ANNUAL REPORT & FINANCIAL STATEMENTS 2017

M&S
EST. 1884

Making every moment special
FINANCIAL OVERVIEW

GROUP REVENUE

£10.6bn +2.2%

GROUP PROFIT BEFORE TAX

£176.4m -63.5%

GROUP PROFIT BEFORE TAX AND ADJUSTED ITEMS

£613.8m -10.3%

INTERIM AND FINAL DIVIDEND

6.8p + 11.9p = 18.7p Level

BASIC EARNINGS PER SHARE

7.2p -70.7%

ADJUSTED EARNINGS PER SHARE

30.4p -12.6%

ABOUT OUR REPORTING

NAVIGATING THE REPORT
Throughout this document a series of icons demonstrate how we’ve integrated information about our business model with details of our strategy and risk.

PLAN A
Plan A is integrated throughout this report, demonstrating how it is embedded in every part of our business. This makes it easier for shareholders to see how our sustainability programme is creating value in our different divisions. More detailed information is available in our online 2017 Plan A Report at marksandspencer.com/plana2017.

ONLINE INFORMATION
We have comprehensive financial and company information on our website. To register for notifications, go to marksandspencer.com/investors and follow the Electronic Shareholder Communication link.

RISK

READ MORE

STRATEGY – REMUNERATION LINK

This year we are reporting on the 52-weeks to 1st April 2017 compared to last year when we reported on a 53-week basis, as every six years an additional week is included to ensure that the year-end date stays in line with the end of March. To provide a meaningful comparison with this year, all financial movements are reported on a 52-week basis, and excluding the 53rd week last year, unless otherwise noted.

Details of the 53-week comparisons can be found in the Financial Review p26.

ALTERNATIVE PERFORMANCE MEASURES
This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. New for this year, we have included a glossary on page 133 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.

REPORTING PERIOD

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INTRODUCTION

M&S IS ONE OF THE UK’S LEADING RETAILERS.

WE ARE COMMITTED TO MAKING EVERY MOMENT SPECIAL FOR OUR CUSTOMERS, THROUGH OUR HIGH QUALITY, OWN-BRAND FOOD, CLOTHING AND HOME PRODUCTS WE OFFER IN OUR 1,433 STORES WORLDWIDE AND ONLINE.
Making every food moment special is the aim of our Food business, which accounts for 60% of our UK turnover. Through the innovation, quality and choice that we offer, customers know they can come to us for every occasion, whether it is healthy cooking ideas, delicious meals from around the world or convenient food on-the-go. We sell food through 942 UK stores, including 253 owned and 383 franchise Simply Food stores.

We sell beautifully designed, high quality, own-brand clothing and homeware through 343 full-line stores, Outlets and our M&S.com website. Our Womenswear, Menswear, Kidswear, Lingerie, Beauty and Home products account for 40% of our UK turnover. With our focus on contemporary style and wardrobe essentials, we are the UK’s biggest clothing retailer by value. We are also the market leader in Womenswear, Lingerie and Menswear.

FOOD REVENUE

£5.6bn

+4.2%

NUMBER OF NEW LINES

1,600

24% of range

NUMBER OF CUSTOMERS

20.5m

+0.5m

CLOTHING & HOME REVENUE

£3.8bn

-2.8%

FULL-PRICE SALES

+2.7%

NUMBER OF CUSTOMERS

24.6m

-0.1m
We export the best of M&S Clothing & Home and Food around the world, with stores across Europe, Asia and the Middle East. We also have a growing international online business. Following a strategic review of our International business, we are focusing on our established joint venture and franchise partnerships and operating fewer wholly-owned markets.

In January 2007, we launched Plan A to address the key environmental, social and ethical challenges facing M&S. After ten years and two further updates, Plan A continues to lead the sustainable business agenda. This year we are launching a new set of commitments which have been developed to transition Plan A into a new way of working and engaging with our customers.

INTERNATIONAL

INTERNATIONAL REVENUE

£1.2bn  +10.7%

INTERNATIONAL STORES

454  -14 net new stores

TERRITORIES

55  -3

TOTAL PLAN A 2020 COMMITMENTS

107

COMMITMENTS ACHIEVED

64

COMMITMENTS NOT ACHIEVED

6

COMMITMENTS ON PLAN

25

COMMITMENTS BEHIND PLAN

11

COMMITMENTS CANCELLED

1
This year Steve has set out clear and decisive plans. I will leave an M&S that is well equipped for the digital age and totally focused on its customers. This more relevant M&S is underpinned by effective succession planning, good governance and active shareholder engagement which have been my focus during my time as Chairman.

ROBERT SWANNELL CHAIRMAN

OVERVIEW
This is my last Annual Report as Chairman after more than six years at M&S. It has been an extraordinary honour to serve this company.

Since Steve Rowe became Chief Executive, he has set out clear plans to accelerate the pace of change across M&S. By simplifying the way we do things and by focusing on the customer, we have laid solid foundations for growth. We repositioned our Clothing & Home business, made important decisions about the future shape of our UK and International store estates, and put in place fairer pay and benefits for our employees.

It has been a year of great change outside M&S as well. Last summer’s vote to leave the European Union has caused inevitable uncertainty. Nobody yet knows what the long-term effect of Brexit will be. Like many businesses we have been impacted by the depreciation of sterling, but it is our job to seize the opportunities ahead and prepare for all eventualities.

We have made some hard decisions. Some have led to significant adjustments to our profits this year and also, in the case of repositioning our Clothing & Home business, to some short-term reduction in our adjusted profits. However, these changes needed to be made for the long-term health of the business. Decisive action and strong execution have never been more important to compete in a fast-changing retail environment. These actions allow us to embrace the future from a position of strength, well equipped for a digital age and with a sustainable business model.

PERFORMANCE
I believe our food is, without exaggeration, among the best in the world. Once again, we delivered a good performance in a tough market. Sales grew as customers responded to the quality of our food and the convenience of our stores. We are very pleased with the overall performance of the Simply Food stores opened during the year. The return on capital from the format remains compelling. With product innovation remaining the backbone of our Food business and a strong, but measured, store opening programme, we have a clear path to growth.

We repositioned our Clothing & Home business for sustainable growth by ending a damaging cycle of promotions and discounts. We also refocused our ranges on stylish, wearable, great-quality essentials. By implementing a sensible, competitive pricing architecture for our customers, we have seen encouraging improvements in full-price sales. As expected, fewer promotions and less discounting resulted in lower sales. There is much work still to do but we are beginning to see signs of recovery. Steve made it clear a year ago that this repositioning would have a short-term negative impact on profits but would set us up for sustainable performance and a stronger business in the long term. A year on, we are even clearer that this was the right thing to do.

Our International business had a challenging year. However, we announced a clear strategy to focus on our strong franchise partnerships and our established joint ventures, and operate in fewer owned markets, by exiting ten owned, loss-making markets and 53 stores.

Overall, adjusted profit before tax was £613.8m, down 10.3% on last year. However, due to charges of £437.4m, Group profits fell to £176.4m. The main elements of the charges relate to the cost of implementing the new pay and pensions arrangements, and the cost of the International store closures. I was Chairman when about half of these 53 stores opened and so must accept my full share of the responsibility for this disappointing result. However, consumer behaviour has changed in the intervening years. We had already significantly scaled back our ambitions in owned markets before we announced these closure plans, and just as there was a rationale for opening the stores then, there is one for closing them now. It is essential that we adapt to our customers’ changing needs and recognise the current realities of the markets in which we operate, despite the short-term cost.

Having the right stores in the right places is also why we are reshaping our UK store portfolio, as we focus on having less, more inspiring Clothing & Home space and growing our Food space. At the end of this five-year programme we will have increased our space overall and employed more people. Our stores will be more relevant to the changing needs and habits of our customers in a digital world.
VALUES AND PLAN A

Our values of Innovation, Integrity and In Touch run through everything we do at M&S. This is a business that tries to do the right thing and this is demonstrated in many ways, from our Long Service Awards to helping disadvantaged people into work, to the charity support delivered through Plan A.

This isn’t new, it is part of what has defined us for over a century. In 1964 Lord Sief, our then Deputy Chairman, spoke about our values: “The main purpose of building up a great business should not be merely to make money,” Lord Sief said.

“A company has its responsibilities, not only to shareholders but also to the staff, the customers and the whole community in which it trades. Unless it gives satisfaction, and even happiness to all concerned, it will fail in its aims in the long term.”

His comments are as pertinent as ever and this philosophy continues to guide the way we do business at M&S.

This year marks the tenth anniversary of Plan A. I am extremely proud of the work we have done. From becoming a zero waste to landfill business and sourcing raw materials more responsibly, to our ambitious programmes to support workers throughout our global supply chain, we have sought to lead the way on truly sustainable change. We recently relaunched Plan A and the latest version is aimed at being even more relevant to customers and the communities in which we trade.

BOARD CHANGES

Since I became Chairman in 2011 I have consistently focused on succession planning as one of the most important tasks for the Board. Last year, after a rigorous process, we appointed Steve as Chief Executive, the first internal appointee for many years. Steve’s strategy is firmly in place so this is now the right time for a new Chairman to take over as plans for growth in the longer term are developed.

After an equally rigorous process led by Vindi Banga and our Nomination Committee, I will be replaced as Chairman by Archie Norman in September. Archie brings a breadth and depth of relevant experience to M&S and an extensive track record in retail and brands. I am delighted with Archie’s appointment and I wish him great success in this role.

SHAREHOLDER RETURNS AND DIVIDENDS

We know how important our dividend is to shareholders. Our policy remains progressive, with dividends broadly covered twice by earnings. Despite a reduction of 10.3% in our adjusted profits, we have decided to maintain the total dividend per share for the year at the same level as last year with the proposed payment of a final dividend of 11.9p per share; this dividend remains well covered on a cash basis.

Given the cash costs associated with our strategic change and the uncertain market conditions, we consider it is prudent not to make additional returns of cash to shareholders under our enhanced return programme.

A STRONGER COMPANY

I will leave M&S a stronger company. We are now set up to compete, with a modern distribution and logistics backbone and excellent digital, design and sourcing capabilities. I have been committed to strong governance throughout my tenure and your Board today has a balanced breadth of talent, both among the executives and the non-executives.

We have worked to increase engagement with our shareholders and employees.

Over the last six years, we have engaged our major institutional shareholders in depth in our business to ensure as much transparency as possible.

Now, through our Shareholder Panel, we are engaging with our private shareholders in an unprecedented way. In addition, through channels such as my regular meetings with the Chair of our Business Involvement Groups (BIG), M&S’s network of elected employees, and his attendance at our Board, we are engaging with our people as never before.

Having focused on these three pillars – governance, succession and engagement – I believe M&S is now better prepared for the further changes ahead.

There is no business I would have been prouder to chair than M&S. I will miss being part of it, its values and the place it holds in customers’ hearts. My colleagues at M&S are the most dedicated I have ever worked with and I never fail to be impressed by their commitment to the business.

They want M&S to succeed and they know what ‘doing the right thing’ means.

The last six years have seen profound changes in retail and at M&S, technology has transformed the way that people shop. Under Steve, change will continue unabated – it must. To meet the challenges ahead, M&S must be bold, ambitious and decisive. It must think big and execute effectively. And, as Lord Sief said, it must also give satisfaction and happiness to its customers, its employees and its communities.

Finally, I would like to thank our customers, our employees and our shareholders for their support. It has been an unforgettable privilege to be Chairman of M&S and I wish the business every success in the years ahead.
OUR BUSINESS

MARKET & CUSTOMER INSIGHTS

Our actions are driven by listening to our customers and analysing the market to build a rich and robust picture of our customers’ shopping habits and outlooks. Everything we do as a company is filtered through the lens of what we know about our customers and every decision starts with them.

