean that the Group has liquidity headroom of over £1.5bn.

In assessing viability, the Board considered the position presented in the Budget and Three-Year Plan, recently approved by the Board. The process adopted to prepare the financial model for assessing the viability of the Group involved collaborative input from a number of functions across the business to model a severe but plausible downside scenario. This scenario was based on the potential financial impact from business disruption as a consequence of one, or more, of the Group’s principal risks and uncertainties materialising and both the specific risks associated with the Covid-19 pandemic and the uncertain high street trading environment. This downside scenario assumes that:

- the Covid-19 pandemic worsens over the Winter months and the Government mandates four months of lockdown restrictions between December 2021 and March 2022, resulting in store closures and a 3% decline in Food sales. Over this period, a range of 10% – 20% decline in Clothing & Home sales has been modelled, as well as a 10% decline in International sales. These declines have been set with reference to the 2020/21 results; and,
- following the cessation of the Coronavirus Job Retention Scheme in the UK, there will be a period of economic recession in the UK from October 2021 that continues on into 2022/23 and 2023/24, resulting in a decline in sales of between 1% – 5% per annum, continuing for three years, across both sides of the business.

Other scenarios linked to key principal risks (such as a failure to execute our business transformation, a failure to prevent a food safety incident, and the failure to prevent a data breach or cyber-attack) were also considered. However, the estimated financial impact of these risks cumulatively was comparable to the downside scenario outlined above. Moreover, the likelihood of all these risks occurring concurrently would be so remote as to be considered a “black swan” event. As a result, separate, further detailed modelling was not performed.

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

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

Reverse stress testing has also been applied to the model, which represents a significant decline in sales compared with the downside scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be extremely remote. Whilst the occurrence of one or more of the principal risks has the potential to affect future performance, none of them are considered likely either individually or collectively to give rise to a trading deterioration of the magnitude indicated by the reverse stress testing and to threaten the viability of the Group over the three-year assessment period.

Having reviewed the current performance, forecasts, debt servicing requirements, total facilities and risks, the Board has a reasonable expectation that the Group has adequate resources to continue in operation, meets its liabilities as they fall due, retain sufficient available cash across all three years of the assessment period and not breach the covenant under the revolving credit facility. The Board therefore has a reasonable expectation that the Group will remain commercially viable over the three-year period of assessment. The Viability Statement can be found on page 81.

The Strategic Report, including pages 1 to 57, was approved by a duly authorised Committee of the Board of Directors on 25 May 2021, and signed on its behalf by

Steve Rowe, Chief Executive
25 May 2021