UNDERSTANDING OUR CUSTOMERS

Our Customer Insight Unit (CIU) gathers feedback through a number of different channels, including store exit surveys, online surveys and reviews, till surveys, the Customer Contact Centre and focus groups, to build a comprehensive picture of what our customers want from M&S. This year, we carried out over 700,000 customer interviews, either in person or through online surveys. Within CIU, we have created a centralised data analytics team to ensure we have a single accurate view of our customers. Through anonymised data analysis, we can better understand how our customers are shopping with us by examining purchasing behaviours and patterns both in our stores and online. By understanding how our customers choose to spend their money and time at M&S, we can ensure we are always working to deliver the products and shopping experience they want.

Our Consumer Barometer gives us a regular snapshot of how consumers are feeling about their household finances and the economy in general. Every month we talk to 70,000 M&S customers across our key customer groups, as well as those who don’t shop with us regularly, to take the nation’s pulse.

We overlay this insight with external market data, such as weather patterns, travel time to our stores, local footfall data and the competitor environment, to build a solid understanding of our customers and our position in the overall retail landscape.

But gathering this crucial data is only half of the equation – it’s how we use it to put our customers centre stage that’s important. By carefully analysing all the information that we have, we can ensure we are in touch with consumer attitudes and lifestyles. The data allows us to identify patterns and groups of customers. By understanding these groups in detail, we can build our strategies from the customer upwards rather than from the boardroom downwards.

In short, the information allows us to do a better job for our most important stakeholders – the people who shop with us – so that we are more relevant, more often. By understanding and knowing our customers through careful and detailed data analysis, we can put customers right at the heart of everything we do.

WHAT CUSTOMERS ARE TELLING US

After holding up reasonably well over Christmas, consumer confidence in general dipped in the early months of 2017. People started to feel a little less certain about the wider economic outlook due to concern around issues such as rising inflation, the falling pound and uncertainty as a result of the UK’s decision to leave the European Union.

When asked about their future spending intentions, all consumers – rather than M&S customers in particular – said they were likely to trim back their discretionary spending in the months ahead due to these economic concerns. They also said they were more likely than before to put their money into experiences and events, such as trips to the cinema, gym membership or meals out, rather than into buying consumer goods on the high street.

Net optimism, a measure of how positive people are feeling, increased by 5% over the year. In terms of their biggest concerns in the immediate future, many people cited rising food prices, worries about the Brexit negotiations and geopolitical uncertainty following the American presidential election last November.

But despite all this, consumer confidence is still relatively high compared with the period between 2008 and 2013, when it suffered a prolonged slump due to the credit crisis.

More of our food shoppers say that they would recommend us to family and friends. Our Net Promoter Score (NPS), which measures customers’ willingness to recommend M&S, in Food is up four points. In Clothing & Home, while overall NPS was broadly level, we saw an improvement in ratings from our most frequent customers and in our larger stores, so we know customers are noticing the difference. Although our Clothing & Home business is still recovering, customers can see we are doing the right things. Customers find M&S.com easy to navigate and customer satisfaction has significantly improved over the last year.

HOW WE USE OUR INSIGHTS

The information we gather gives us a crucial insight into the context in which we’re trading. Our insights mean nothing unless we act on them. We share the information with all our business units and use the results to help us inform our business decisions.

From product development and design, to the content we put on our website, to our online delivery proposition – they are all guided by what our customers tell us.

This year there were many examples of how we took insights from our CIU and used them to improve our customers’ experience, for example:

→ We changed the layout of our clothing departments because of customer feedback that our stores were sometimes confusing to shop in. Until this year, we organised Womenswear by sub-brand, such as per una or Limited Edition. But this led to a fragmented shopping experience and product duplication where sub-brands had similar garments. Our stores now have clear product departments, with the key products for the season brought together at the front of the store, leading to a more intuitive shopping experience.

→ We have used our insights to increase levels of personalisation for our 5.6m Sparks members who now receive tailored offers based on their interests and shopping habits. We invite them to special Sparks events and experiences, such as wine tastings or fashion shows, depending on
how many Sparks they have and what we know they are passionate about. We are also being more targeted in our email communications by sending customers updates specifically related to their local store and area so they only get the information that is most relevant to them.

- We used quantitative data from 7,000 customers to guide our investment in improving service in our stores. This research told us customers wanted to see more Customer Assistants in our stores. We responded by putting over 3,000 more colleagues into the departments where our customers told us they value service most, including Fitting Rooms, Bra Fit, Men’s Suits and Footwear.

- We showcase our clothing collections to the fashion press twice a year – Autumn/Winter in May and Spring/Summer in November – so our customers get to see some of what’s coming next season. This year, we responded to feedback that customers increasingly want to buy into new season trends as soon as they see them with ‘See Now Buy Now’ capsule collections, enabling customers to shop key pieces from the new season straight away.

- The Clothing & Home research panel we use for product development has a customer interaction every five seconds through our dedicated panel of around 231,000 customers. With this we gain invaluable feedback on new products during design development, so we can increase the buys on customer favourites and eliminate products that score less well at the concept stage, ensuring we are shaping collections that most resonate with our customers.

- For this year’s Christmas campaign, we listened to thousands of customers to understand what they want to see from M&S at Christmas. The feedback we gathered said they wanted us to own Christmas in the traditional sense, but in a way that was surprising and different. So we created the Christmas with Love campaign starring the often unsung hero of Christmas, Mrs Claus, who epitomised the huge efforts our customers put in to making the festive season special.

This is just the beginning. The next few years present exciting opportunities. For example, since the launch of Sparks in 2015, nearly 1.5m people have downloaded our M&S app. This combination of technology and loyalty is powerful. It brings us closer to our customers and will allow us to further enrich our proposition. It will allow us to increase customer engagement. And it will allow us to drive frequency of purchase across channels and categories.

Smart use of data can boost sales and therefore create value for everyone: our customers, our employees and, ultimately, our shareholders.

**UK FOOD MARKETPLACE**

We face stiff competition across the UK food sector with rising inflation, recovery among the main four supermarkets and the continued growth of the discounters. Food retailers and suppliers also face cost headwinds due to rising raw material prices and the depreciation of sterling. However, through listening to our customers and monitoring the market, we keep on top of changing shopping habits. Consumers remain as savvy as ever and relish innovation. They are also doing smaller ‘convenience’ shops. These trends play to our strengths.

**UK CLOTHING MARKETPLACE**

The market remains highly competitive, with retailers facing cost pressures due to increasing commodity prices and the impact of the fall in sterling. At the same time, households are managing their finances carefully due to fears of inflation and political uncertainty. Customers still love treating themselves, but consumer confidence dipped in the early months of 2017. Spending on clothing is also coming under pressure as consumers spend more on experiences and retailers are vying with cinemas and restaurants for spend. However, we believe we can attract consumers by focusing on offering high quality, stylish products that are competitively priced.
MARKS AND SPENCER GROUP PLC
STRATEGIC REPORT

OVERVIEW
A year ago, I started in my role as Chief Executive by posing a series of questions that I hoped would help unlock the future of M&S, giving us a platform from which to first recover and then to grow: 2016/17 has been a year of change as we started to answer these questions, which I address below.

The steps we are taking are making a difference and we are making progress. However, as we said when we set out our plan, it has resulted in some short-term pain. Some of the action needed has been costly and profits are down. Clothing & Home sales were down year-on-year as we reduced promotions and markdown activity. We expected this and we still believe we are doing the right thing for the future of our business. We have seen encouraging signs from the increase in full-price Clothing & Home sales and in the sales growth during the key Christmas trading period. And in Food, we continued to grow ahead of the market with new stores outperforming expectations.

The business has adapted well as we start to build a sustainable foundation for the future. We have laid a lot of the groundwork for our recovery; however, we are not there yet. I want to see consistent delivery over time and I want to see us move out of recovery. Even as our performance improves, we can’t stand still. While we are still focused on recovering our business and we have a lot more to do, I am also starting to look to future growth opportunities, some of which I outline at the end of this update.

OUR CUSTOMERS
We asked how we could put customers at the heart of everything we do. Due to the changes we’ve made, we are now a more data-driven organisation where decisions are made based on what we know about our customers, not what we think we know. We conduct more customer listening groups than ever before; all trading meetings now begin with insight into our customers; and, as we celebrate ten years of leading the social and environmental agenda, we have repurposed Plan A to make it more customer-focused.

Our customer-focused changes are most keenly felt in our stores. We invested in customer service by recruiting additional colleagues into the areas we know are most important to our customers. We also rolled out our Making Every Moment Special in-store service initiative. Our new Spend It Well marketing campaign – like our Mrs Claus Christmas campaign before it – focuses squarely on our customers’ lifestyles. It taps into people’s emotional connection with M&S and is aimed at driving a reappraisal of our brand. Life is short so we should Spend It Well. The campaign encourages customers to make the most of what’s relevant for them today.

CLOTHING & HOME
We asked how we could recover and grow our Clothing & Home business. The answer lay in making a series of common sense, customer-focused changes to the way we do things. In a tough market, we are making progress.

Making Every Moment Special
Our Making Every Moment Special employee engagement programme has been transformational for our customers and our people alike. Through it, we believe we’ve taken customer service to new levels. Last summer, we gave over 70,000 store colleagues interactive training with the objective of putting customers at the heart of what we do. We encouraged them to make real-time decisions based on individual customers’ needs and we removed non-customer-facing tasks from their daily routines, giving them more time to spend with customers. The response from colleagues has been phenomenal and as positive as anything I’ve known in my 28 years at M&S. Our ‘Customer at the Heart’ site on Yammer, our internal social media network, contains thousands of examples of great service by our colleagues. Throughout our 133-year history, we have learnt that better service leads to better sales. Making Every Moment Special shows this principle in action. It has become our mantra across the business. By empowering our people to make customer-focused decisions, our sales floors are buzzing with a renewed sense of purpose.

By listening to our customers and simplifying how we do things, I believe we have the right strategy in place to make M&S a relevant, profitable and truly sustainable retailer.

STEVE ROWE CHIEF EXECUTIVE
We made shopping simpler for customers by reducing the number of times we launch new lines from 14 to nine times a year. We cut the number of garment options by 10%. We are phasing out the Indigo, Collezione and North Coast sub-brands. These measures enabled us to improve availability across our ranges. Previously, we acted too much like a ‘fast fashion’ company, prioritising frequency over quality and taking too many cues from catwalk fashions. So we improved our fits, fabrics and finishes, we increased availability and we refocused on delivering contemporary wearable style and wardrobe essentials. Our ranges are now more relevant to what customers want from M&S.

We started offering better value than ever before by reducing prices on 2,400 Clothing & Home lines. We simultaneously reduced our promotional activity. This put an end to confusing pricing which meant our products were either too expensive or too heavily discounted. Not only have these changes given clarity to customers, but they made our sales more profitable and boosted our full-price market share.

We also made our stores far easier to shop in by merchandising more of our clothes by product category rather than by brand. This change in emphasis reflected the changes we made last year to the way our teams design and buy products. Our shops are now simpler and more intuitive. They are based around customers’ needs.

We are still in the recovery phase of our plan and getting it right is absolutely crucial to our success. In May this year, we announced a new role to lead this work. Jill McDonald will join as Managing Director, Clothing, Home & Beauty and will have overall profit and loss accountability for all aspects of our Clothing & Home business, from design and sourcing through to supply chain and logistics. The scope of this role highlights the importance we are placing on continuing to recover and starting to grow Clothing & Home. We are making encouraging progress and I believe we are on the right path to growth.
**Our Operating Model**

Simplicity and accountability are key to running an agile and successful business. We are therefore changing our operating model to give us two clear profit and loss accountabilities – one for our Clothing & Home business unit and one for our Food business unit. Both sides of the business are now responsible for their own end-to-end profit & loss. As part of the change, M&S.com has moved from being a separate business unit to being a sales channel, along with Stores and International. All three channels now feed into our two business units, with our customers at the centre. Underpinning these changes is the ongoing drive for simplicity in the way we do things.

**Food**

Convenient. Special. Different. These are the reasons why customers love our food. These are also the reasons why our Food business is on a clear path to sustainable growth. We know that selling quality food from convenient locations is a winning formula: sales from the 30 owned Simply Food stores we opened this year are ahead of plan. We’ll continue to grow our Food business by opening 250 further Food stores by 2020. We’re succeeding in our aim of making every food moment special. Customers love our high levels of innovation – we renew around a quarter of our range every year – and they love the high quality of our products. We won’t accept second-rate ingredients. In a world where you get what you pay for, it shows.

This year we extended Collection, our top tier range for customers who want something extra special. And customers know they can trust us on health. It is their number one concern when it comes to buying food, so we launched 200 new products aimed at helping our customers to eat well, and extended our Made Without, Balanced for You and Eat Well ranges. The grocery market continues to be very competitive but we will continue to set ourselves apart with superior quality, innovation and convenient food in convenient locations. As we grow our Food store presence, our food will be even more accessible to more customers.

**Our People**

By thinking, working and behaving with a truly customer-centric mindset, I believe our people are integral to our success. Last year I asked what our right cost base, shape and structure was, and how this would affect our people. In April 2017, we finalised the pay and pensions changes that I outlined last year and we now reward our people in a fairer, more consistent way. I am immensely proud that we now have pay and benefit parity across the business. We won’t accept second-rate ingredients. In a world where you get what you pay for, it shows.

At the same time, customers want to shop in modern stores that offer a great experience. Our store portfolio needs to reflect how people live their lives today.

So we announced plans to rebalance our UK space to meet changing customer needs. The transformation will enable us to grow Clothing & Home sales through fewer, better stores. Over five years, we will change the use of around 25% of our space, with more of it being deployed to Food and other growth areas. Clothing & Home space will reduce by around 10%. Approximately 30 full-line stores will close, and 45 will be converted to Simply Food.

To be clear, this is neither a withdrawal nor a retrenchment. Due to our ambitious Food expansion we will have more stores in the future, not fewer. But our estate will be the shape which meets how our customers want to shop at M&S.

Our International operations have also changed. While our franchise business with our knowledgeable partners is profitable, our owned estate is not. This is unsustainable, so we are focusing on our joint venture and franchise partnerships and our growing online business, and exiting ten of our loss-making owned markets. The programme is on track. We have now closed all of our stores in China and completed employee consultations in the remaining markets. We remain a significant player on the global stage with a store or online presence in 55 markets. I believe in an international business for M&S and remain committed to it.

These changes show that we’re willing to adapt to ensure we’re in the best shape for our customers.
COSTS
Cost control remains a top priority. Our operating costs were up 3.8% this year as we put more colleagues into stores and absorbed the costs of our Food store opening programme. We funded some of this through our Crunch Costs initiative, which challenged all of our people to tackle unnecessary costs, and from simplifying our Head Office structure. Better buying initiatives, such as direct design and food packaging optimisation, mitigated the currency headwinds we saw on both sides of the business. The steps we’ve taken to transform M&S led to charges of £437.4m this year. These were largely driven by charges for International store closures and for the changes to pay and pensions.

While profits were significantly down, I continue to believe in good cash management, a robust balance sheet and a progressive dividend policy. We know how important our dividend is to shareholders big and small.

Read more in the Financial Review on p26-29

OUR CHAIRMAN
Our Chairman, Robert Swannell, has announced that he will step down in September. On behalf of all of us at M&S, I wish Robert well. He has overseen significant change at M&S. Our infrastructure now provides a strong platform for growth, and Robert has been instrumental in driving shareholder engagement, good governance and succession planning. He has also been a tremendous support to me personally over the last year. On behalf of the whole business, I would like to welcome Robert’s successor, Archie Norman.

LOOKING AHEAD
My priorities for the year ahead are to continue to recover and grow Clothing & Home and to grow our Food business. I will also establish the foundations for new paths to growth. In the UK, these will focus on areas of market share opportunity in Kidswear, Footwear, Home and Beauty. Internationally, we will explore new territories with our franchise partners. And I will continue to develop talent within the organisation.

It continues to be a privilege to lead this fantastic company. Our job as a retailer is quite simple: we must offer customers great products at the right price in physical or digital environments that they enjoy, with great service. If we do this, they will come back to us for more.

But to do this year-in, year-out, we must constantly adapt. We must adapt both to stay in tune with our customers’ needs and in the way we sell our products. Shopping habits won’t stop changing, so neither must we.

As Chief Executive, I want to make M&S agile and flexible enough to change with our customers. I want to see the end of big transformation programmes followed by years of standing still, followed by yet more transformation. Remaining relevant should be a continuous process.

By simplifying how we do things and really listening to our customers, we’ve already become more agile this year. By rationalising our Clothing ranges and reshaping our store portfolio, we’ve started to put this agility into practice. In doing this, we’ve built a solid foundation for growth. We must never stop adapting our business for our customers.

Nothing makes me prouder of the work our teams do than hearing from our customers and what they love about M&S. Those customers are the reason we’re here. They will remain at the heart of everything we do.

STEVE ROWE  CHIEF EXECUTIVE

OPERATING COMMITTEE

Steve Rowe  Chief Executive
Helen Weir  Chief Finance Officer
Patrick Bousquet-Chavanne  Executive Director, Customer, Marketing & M&S.com
Andy Adcock  Food Director

Sacha Berendji  Retail Director
Paul Friston  International Director
Dominic Fry  Communications & Investor Relations Director
David Guise  Human Resources Director

Jo Jenkins  Womenswear, Lingerie & Beauty Director
Amanda Mellor  Group Secretary and Head of Corporate Governance
We create long-term value through the effective use of our resources and relationships. We manage these in line with our core values of Inspiration, Innovation, Integrity and In Touch.

These values influence how we behave and they run through everything we do – they make the M&S difference: **making every moment special** through the products and services we offer our customers in the UK and internationally.

**THE M&S DIFFERENCE**

**1. LISTEN & RESPOND**

- **Activities:** Our customers are at the heart of everything we do, and our strategy today is more customer-focused than ever before. By understanding what drives their behaviour, both within M&S and externally, we can ensure we work to deliver the products and experiences that customers want. This year we strengthened the data and analytics team within our Customer Insight Unit (CIU), which gathers and interprets customer data, as well as a wealth of external sources. The CIU then ensures that its insights are used across our business units. Through the CIU, we can understand each customer’s needs and relationship with M&S – wherever and however they shop.

- **Outcome:** By listening to customers and responding to what they tell us, we can create products and shopping experiences that are relevant to them.

**2. STRATEGY & PLANNING**

- **Activities:** Efficient implementation of our strategy is key. This year, changes to our organisational structure saw us streamline our senior management team and bring each channel’s merchandising operations together, increasing efficiency. We also revised our operating model, which will give our two business units – Clothing & Home and Food – clear profit and loss accountability. Through our Smarter Working programme, we created a new technology hub which will roll-out significant technology improvements to increase our digital savviness across the business.

- **Outcome:** Successfully implementing our strategy allows us to improve our financial performance through increased profits and strengthened cash flow.

**3. DEVELOP & DESIGN**

- **Activities:** By fostering talent and encouraging entrepreneurialism among our people, we can continue to develop high quality products for our customers. Our product developers are experts in their fields, whether they are food technologists or experienced tailors. Our food innovation sets us apart and with talent ranging from Michelin-trained chefs to Masters of Wine, our Food team is among the best in the business. We now design 68% of our clothing ranges in-house and buy our clothes by product category rather than sub-brand.

- **Outcome:** The talent in our Food team underpins the innovation that our customers love. By developing and designing clothing in-house, we have reduced product proliferation, designed ranges characterised by a more consistent colour palette and refined our quality through improved fit, upgraded fabric and better finishes.
Activities: A strong, ethical supply chain is crucial in creating sustainable value. We work with our suppliers to ensure continuous social and environmental improvement, whether it relates to sourcing cotton or fishing more sustainably. We are committed to being more transparent about our supply chains, and our interactive Supplier Map details all the clothing, home, beauty and food factories that supply M&S. All 3,000 of our suppliers must adhere to our Global Sourcing Principles, which cover working conditions and workers’ rights. We comply with the Groceries Supply Code of Practice (GSCOP) and help build global approaches to ethical sourcing through organisations such as the Consumer Goods Forum.  

Outcome: An effective sourcing strategy creates sustainable value by driving efficiencies and margin improvement, while using our scale to deliver great quality at every price point.
OUR BUSINESS

CONNECTED VALUE

INPUTS

Our resources and relationships
Across our business, we depend upon-key resources and relationships to create financial, non-financial and strategic value.

CORE OBJECTIVES

Group financial objectives
- Grow Group revenue
- Increase earnings and returns
- Strong cash generation

Non-financial objectives
- Engage, serve and retain customers
- Foster a skilled, motivated and engaged team
- Source products with integrity
- Efficient and responsible operations

Strategic objectives
- Drive growth
- Reach customers
- Improve profitability

BUSINESS MODEL THE M&S DIFFERENCE

How our activities deliver financial value

Listen & Respond
We use comprehensive data to understand what customers want to buy and how they want to shop.

Strategy & Planning
Robust financial management ensures we are able to continue to invest in our business and deliver profitable growth for our shareholders.

Develop & Design
New ideas fuel future performance, which is why attracting and developing talent is central to the future of our business.

Source & Buy
We capitalise on the strong, long-term relationships we have with our suppliers to deliver efficiencies, improve margins and drive profitability without compromising on the quality of our products.

Brand & Sell
Our brand is at the heart of the M&S difference and we create unique products that drive financial value.

Serve & Engage
We build and maintain customer loyalty by prioritising customer service and linking it to our employee benefits.

How our activities deliver non-financial value

Listen & Respond
Our customers' trust in the M&S brand is a key point of difference. We retain this competitive advantage by doing things in the most responsible way— we do the work so our customers don't have to.

Strategy & Planning
We improve efficiency and reduce waste across the business through the effective use of our resource and sourcing systems.

Develop & Design
By cultivating talent and encouraging diversity we have an engaged and autonomous workforce empowered to put our customers first.

Source & Buy
We are leading the way on sourcing products with integrity to exceed customers' expectations on quality, safety and sustainable sourcing.

Brand & Sell
We have built our brand on robust standards of responsibly sourced products and services.

Serve & Engage
We bring our brand to life by driving engagement and participation in store, online and through community support and volunteering.

How our activities deliver strategic value

Listen & Respond
By analysing what our customers want, we ensure our growth plans are right for the future of M&S.

Strategy & Planning
Our UK store estate programme will drive sales growth by ensuring that we have an estate that reflects how our customers want to shop.

Develop & Design
By constantly improving product quality and choice, we drive growth by making M&S more relevant to our customers more often.

Source & Buy
Our progress towards a more flexible and direct sourcing operation is benefiting our Clothing & Home margins.

Brand & Sell
We sell our products through our own branded channels, empowering us with the ability to grow and develop them in the way that is right for our customers.

Serve & Engage
The rationale behind every strategic decision starts with our customer—we want a winning culture built around giving them great products and service.
We are committed to delivering sustainable value for stakeholders. Here, we summarise how our business model drives value creation, how the process is managed, and how we measure the value created.

### RELATED RISK FACTORS

#### Financial performance risks
- There are a number of risks related to how we deliver financial value:
  1. Clothing & Home recovery
  2. Margin
  3. Profitable growth
  4. Supply chain efficiency
  5. Technology
  6. Customer proposition & experience
  7. Talent & succession
  8. Brand

See Risk p32-33

#### Non-financial performance risks
- There are a number of risks related to how we deliver non-financial value:
  1. Clothing & Home recovery
  2. Food safety and integrity
  3. Corporate responsibility
  4. Information security (including cyber)
  5. Customer proposition & experience
  6. Talent & succession
  7. Brand

See Risk p32-33

#### Strategic performance risks
- There are a number of risks related to how we deliver strategic value:
  1. Clothing & Home recovery
  2. Technology
  3. Margin
  4. UK store estate
  5. Profitable growth

See Risk p32-33

### ACCOUNTABILITY

#### Financial accountability
- **BOARD**
- **OPERATING COMMITTEE**

See Governance p34-84

See Remuneration p66-78

#### Non-financial accountability
- **BOARD**
- **OPERATING COMMITTEE**
- **ADVISORY PLAN A COMMITTEE**
- **OPERATIONAL PLAN A COMMITTEE**

See Plan A Report

### OUTPUTS

#### Key financial measures
- **Group revenue**
- **Group profit before tax and adjusted items**
- **Adjusted earnings per share**
- **Dividend per share**
- **Return on capital employed**
- **Free cash flow (pre-shareholder returns)**

See KPIs p18

#### Total Food customers and average number of shops per customer
- **Total Clothing & Home customers and average number of shops per customer**
- **Employee engagement score**
- **Percentage of products with a Plan A quality**
- **Greenhouse gas emissions (tonnes)**
- **Greenhouse gas emissions (per sq ft)**

See KPIs p19

#### Food UK revenue
- **Food gross margin**
- **Food like-for-like revenue growth**
- **UK space growth – Food**
- **Clothing & Home UK revenue**
- **Clothing & Home gross margin**
- **Clothing & Home UK like-for-like revenue growth**
- **International revenue**
- **International operating profit**
- **International space growth**
- **M&S.com sales**
- **M&S.com weekly site visits**

See KPIs p20-21

### KEY OUTCOMES

#### Financial value created
- Strong profits build strong cash position
- Returns to shareholders
- Taxes to government
- Increased investment opportunities
- Employee rewards

#### Non-financial value created
- Maintained and improved reputation with consumers
- Better trained and fully committed employees
- Stronger relationships with suppliers and communities
- Culture where innovation and agility thrive

#### Strategic value created
- Growth in sales, product range and presence
- Supply chain efficiency
- Increased customer base with broadening appeal
- A more dynamic, flexible and agile business
MARKS AND SPENCER GROUP PLC

SERVE & ENGAGE

The January edition of our Adventures in Food customer newspaper was all about the new ranges, with information on some of the more unusual ingredients, tips for ways to eat more healthily and recipe ideas for creating healthy meals at home.

Communications went to all stores to educate colleagues on the new ranges and we hosted tasting events in 50 stores, giving customers the chance to try the Nourish Bowls and the new wraps and sandwiches.

We have seen a big change in how our customers shop for healthy food. As interests have shifted away from dieting, consumers are looking for ways to live healthier lifestyles every day and 81% of our customers tell us that health is their number one concern when buying food. We have also seen an increase in interest in wheat-free and plant-based eating, with vegan products being one of the biggest product requests we receive from our customers. This isn’t just vegetarians and vegans – industry data suggests there is a growing number of people in the UK who identify as flexitarians in that they eat a largely plant-based diet with the occasional addition of meat and fish.

With a 4.5% market share in the on-the-go lunchtime food market, we saw an opportunity for us to add to our Food on the Move range by bringing these trends to our customers. We also noticed there was a gap in the market for vegan-friendly lunchtime options. Our product development team went on a research trip to California, the home of healthy eating, to get ideas and inspiration. The big trend in San Francisco was for nourish bowls – colourful, wholesome salad bowls composed of vegetables, healthy grains and protein.

Taking the customer insight, market trend data and inspiration from their trip, the team developed a new range of Nourish Bowls, featuring hearty, wholesome and fresh ingredients including edamame, black rice, avocado and sweet potato. They also developed our first ever vegan sandwiches and a range of vegetable wraps, made with beetroot, pumpkin or spinach, which all contain a portion of vegetables.

Our buying teams worked with our suppliers to source unusual grains and on-trend ingredients, such as buckwheat and cauliflower couscous, to bring something new and different to our customers. The Avocado & Egg Nourish Bowl is the first product on the UK high street to use sorghum, a protein and fibre rich wholegrain similar to pearl barley, while the Edamame & Black Rice and the Sweet Potato Nourish Bowls are our first vegan Food on the Move salads.

The January edition of our Adventures in Food customer newspaper was all about the new ranges, with information on some of the more unusual ingredients, tips for ways to eat more healthily and recipe ideas for creating healthy meals at home. Communications went to all stores to educate colleagues on the new ranges and we hosted tasting events in 50 stores, giving customers the chance to try the Nourish Bowls and the new wraps and sandwiches.

We launched the new range in January, when consumers are typically looking for new ways to eat healthily. Our TV and print campaign, Adventures in Wonderfood, showcased products from the new ranges in a vibrant and exciting way, and this was supported by a coordinated campaign in our stores and editorial features on M&S.com. With its range of new flavours, we introduced the Nourish Bowls to customers as part of our lunch meal deal, and ran a special promotion for Sparks members with 10% off all Eat Well products, which included the new Food on the Move products.
We know coats are one of the most important product categories for our customers when it comes to determining their view of M&S.

Coats are quick to try on during a shopping trip and customers want to be able to easily compare the look and feel of each item. For Autumn/Winter 16, we made our coats easier to shop with a Coats destination area at the front of our stores. The area featured an event zone which showcased the key coats of the season, with unstructured coats in early autumn switching to the warmer pea coats as the weather got colder.

The pea coat is a consistently popular style and it has joined garments such as the trench and the camel coat as a timeless classic. It's also a style that is consistently popular with our customers – our Winter 15 collection featured a classic pea coat in two colours that was an instant hit and sold out early in the season. As the market leader in coats, we know this is a style we need to get right.

The £99 M&S Collection wool-mix pea coat was the star of our Autumn/Winter marketing campaign, and was available to customers in all our stores. In line with our pricing strategy to offer consistently good prices, from our £55 opening price point pea coat to the £199 100% lambswool version, we offered great value and quality at every price point.

We have set out a clear strategy to focus on style over fashion trends, and we know our customers want a consistent fit that flatters with good quality fabrics. We also know we are at our best when we focus on what we are famous for. In order to maximise the opportunity, our Womenswear team set out to create a collection of pea coats that used quality fabrics and styling to deliver a range suitable for our broad customer base.

Following the changes to the structure of our Womenswear team, our products are now designed and bought by category rather than by brand. Our Outerwear design team created a collection which took that classic shape and updated it with different colours and interesting fabrics. Using our sub-brands, the team created distinct products for our customers. This gave the range a clear point of difference across M&S Collection and the sub-brands: from the coats' length, fabric and colour to styling details such as pockets, trims or collar shape. At £55, our M&S Collection opening price point pea coat gave customers a wardrobe classic at a great price, while the per una pea coat featured gold military buttons and a faux fur collar, as we know per una customers like a touch of elegance.

With confidence in the style, we bought our classic £55 pea coat in greater depth and more colours. For the more trend-led £99 version, we bought it in the two key colours of the season – navy and khaki. Leveraging our direct sourcing capabilities, we have consolidated some of our supply base, which has enabled us to work more closely with our key suppliers to source better quality fabrics and focus on styling and fit.

We know coats are one of the most important product categories for our customers when it comes to determining their view of M&S. Coats are quick to try on during a shopping trip and customers want to be able to easily compare the look and feel of each item. For Autumn/Winter 16, we made our coats easier to shop with a Coats destination area at the front of our stores. The area featured an event zone which showcased the key coats of the season, with unstructured coats in early autumn switching to the warmer pea coats as the weather got colder.
## GROUP FINANCIAL OBJECTIVES

### GROUP REVENUE
Total Group revenue, including retail sales for owned businesses and wholesale sales to franchise partners.

Group revenues were up this year, mainly driven by the growth in our Food business as we opened new stores and an improvement in International revenues.

### GROUP PROFIT BEFORE TAX (PBT) AND ADJUSTED ITEMS
Adjusted profit provides additional information on performance, adjusting for items considered to be significant in nature and/or value.

Group PBT before adjusted items was down on last year largely due to the reduction in Clothing & Home gross profit and the increase in operating costs in the year.

### RETURN ON CAPITAL EMPLOYED (ROCE)
Return on capital employed is a relative profit measure of the returns from net operating assets.

The decrease in ROCE primarily reflects the decrease in earnings before interest, tax and adjusted items.

### ADJUSTED EARNINGS PER SHARE (EPS)
Adjusted earnings per share (EPS) is the profit before the impact of adjusted items divided by the weighted average number of ordinary shares in issue.

Basic adjusted EPS decreased primarily due to the lower profit generated in the year. The weighted average number of shares in issue during the period was 1,623.1m (last year 1,635.9m).

### DIVIDEND PER SHARE
Dividend per share declared in respect of the year.

The Board is recommending a final dividend of 11.9p per share, resulting in a total dividend of 18.7p.

### FREE CASH FLOW (PRE SHAREHOLDER RETURNS)
Free cash flow is the net cash generated by the business in the period before returns to shareholders excluding the impact of exchange rates on translation of foreign currency denominated cash balances.

We delivered free cash flow up 8.5% on last year mainly due to the impact of reduced capital expenditure, which was partially offset by weaker business performance.

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1. To provide a meaningful comparison with last year the revenue and profit KPIs are relative to the 52 week period to 26 March 2016.
## Non-Financial Objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>KPI</th>
<th>2016/17 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engage, serve and retain our customers</strong></td>
<td><strong>Foods</strong></td>
<td>Total number of UK Food customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.</td>
</tr>
<tr>
<td></td>
<td><strong>Total Customers</strong></td>
<td>20.5m</td>
</tr>
<tr>
<td></td>
<td><strong>Average Number of Shops per Year</strong></td>
<td>22.5 Level</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>Our convenient, special and different food and our continued Simply Food store opening programme continue to draw customers in.</td>
</tr>
<tr>
<td></td>
<td><strong>Clothing &amp; Home</strong></td>
<td>Total number of UK Clothing &amp; Home customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.</td>
</tr>
<tr>
<td></td>
<td><strong>Total Customers</strong></td>
<td>24.6m</td>
</tr>
<tr>
<td></td>
<td><strong>Average Number of Shops per Year</strong></td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>We are still in the recovery phase of our plan for Clothing &amp; Home. We grew the number of customers shopping through M&amp;S.com but this was more than offset by a decline in customers in our stores.</td>
</tr>
<tr>
<td><strong>Foster a skilled, motivated and engaged team</strong></td>
<td><strong>Employee Engagement</strong></td>
<td>Engagement is a key driver of performance. Our Your Say survey looks at the key drivers of employee engagement such as pride in M&amp;S and our products, feelings about M&amp;S as an employer and the role of line managers.</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>81%</td>
</tr>
<tr>
<td><strong>Source products with integrity</strong></td>
<td><strong>Products with a Plan A Quality</strong></td>
<td>79%</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>This represents an improvement of 6%. Our target is to have at least one Plan A quality in all M&amp;S products by 2020.</td>
</tr>
<tr>
<td><strong>Efficient and responsible operations</strong></td>
<td><strong>Gross Greenhouse Gas Emissions</strong></td>
<td>526,000 CO₂e -7%</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>We achieved a 7% reduction, mainly through lower carbon UK grid electricity. We also maintained our position of carbon neutrality (zero net emissions) by sourcing renewable energy and carbon offsets.</td>
</tr>
<tr>
<td></td>
<td><strong>Gross Greenhouse Gas Emissions per 1,000 sq ft</strong></td>
<td>26 tCO₂e/1,000 sq ft -10%</td>
</tr>
<tr>
<td></td>
<td><strong>2016/17 Performance</strong></td>
<td>We achieved a 10% per sq ft improvement, mainly through lower carbon UK grid electricity. This has contributed towards the 7% reduction in total gross emissions.</td>
</tr>
</tbody>
</table>
UK LFL REVENUE GROWTH

-0.8%

Definition
Sales growth from stores open at least 52 weeks and with no significant change in footage.

Performance
Sales were down slightly in a competitive market.

UK FOOD SPACE GROWTH

+5.1%

Definition
Increase in absolute Food selling space.

Performance
We increased the reach and convenience of our offer by opening 68 new Food stores, of which 38 were franchise. Franchise accounted for c.10% of new space growth.

UK LFL REVENUE GROWTH

-3.4%

Definition
Sales growth from stores open at least 52 weeks and with no significant change in footage.

Performance
As expected, Clothing & Home revenues declined 3.4% as a result of our strategy to reduce promotions and markdown activity.

UK REVENUE

£5.6bn

+4.2%

2015/16: £5.4bn

Definition
UK Food sales including sales from our owned business and sales to our UK franchisees.

Performance
Growth was driven by new space. Our strategic objectives in Food remain consistent: superior quality, innovation and convenient food in convenient locations.

UK GROSS MARGIN

32.5%

-25bps

Definition
Gross margin is the percentage of revenue retained after costs for producing and transporting goods.

Performance
Gross margin was below expectations, owing to input cost inflation and higher than anticipated waste in the second half of the year.

UK GROSS MARGIN

56.1%

+105bps

Definition
Gross margin is the percentage of revenue retained after costs for producing and transporting goods.

Performance
Gross margin was ahead of expectations. This was driven by the improvement in the buying margin which offset currency headwinds as we continued to deliver benefits from our sourcing strategy. Gross margin also benefited from reduced discounting.

KEY PERFORMANCE INDICATORS

- Drive growth
- Reach customers
- Improve profitability
- Operating profit

CLOTHING & HOME

REVENUE

£5.8bn

-3.4%

2015/16: £6.1bn

Definition
UK Clothing & Home sales from our owned business.

Performance
As expected, Clothing & Home revenues declined as a result of our strategy to reduce promotions and markdown activity. However, we are encouraged by some early evidence that our strategy is working, with full-price sales up.

FOOD

REVENUE

£5.8bn

-2.8%

2015/16: £6.0bn

Definition
UK Food sales including sales from our owned business and sales to our UK franchisees.

Performance
Growth was driven by new space. Our strategic objectives in Food remain consistent: superior quality, innovation and convenient food in convenient locations.
Total revenue from the Group’s online platforms including International online sales.

Performance: We grew sales, although these were adversely affected by the reduction in promotional activity. Full-price sales performance improved over the course of the year as we improved operational effectiveness as well as reduced discounting.

Definition: Total online revenue

Revenue 2015/16: £791.5m
+5.6%

2016/17: £836.3m

Weekly visits to our UK desktop, tablet, mobile sites and app.

We have continued to make improvements to our website over the year and now more customers than ever are shopping with us on M&S.com.

Definition: Weekly site visits

Week 52 2016: 7.4m
+11%

Week 52 2017: 8.3m

Year-on-year change in absolute selling space.

We are re-establishing our International business as a more sustainable and profitable operation with our focus on a partnership model. While we remain committed to our joint ventures in India and Greece and our owned businesses in some key markets, we are exiting owned stores in ten loss-making markets. We have closed all our stores in China and we are on track for the further planned closures to be largely completed by the end of the first half of the year.

Definition: Space growth

Space growth: -3.3%

We expect UK cost growth of c.2.5 to 3.5% as a result of new space, cost inflation and the annualisation of investment in customer service, partly offset by head office restructuring efficiencies. Cost growth will be weighted towards the first half of the year.

Operating profit before adjusted items

Adjusted operating profit provides additional information on performance adjusting for items that are considered to be significant in nature and/or value.

Performance: The improvement was due to a reduction in losses in owned markets. This followed our decision to exit ten markets and the adjusted charges we took at the point of that decision. Profits from our franchise markets were down due to lower shipments to our partners in the Middle East.

Looking ahead

In Clothing & Home we expect a space decline of 1-2%, weighted towards the end of the year. We anticipate gross margin to be +25 to -25 basis points as we seek to mitigate currency headwinds with better buying and a further reduction in discounting.

In Food, we expect space growth of c.7%, weighted towards the end of the year as we open c.90 new Simply Food stores. We anticipate input cost inflation will slightly outweigh operational efficiencies with a resulting decrease in gross margin of between 0 and -50 basis points largely weighted towards the first half.

We expect UK cost growth of c.2.5 to 3.5% as a result of new space, cost inflation and the annualisation of investment in customer service, partly offset by head office restructuring efficiencies. Cost growth will be weighted towards the first half of the year.

The 2017/18 effective tax rate on adjusted profit before tax is expected to be around 21% as a result of the Scottish Limited Partnership structure.

Capital expenditure is expected to be c.£400m as we increase the rate of Simply Food store openings.

1. Based on restated FY16 figure of 7.4m due to improvements in data capture and analytics.
OUR PEOPLE

We took action this year to simplify and modernise our business in line with our strategy to put our customers at the heart of everything we do, keep things simple and work as one team. We reduced the number of roles in our UK Head Office by 590 alongside moving 400 IT and Logistics roles out of central London. We also put in place a fairer, simpler and more consistent approach to pay. The changes, which took effect in April this year, saw us increase basic pay for our Customer Assistants to a level well above the National Living Wage and move to a single approach for premium payments. We also moved to a more consistent and sustainable approach to pensions for all M&S employees and closed the UK defined benefit pension scheme to future accrual. These changes were made following an extensive consultation process with all employees through our National Business Involvement Group (BIG), M&S’s network of elected employee representatives, and through town hall meetings and listening groups in our stores. The feedback gathered in these sessions directly influenced the outcome, which demonstrates the importance of BIG. We now have a pay and benefits package that is among the best in UK retail, which means we can both reward our store employees appropriately and continue to attract the best people to serve our customers. While no change is easy, these were necessary actions to build a robust platform for future growth. We are a more relevant and agile company as a result.

We implemented customer-facing changes too. By increasing the number of employees in our stores, we can better serve our customers. Having more people on the shop floor has had a discernible impact on customer satisfaction levels and our people’s engagement levels, creating a virtuous circle of improvement. Our Your Say survey showed that employee engagement increased again to 81%. It also highlighted areas where employees want to see an improvement – we learnt we need to do more to demonstrate the opportunities for development and this will be a focus in the year ahead.

In November, we outlined a reshaping of our UK store estate. Although this programme is in its early stages, over the next five years it will lead to change for some of our people. Our aim is to redeploy as many affected colleagues as possible and to create more jobs as we continue with our Food store opening programme. Through constant dialogue we will keep our people informed every step of the way – they will be the first to know of any changes that are planned.

Our 85,000 colleagues are the heart and soul of M&S, and we have put in place a clear strategy for our People that underpins our business strategy. We want to develop and attract great talent at all levels of our business. We want a winning culture, a diverse and inclusive workforce, and we want a fit and flexible organisation that allows our people to flourish. By fostering talent in a structured way at every level of M&S – be that on the shop floor, in our school leaver or graduate programmes or at more senior levels, our people can realise their full potential.

Our new Retail Apprenticeship programme is a prime example of fostering talent. Launched in May, we will take on 400 retail apprentices this year. They will gain experience in different parts of the business, including digital, and will finish the programme with a recognised qualification. The programme will provide the first steps to a career in retail. At M&S we want to instil an ‘anything is possible’ culture and we have great role models in a number of our senior team who started their careers in our stores. Our Marks & Start programme for people who face barriers getting into work went from strength to strength, helping over 2,900 people, around half of whom were under 25, take their first steps into work.

No business can stand still; we are focused on continuous improvement and being an agile and flexible organisation that is constantly evolving. Our long-term growth will rely on us having talented, dedicated people at our core.

MAKING EVERY MOMENT SPECIAL IN OUR COMMUNITIES

Our people believe in doing the right thing, not just saying it. Spark Something Good is M&S’s way of helping customers and colleagues make a real difference. This year, we took Spark Something Good to another seven cities, with over 4,000 customers and employees volunteering on more than 240 projects. We’re also sparking something good by working to beat cancer – our colleagues and customers raised £3.2m for Macmillan Cancer Support through a series of activities such as our involvement in the World’s Biggest Coffee Morning in stores across the country, and £2.8m for Breast Cancer Now.

EMPLOYEE DIVERSITY AS AT 1 APRIL 2017

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</table>
Our business is founded on a long-standing mutual trust between us, our suppliers and our customers. Our sustainability credentials are a key part of the M&S difference and we need to ensure our strong ethical standards remain at the forefront of everything we do. We published our inaugural Human Rights Report which outlines the steps we are taking to support and respect human rights and our plans for the future. We were one of first organisations to report against the UN Guiding Principles on Business and Human Rights Reporting Framework and the highest ranked retailer in the Corporate Human Rights Benchmark. We also extended the reach of our interactive supply chain map to include Food, Beauty and Home suppliers.

We know our strategy in Food is the right one. We will continue to make every food moment special with our differentiation, newness and quality.

CLOTHING & HOME

Our priority in Clothing & Home is to recover and grow sales. We have focused on improving quality, lowering prices and streamlining our ranges. Our performance is on an improving trajectory as a result.

Sales over the year fell by 2.8% to £3.8bn as we reduced our reliance on discounting. We grew market share in Lingerie and Kidswear, and stabilised our share in Menswear. We reduced the number of promotions from Womenswear which improved quality, lowering prices and grew sales.

FOOD

We have had a good year in a difficult environment. Sales were up 4.2% and our growth outpaced the market. Over the year, our market share rose 20bps to 4.5%.

Our focus this year was on building on our strategy, quality and convenience. We made our food more accessible by opening 68 new Food-only stores, taking the total to 636, including 383 franchise stores. Between our three formats – Foodhall, Simply Food and Food To Go – we deliver convenient food in convenient locations, with ranges tailored to each store’s location and size and offering the most relevant choice for our customers. We continue to focus on making the shopping experience as special as our food.

Constantly curious, our development team is always trying to push the boundaries of innovation. Independent tests prove that we are maintaining our lead on quality and innovation. We introduced 1,600 new lines this year, and from festive Secret, Centre Cheeses to our Texan-inspired Smokehouse BBQ collection, newness accounted for a quarter of our entire range. We extended our premium Collections range to more products for customers looking for something extra special. We introduced shoppers to exciting new fruits and vegetables, including the biggest avocado on the UK high street and bincoli, a cauliflower similar in appearance and texture to Tenderstem broccoli. We added 14 dishes from Vietnam, Thailand, Singapore and Korea to our ever-popular Taste Asia range and offered customers a delicious fresh meal in 25 minutes with our relaunched Cook range. Our product developers are constantly working to translate the theatre of restaurant desserts into something our customers can enjoy at home – hits this year included our Chocolate Melting Dome and Chocolate & Passionfruit Star.

We know our customers want great value every time they shop with us. So we reduced the number of promotions we ran and focused on delivering competitive prices every day alongside simplified promotions. We upgraded our popular Dine In offer and our Indian Takeaway meal deals, and saw sales increases of 7% and 10%, respectively. A basket of our opening price point Simply products, excluding milk for which we pay a premium to our farmers, is competitor price-matched to ensure we are offering customers great value on everyday essentials.

At Christmas, we improved service for our customers with a new Christmas Food to Order site and a better in-store collection experience – customer satisfaction increased by 20%. We hosted Taste of Christmas events in 600 stores, offering our customers inspiration and the chance to try special and new products to help them plan their Christmas dining.

Customers are increasingly concerned about the origin of their food, so maintaining the integrity of our food supply chain is essential to our success. At M&S we pride ourselves on our strong relationships with suppliers, from those with large factories and grain pots. Our expert chefs travelled to Japan to bring back the knowledge and skills required to develop a new collection of exceptional sushi using traditional methods and specialist ingredients. With specially selected Japanese rice, authentic nori seaweed, fresh wasabi and soy sauce brewed in Japan, it is our most authentic sushi range ever and customers love it – we have already sold 740,000 packs.

HEALTHY CHOICE

We want to lead the market on health by offering customers healthy ways to feel healthy. We extended our Eat Well range, and added 41 lines to our Made Without range, which has trebled in size since 2015 – sales rose 4% and 38% respectively. We introduced a wholesome store cupboard range with 37 new products across areas including dried grains and grain pots. Our expert chefs travelled to Japan to bring back the knowledge and skills required to develop a new collection of exceptional sushi using traditional methods and specialist ingredients. With specially selected Japanese rice, authentic nori seaweed, fresh wasabi and soy sauce brewed in Japan, it is our most authentic sushi range ever and customers love it – we have already sold 740,000 packs.

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Read more about our Clothing & Home strategy on p08-09

We reduced the number of promotions and lowered prices to focus on full-price clothing sales. As result full-price sales were up 2.7%. We have lowered over 2,400 prices since January 2016, particularly on opening
price points, so we are now offering our customers better value every day. We ran 89 fewer promotions and reduced the number of sales in the year from nine to six. In 2017, we will reduce this further to four. At the same time, we increased the number of tailored promotions for Sparks members so that we continue to reward our loyal customers. By removing the noise of constant promotional activity and by cutting prices, we delivered more consistent value and restored our price integrity and customers noticed the difference. For example, when we lowered the price of jeggings from £19.50 to £15, sales rose by 35% year-on-year. This resulted in an improvement in full-price sales.

We are working hard to improve the style and design of our products. In Womenswear, this means creating beautiful, high quality wardrobe essentials, the area for which M&S is famous, in one master colour palette. We know fit is one of the most important measures of quality for our customers, so we reviewed and updated our block patterns to ensure that everything from exactly where we put darts to the measurements on a neckline means we are offering a consistent, good fit. In Men’s formalwear, we reduced the number of fits from six to four while increasing the range of styles, colours and sizes. This gave clarity to shoppers and customer feedback measures on quality, fit and style were all up on the previous year.

Some of our customers told us that M&S had become too difficult to shop in, with too much product duplication leading to confusion about the sub-brands. So we are streamlining our ranges by cutting the number of sub-brands we sell, Indigo in Womenswear and Colection and North Coast in Menswear are being phased out. We also trimmed the number of clothing lines we offer by 12%. At the same time, we have increased the depth of our buys and improved availability across all Clothing & Home departments. The result was more consistent ranges with better size and colour availability.

It is now a year since we changed the structure of our Menswear team to focus on product categories rather than brands. We have also simplified how we work in Menswear, with an even greater focus on product categories that reflect how our male customers shop. Some 68% of our products are now designed in-house and our improved buying and better quality fabrics through fewer factories.

Our improved margin performance is a result of better sourcing and less reliance on promotions. Whilst there is a risk that rising sourcing costs will impact margin growth, our efficient buying operation and strong focus on costs will help mitigate this. We increased our focus on product categories for which we are best known, such as Lingerie, Schoolwear, Bedding and Bath, which resulted in market share growth in all these categories. We know where our strengths lie and these categories provide opportunities for growth. From our credibility in Food, we will grow our Cooking & Dining departments. We will capitalise on our number one position in Schoolwear to grow our school shoes market share. We also have a great opportunity in Beauty – we sold 210,000 of our innovative Beauty Advent Calendar in just two weeks, highlighting the success of offering something different to our customers.

Customers are responding positively to these changes. As we move through recovery to growth, we will continue to listen to our customers and to focus on contemporary style and wardrobe essentials with better products, prices and availability.

INTERNATIONAL

This year we announced changes to our international operations that will build a more sustainable, profitable and customer-focused International business for M&S.

International revenues were branded broadly flat at -0.1% at constant currency (up 10.7% on a reported basis) while adjusted profits grew 15.4% to £64.4m. However, performance varied across different parts of the business.

While our franchise business made a profit of £81.9m, our owned business was loss-making in a number of markets. In our franchise business, revenues from shipments to our partners declined by 3%, due to lower shipments to the Middle East as a result of the weak retail market in the region, although there was better momentum in the second half of the year. Shipments to our European partners increased, driven by new Food store openings in France, while shipments to Asia also benefited from the expansion of our Food business and new store openings.

As we announced in November, our new strategy will put our International business on a more sustainable footing by focusing on our partnership models. International opportunities for growth remain in markets where M&S’s unique offer resonates with customers. The action we are taking will make us more customer- and partner-focused, driving sustainable profit growth overseas in a capital-light way.

Our decision to exit owned stores in ten markets will result in the closure of 53 stores, the last of which is expected to shut this autumn. The affected businesses were loss-making and in markets where there is limited opportunity for growth. These closures resulted in charges of £130.5m, which significantly impacted profits this year. We also simplified our overseas multi-channel strategy, closing websites in very small markets and shifting more

OVERSEAS GROWTH

In April, we opened our new flagship store in Doha with our largest franchise partner, Al-Futtaim. The 46,000 sq ft store in the Doha Festival City Mall sells fresh food for the first time in Qatar. It also features our largest international Lingerie department, an in-store bakery and a table-waited M&S Café, which serves British classics like fish and chips and afternoon tea. The store is the 28th M&S store in the Gulf and the third in the city.

focus on leveraging our M&S.com platform and e-commerce distribution centre to fulfill international orders.

We’ve simplified our International business and remain committed to our international ambitions. We still sell our products from Dublin to Dubai and from Sydney to San Francisco. After the reorganisation, we will trade in 50 markets with over 400 stores and an online presence in 25 markets. We are just as focused on our customers internationally as we are in the UK – International customer satisfaction levels have risen significantly year-on-year. The changes will allow us to play to our strengths in markets where we have strong brand awareness, an established store estate and a loyal customer base. Going forward, we will continue to expand with our trusted franchise partners, enabling us to leverage their scale, infrastructure and local expertise.

We will focus on our successful joint ventures in India, where like-for-like clothing sales grew 9%, and Greece, where sales were up 3% on a constant currency basis. We also remain committed to our established owned business in the Republic of Ireland, which this year was affected by our strategy to reduce promotions and discounting. We will expand our popular franchised Food business in France.

In addition, we will continue to reach customers through fully localised owned and operated websites, via established marketplaces such as Myntra in India and Zalando in Europe and with our franchise partners.

REACHING OUR CUSTOMERS

In November, we outlined plans to reshape our UK store estate to ensure it remains relevant and convenient for our customers. The changing shape of retail and the growth in online has inevitably had an impact on our space requirements. This year alone, online sales rose by 5.6% on a reported basis to £836.3m (up 49% at constant currency). We will reduce our Clothing & Home space by around 10% over the next five years while
continuing to grow sales through fewer stores in better locations and through M&S.com. We are also improving the customer experience in store. As part of the transformation, we will improve around 25% of our Clothing & Home space. More space will be deployed to Food and to growth areas such as Kidswear and Home. Approximately 30 full-line stores will close. At the same time, we will open 250 new Simply Food stores to take our Food business to even more customers. This will result in us having more stores in more convenient locations at an estate that reflects how our customers want to shop with us.

Our commitment to putting our customers at the heart of everything we do has been brought to life this year through our Making Every Moment Special initiative. It’s about knowing our customers and listening to what they want. The results have seen customer service satisfaction ratings improve, and our people are energised – Making Every Moment Special has evolved into a movement within M&S. We also made changes to how we plan our clothing and our colleagues to spend more time with our customers. We put over 3,000 extra employees in key areas; we removed certain tasks that were taking colleagues off the shop floor; we introduced hosts in some of our bigger stores to greet customers; and we introduced handheld devices to improve the shopping experience. This technology gives our store colleagues access to a wealth of information that enables them to spend more time helping customers, from up-to-date stock information to letting them assist with activating Sparks offers. We also made our stores easier to shop in. Following customer feedback, we reduced co-ordinated displays and the space given to sub-brands. Meanwhile we increased space for destination areas, such as Coats and Knitwear, and put these to the front of the store. We reviewed our ranging to ensure better availability and more choice. Customers rightly want a similar experience of M&S however they shop with us and this new approach means the shopping journey in store is more aligned to that on M&S.com.

Our drive to improve availability was as relevant to M&S.com as it was for our stores and there was a significant improvement over the year. This omnichannel approach means we can be responsive to how and where our customers are shopping and make best use of stock to ensure customers get what they want. We have improved the shopping experience across all devices over the year as we made them easier to use through a series of small upgrades and page developments. We know our customers like the reliable service that shopping on M&S.com offers – our post-purchase net promoter scores are at an all-time high.

Online shopping often starts with a specific item rather than a specific retailer so we made changes to our pages to make them easier for search engines to read and list. This helps attract more online shoppers to M&S.com – in the two weeks leading up to Easter, non-paid revenue from search engines was up 29%. We are aligning our channels to give customers consistent and complementary experiences online and in store. For example, promotional activity on M&S.com now mirrors what happens in our stores. Our online tool for booking a store bra fitting is used by over 1,500 customers a day. Shop Your Way remains a crucial nexus between our physical and online stores. Two-thirds of our online transactions also touch a store at some point – whether ordering in store or picking up there. Over half of all Sparks visits are made via mobile, ordering in store or picking up there. Over half of all Sparks visits are made via mobile, making it a crucial sales and communication channel for us. Looking ahead, we will focus on improving the speed of our site, particularly on mobile, and offering a broader range of delivery options.

LISTENING TO OUR CUSTOMERS

Our Easy Dressing School Uniform, created with customer insight and help from the National Autistic Society, makes dressing for school easier, quicker and more comfortable for both parents and children. Popular items include the Boy’s trousers, which are a ‘pull up’ style, so no fiddly zips or buttons, with the care label inside the side pocket for comfort. After a customer contacted us about offering clothing for children like her grandson who have specialist needs, we worked closely with her, her grandson and other families on adapting and extending some of our bodysuits and sleepwear up to age 7-8. The range was very well received and we have since introduced more products and extended it up to age 16.

ENGAGING OUR CUSTOMERS

Amid fierce competition, it is vital that our brand remains relevant to our customers. Through our marketing activity this year we have taken a different approach to engaging with customers. It is an approach built on what they have told us, rather than what we want to tell them. It’s designed to show that we understand their lifestyles and what matters to them. It’s aimed at reinforcing an emotional connection and at sparking conversations about M&S and fresh new thinking about our brand.

Our new marketing approach focuses on the feeling and emotion people get when they shop at M&S. We first used it in our award-winning Mrs Claus Christmas campaign, which had over 22.5m online views and resulted in high customer engagement. Where previous ads have centred on the things we sell, Mrs Claus – the tale of Santa’s wife as a skilled behind-the-scenes operative – was our first ever non-product-led campaign. It aimed to tap into people’s emotional connection with M&S. Through our #lovemrsclaus social media hashtag and tie-ins with our Make Every Moment Special activity in store, Mrs Claus was a key ingredient that lifted our Christmas performance.

On the back of the campaign’s success, in May this year we introduced our new brand proposition. More than a tagline, Spend It Well is a call to action, designed to inspire and enable our customers to make every moment special by focusing on the experiences, people and things that really matter. The campaign represents a commitment to putting customers at the heart of everything we do and it is the first we have created based on deep customer insight. With its significant focus on customer experience on and offline, it aims to position M&S as an enabler of a life well lived. This is also the first time we have united both Food and Clothing & Home under a single brand philosophy. Spend It Well will sit across all digital channels, stores, marketing communications and Sparks, giving our customers a clear and consistent view of M&S.

Our Sparks membership club is pivotal when it comes to giving customers what they want and rewarding their loyalty. Nearly 1.6m members joined this year, taking total membership to 5.6m. Sparks analytics give us access to a wealth of insights that enable us to be more relevant to our customers. We aim to create a personal relationship with them, allowing us to tailor our offers and experiences. By doing this we have shown that we can encourage people to shop more frequently in different categories and via different channels, and devices, thereby creating shareholder value. We are working on making Sparks even better. Over the next year we will increase levels of personalisation, make the scheme easier to use at different customer touchpoints, and continue to drive shopper behaviour in ways that are relevant to them.

Since we launched Plan A in 2007, it has sparked some fantastic innovations. It has made us challenge the way we do things and to think differently. It has also helped us to have a positive impact on communities. The new iteration of Plan A comes with a new ambition: to increase levels of engagement with our customers by addressing the issues we know they really care about. We have identified three new priorities around which all our Plan A activity will be based: Wellbeing, Community and Planet. The launch dovetailed with our Spend It Well campaign, after all, looking after the planet and living life to the full are part of the same philosophy.

Read more about our new Plan A commitments markandspencer.com/plan

25 ANNUAL REPORT AND FINANCIAL STATEMENTS 2017
This year we are reporting on the 52 weeks to 1 April 2017 compared with last year’s 53-week year. To provide a more meaningful comparison with last year, all financial movements in this section are reported relative to the 52 weeks to 26 March 2016, unless otherwise noted.

During the year we set out our new strategy to put M&S on a more sustainable footing and establish the basis for future growth. Although we are confident that these actions are the right ones to recover and grow M&S, they have not come without significant cost. As a result, on a 53-week reported basis Group profit before tax was down £3.9% to £176.4m (last year £188.8m) and profit before tax and adjusted items was £613.8m, down 11.0% (last year £689.6m).

OUR OPERATING PERFORMANCE

In Food, we continued to outperform a challenging grocery market, with revenue up 4.2% to £5.6bn (last year £5.4bn). Driving growth through our store opening programme, we opened 30 new owned and 38 new franchise Food stores and increased market share by 20bps to 4.5%. Food gross margin was down 25bps year-on-year due to input price pressure as a result of the fall in sterling, and higher than anticipated waste.

Clothing & Home revenue was down 2.8% at £3.8bn (last year £4.0bn), as sales were affected by our strategy to reduce our reliance on promotions and sale activity. However, we are encouraged by the increase in full-price sales, which were up 2.7%, and market share stabilisation and we are confident that we are taking the right action for the long-term success of our clothing business. Clothing & Home gross margin increased by 105bps to 56.1% as a result of lower discounting and buying margin gains as we continue to leverage our direct sourcing capabilities and scale. These factors more than offset the significant headwind as a result of the decline in value of sterling, which had a significant impact on our cost of goods.

UK operating costs were £3,390m (last year £3,266m), up 3.8%, with the primary drivers being the costs associated with investment in new space and IT, as we continue to upgrade our systems and infrastructure to support future growth.

International operating profit before adjusted items was £64.4m, up 15.4% (last year £55.8m). This improvement was due to a significant reduction in losses in owned markets; of this, £7m is a result of the provision for certain onerous leases taken as an adjusted item following our decision to exit owned stores in ten countries. Profits from our franchise markets were slightly down due to lower shipments to our franchise partners in the Middle East in the first half of the year.

Gross profit before tax was down to £176.4m (last year £188.8m on a 53-week basis) as a result of the significant charges associated with the implementation of our revised strategy. This included £132.5m for International store closures and impairments and £156.0m relating to the closure of our UK defined benefit pension scheme and changes to pay and premiums. We also continued to incur charges in relation to a provision by M&S Bank for insurance mis-selling which this year were £44.1m (last year £50.3m). Of the £437.4m of adjusting items, £80.9m were cash in the year.

Cash generation in the business remains strong with free cash flow before shareholder returns of £585.4m (last year £539.3m on a 53-week basis). During the year, we further strengthened our capital management disciplines. Capital investment was significantly down as we have completed some of our larger infrastructure projects and opened fewer full-line stores than last year. Net debt reduced by £203.6m during the year to £1.9bn.

We issued a new £300m bond in December, in advance of a $500m bond expiry in December 2017. We remain committed to a strong balance sheet and maintaining an investment grade credit rating. Our credit rating is BBB minus.

CAPITAL MANAGEMENT AND IMPROVING SHAREHOLDER RETURNS

Following several years of investment, we now have the infrastructure needed for sustainable growth. However, some of these investments have not generated the returns we had hoped for and some have cost more than they should. We are also operating in a marketplace undergoing significant changes. While we remain committed to investing in the growth of M&S, we need to do this within a tighter investment framework. Under this approach, we are already placing a greater emphasis on cash payback when assessing investments to help improve the reliability of returns. We also plan to reduce the average length of our leases, giving us greater flexibility, and to ensure we have a better mix between growth and ‘business as usual’ investments. We believe this approach will enable us to prioritise key investments while improving returns to our shareholders.

We recognise the importance of regular dividends and we are committed to delivering sustainable shareholder returns. During the year we returned £377.5m to shareholders, which included £74.5m in the form of a special dividend. Notwithstanding the decline in profits but after considering the strong cash generation characteristics of the Group, the Board decided to maintain the full year dividend at 18.7p (last year 18.7p).
During the first half, we declared a special dividend of 4.6p per share. However, given the potential cash costs associated with our strategic changes and uncertain market conditions, the Board took the prudent decision not to make an additional return of cash to shareholders under our enhanced shareholder returns programme in the second half.

Despite the fall in profit, we believe we have the right strategy in place to recover and grow M&S and this, alongside our strengthened approach to capital management, will deliver profitable, sustainable growth for our shareholders.

FULL YEAR REVIEW

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GROUP REVENUE

Group revenues were up 2.2% (up 1.1% on a constant currency basis). UK revenues were up 1.3% in total with a like-for-like decrease. International revenues were up 10.7% (-0.1% on a constant currency basis).

GROSS MARGIN

UK gross margin was 42.0%. Clothing & Home gross margin was ahead of expectations, up c.105bps year-on-year. Buying margin increased by 100bps despite currency headwinds as we continued to deliver benefits from leveraging our direct sourcing capabilities, through retendering orders, and by moving business to lower-duty locations. Reduced discounting benefited margin by c.5bps on currency translation, with constant currency sales down 0.1%.

Food gross margin declined -25bps year-on-year, which was more than expected. We generated gains from our ongoing value optimisation programme of 70bps. However, these were more than offset by an increase in input costs of 80bps, following the increase in IT related operating costs including higher depreciation from new merchandising systems. A greater proportion of costs are now being expenses as we transition to increased use of cloud based software services. As expected, around half of the anticipated c.£30m cost savings from our Head Office restructuring were delivered during the year.

UK Operating Costs were up by £124m (3.8%), with higher depreciation accounting for £26m.

STORE STAFFING

Store staff costs increased by £36m primarily driven by new space with the cost of the annual pay review and investments in improved store service largely offset by business efficiencies.

Within other store costs, new space drove the increase, with occupancy cost, inflation largely offset by efficiencies and lower depreciation.

Distribution and warehousing costs increased by £44m. A significant proportion of this increase was driven by increased capacity to support growth in our business, with a new Food depot in Enfield and Clothing & Home warehouse in Bradford. The balance was largely attributable to increased food volumes and inflation.

Marketing costs declined by £23m. This was mostly a result of a reduction in activity and the more effective use of our marketing budget, such as our Christmas campaign where we increased customer views while reducing costs, as well as the annualisation of the launch of Sparks last year.

Central costs increased by £41m. This was largely driven by an increase in IT related operating costs including higher depreciation from new merchandising systems. A greater proportion of costs are now being expenses as we transition to increased use of cloud based software services. As expected, around half of the anticipated c.£30m cost savings from our Head Office restructuring were delivered during the year.

BUILDING A SUSTAINABLE, PROFITABLE, INTERNATIONAL BUSINESS

Franchise

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<thead>
<tr>
<th>52 weeks ended</th>
<th>1 Apr 17 £m</th>
<th>26 Mar 16 £m</th>
<th>Change on LY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise</td>
<td>314.0</td>
<td>324.4</td>
<td>-3.2</td>
</tr>
<tr>
<td>Owned</td>
<td>866.3</td>
<td>741.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Retained</td>
<td>686.9</td>
<td>580.9</td>
<td>18.2</td>
</tr>
<tr>
<td>Exit</td>
<td>179.4</td>
<td>160.9</td>
<td>11.5</td>
</tr>
</tbody>
</table>

Revenue: 1,180.3, 26 Mar 16: 1,066.2, 10.7%

Operating Profit: 64.4, 26 Mar 16: 55.8, 15.4%

During the year, International revenues rose by 10.7% driven by lower operating profi ts in Hong Kong were off set by an improved performance in the Czech Republic and India.

In our franchise business, shipments to Asia benefited from new store openings and expansion of our Food business. We saw a good performance from Europe, where shipments increased, driven by new Food store openings in France. Revenues from the Middle East were affected by de-stocking and weak retail markets, although the trend improved in the second half of the year, with a similar trend in profits.

In our retained owned business, constant currency revenues increased by 2%. Our joint venture business in India performed well, with seven new store openings during the year. Sales in the Republic of Ireland and in Hong Kong were affected by our strategy to reduce discounting. Profit in retained owned markets improved.

Lower operating profits in Hong Kong were offset by an improved performance in the Czech Republic and India.

International restructuring costs include £7m of lease costs relating to stores either closed, or in the process of closing. This contributed to the reduction of losses in exit markets. The remaining store closures will be largely complete by the end of the first half and we now expect to reduce the losses in exit markets by between £20m and £25m in the current year. Total closure costs related to the International strategy are expected to be at the lower end of the previously indicated range at c.£150m. The cash costs associated are expected to be c.£135m, with the vast majority incurred in 2017/18.

ADJUSTED OPERATING PROFIT

Group adjusted operating profit was £613.8m (last year £684.1m).

UK operating profit was £626.2m.
in relation to the closure of the defined benefit scheme, of £25m (in aggregate) over the next three years. These amounts will be recognised within adjusted items as they are incurred.

During the period, following completion of a detailed review of the UK organisation, the Group announced proposed changes to its UK Head Office structure. The changes have resulted in a net reduction of c.590 Head Office roles, with restructuring costs in the year of £15.4m inclusive of fees. The Group also announced an 18-month programme to centralise its London Head Office functions into one building. The Group has recognised a net charge of £8.6m associated with this rationalisation.

In November, the Group announced a strategic programme in relation to the UK store estate. As part of this programme, during the year ten UK stores were approved for closure resulting in closure costs of £47.3m relating to dilapidations, sub-let shortfalls, accelerated depreciation of fixtures and fittings and impairment of assets. The balance of the charges of £4.3m in the period related to the ongoing review of assumptions associated with previously closed stores. We continue to expect total adjusted items related to this programme of c.£350m.

The Group has announced its intention to close its owned stores in ten international markets resulting in the recognition of a cost of £130.5m in the period. The expected closure costs primarily relate to redundancy, lease exit and property dilapidations. The closure programmes are ongoing in all markets, with the exception of China where the final store was closed on 1 April 2017. International store impairment testing during the year identified a number of stores where current and anticipated future performance does not support the carrying value of the stores with a resulting impairment charge of £9.2m being incurred. Offsetting these store impairments are credits of £7.0m relating to the reversal of historic impairments against five stores in Ireland and the release of unutilised provisions on completion of the exit from the Balkans.

UK store impairment testing during the year has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £39.4m has been incurred in respect of the impairment of assets associated with these stores. A further charge of £9.4m has been incurred in respect of onerous lease provisions associated with some of these stores.

The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision. The Group’s income from M&S Bank has been reduced as a result of a further £44.1m of charges in the year.

A net credit of £9.8m has been recognised in the year in relation to an updated view of the estimated closure costs of legacy logistics sites associated with the strategic transition to a single tier distribution network.

During the year the Group has reached various legal settlements resulting in a net credit of £9.8m.

The cash flow impact of adjusted items was £80.9m in the year.

GROUP PROFIT BEFORE TAX

Group profit before tax and adjusted items was £176.4m, down 10.3% on last year (down 11.0% on a 53-week basis). The decrease was primarily due to the reduction in Clothing & Home gross profit and the increase in operating costs in the year.

We announced an increase in our base level of pay to £8.50 per hour with effect from 1 April 2017 resulting in a one-off charge of £127.0m. In respect of pay, we announced an increase in our base level of pay to £8.50 per hour as well as the removal of a number of premium payments. The Group has recognised a charge of £23.6m in the year in relation to this. The Group anticipates making transition payments to employees in relation to the closure of the defined benefit scheme, of c. £25m (in aggregate) over the next three years. These amounts will be recognised within adjusted items as they are incurred.

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During the year the Group has reached various legal settlements resulting in a net credit of £9.8m.

The cash flow impact of adjusted items was £80.9m in the year.

GROUP PROFIT BEFORE TAX

Group profit before tax was £176.4m, down from £184.3m last year (£488.8m on a 53 week basis). The decrease was largely due to the impact of the strategic programmes in the year including the curtailment costs associated with the closure to future accrual of the UK defined benefit pension scheme, costs associated with the closure of our owned stores in ten international markets and the UK store estate.

TAXATION

The effective tax rate on profit before tax and adjusted items was 19.9% (last year 17.2%). The effective tax rate was 34.4% (last year 17.3%) due to the impact of disallowable adjusted items. The 2017/18 effective tax rate on adjusted profit before tax is expected to be around 21% as a result of the Scottish Limited Partnership structure.
In 2017, our total cash tax contribution to the UK Exchequer was £881m (2016: £857m), split between taxes ultimately borne by the Company of £423m (2016: £419m) (i.e. corporation tax, customs duties, employer’s NIC, business rates and sundry taxes) and taxes attributable to the Company’s economic activity and which are collected on behalf of the government of £458m (2016: £438m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

**Earnings per share**

Basic earnings per share decreased by 70.7% to 7.2p (decreased by 71.1% on a 53-week basis) largely as a result of the impact of the adjusted items in the current year. The weighted average number of shares in issue during the period was 1,623.1m (last year 1,635.9m).

Basic earnings per share before adjusted items decreased by 12.6% to 30.4p (decreased by 13.1% on a 53-week basis) due to the lower adjusted profit generated in the year.

**Capital expenditure**

- **Networks**: We continue to invest in improving our supply chain and IT infrastructure although the total spend has reduced as we have completed some of our larger infrastructure projects. During the year, we opened a new Food depot in Enfield as well as investing in our warehouse in Bradford. Within M&S.com the reduction in capital expenditure reflects the move towards customer focused enhancements which are expensed and away from larger infrastructure projects.
- **Investment in IT**: comprised of upgrading our in-store WiFi networks and investing in additional handheld devices which improve efficiency and customer service in-store. In addition, as we move towards more cloud based software solutions, a larger proportion of costs are now being expensed.
- **Maintenance spend**: has increased primarily due to investment in more energy efficient in-store equipment such as lighting.

The proceeds from property disposals mainly relate to the final instalment of deferred consideration from the sale of the White City warehouse.

**Cash flow and net debt**

The reduction in capital and acquisition expenditure was partially offset by weaker business performance, with adjusted operating profit down £94.3m. Working capital was broadly flat on the year with a reduction in Clothing & Home inventory off set by a reduction in Creditors. Pension funding was up £16.9m due to an increase in payments associated with the triennial valuation. Additionally, cash payments associated with adjusted items were £17.7m higher in the year driven by the International strategy.

The business delivered free cash flow pre-shareholder returns of £585.4m and a decrease of £46.1m on the prior year.

**Governance**

The Strategic Report, including pages 30 to 33, was approved by a duly authorised Committee of the Board of Directors on 23 May 2017, and signed on its behalf by

HELEN WEIR
CHIEF FINANCE OFFICER
23 May 2017
As with any business, we face risks and uncertainties on a daily basis. Effective risk management is essential to support the achievement of our strategic and operational objectives.

**APPROACH TO RISK MANAGEMENT**

The Board is accountable for carrying out a robust assessment of the principal risks facing the Company, including those threatening its customers, people, values, reputation, business model, operations, safety, future performance, solvency or liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the risk management process.

Each business area is responsible for formally identifying and assessing its risks half-yearly, measuring them against a defined set of criteria, and considering the likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a similar exercise with members of the Operating Committee, before combining these perspectives to create a consolidated view. In compiling this complete risk profile, consideration is given to risks that are external to our business, core to our day-to-day operations, related to business change and any other that may impact achievement of our future strategy.

The principal risks identified by this process form our Group Risk Profile, which is agreed by the Operating Committee ahead of final review and approval by the Board. In addition to this periodic review, key areas of risk are subject to regular oversight and challenge by the Operating Committee and, where appropriate, by the Board and Audit Committee, during the course of the year.

The directors’ assessment of the long-term viability of the Company is also reviewed annually, mindful of the principal risks faced. Further detail on our approach to assessing long-term viability can be found on page 31.

**KEY AREAS OF FOCUS**

We continue to challenge and improve the quality of risk information generated across the business, while maintaining a simple and practical approach. Our ways of working with the Operating Committee have evolved during the year. More detailed discussion regarding the nature and extent of our principal risks has enhanced our understanding in the context of the business’s risk appetite, as well as informing our consideration of emerging risk areas.

By completing periodic ‘deep dives’ on targeted, connected risks, we can also better assess the effectiveness of the mitigating activities in place and strengthen our approach to risk management.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The details of our principal risks and uncertainties and the key mitigating activities in place to address them can be found on pages 32 and 33. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have consequently been the subject of debate at recent Board or Audit Committee meetings. The year 2016/17 has been one of change and this is reflected in the year-on-year evolution of the principal risks and uncertainties.

The Company is exposed to a wide range of risks in addition to those listed. These are monitored for any increase in likelihood or impact and to ensure that appropriate mitigations are in place.

While our capacity to influence external risks is often limited, we recognise the importance of operating a business model that has the potential to flex and adapt to a changing environment. For example, the consequences of the UK’s decision to leave the European Union will directly impact our business in a variety of ways.

While we have already been affected by the depreciation of sterling, other risks are not yet fully quantifiable. Potential risks could include trade tariffs, higher taxation and limits to the free movement of people, all of which will demand a proactive response as the implications are better understood. We have created a working group to monitor the changing risk profile: Economic uncertainty and socio-political unrest also fall under this umbrella of external risk.

**RISK APPETITE**

The UK Corporate Governance Code requires companies to determine their risk appetite in terms of the nature and extent of the principal risks faced and those they are willing to take in achieving strategic objectives. In addition to assessing whether residual risk is at an acceptable level in the context of overall risk appetite, the Board has established a set of risk appetite statements that address key risk areas and specific operations. The statements articulate risk parameters within which the Group operates, supported by our policies and procedures. In addition to ensuring that our risk appetite statements remain relevant and evolve with the business, we recognise the importance of fostering an environment where innovation can thrive. Consequently, there are times when there may be merit in operating outside agreed risk parameters, if appropriate approvals and mitigating controls are in place.
RISK INTERDEPENDENCY

We recognise that there is significant interdependency between our key risks. This diagram, based on an extract from our current Group Risk Profile, highlights how changes to one risk might impact those connected to it. By understanding the relationship between our key risks, we are better placed to ensure we are managing them appropriately and to understand our broader risk exposure. This is especially important when assessing the Company’s long-term viability.

The following is an illustrative example of a potential scenario:

In order to drive long-term Profitable Growth, we need to ensure that we proactively manage a number of our principal risks and uncertainties. We must offer and deliver a Customer Proposition & Experience that is competitive and reliable across all channels, keeping pace with changing consumer behaviours and enabling us to leverage growth opportunities as they arise. In addition, our Brand needs to evolve with consumer lifestyles and attitudes, ensuring that it resonates with customers and remains relevant as they move from one life stage to the next. To be able to realise growth opportunities, we need to identify, keep pace with and embrace developments in Technology. This will enable us to both meet and exceed customer expectations, while ensuring that our business remains innovative, resilient and flexible. All of these aims are ultimately underpinned by the strength of our people. Through effective management of Talent & Succession, we can ensure our people are best set up for success to deliver business objectives as they evolve.

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

We have modelled scenarios which group together principal risks where we believe interdependencies exist between the risks, in addition to scenarios where unconnected risks occur simultaneously. The scenario with the most significant adverse impact was reviewed against the current and projected liquidity position to conclude on the Company’s viability. The assessment also took account of additional potential mitigations available in the event of further downside factors, including a reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board.

In assessing viability, the Board considered a number of key factors, including our business model see pages 12 and 13, our strategy see page 9, risk appetite see page 30 and our principal risks and uncertainties sees pages 32 and 33. These have been reviewed in the context of our financial plans, specifically the annual budget and three-year plan. The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

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

- Bonds maturing during the assessment period will be repaid through our existing bank facilities.
- The actions included in our plan to grow sales are not fully realised or are offset by lower than expected market growth.
- The actions included in our plans to mitigate input cost increases that we expect are not delivered in full or mitigate input cost increases that are greater than expected.
- The UK government’s notification of its intention to exit the European Union will have adverse financial impacts, including input cost inflation from increased tariffs and a further weakening in sterling, as well as reduced UK consumer spending.

The Board’s assessment is that M&S is a viable business. The viability statement can be found on page 83.
Our Group Risk Profile evolves as changes in circumstances elevate risk, mitigating activities reduce net risk over time, or as new risks emerge. As a result of our new strategy, our business has undergone considerable change during the year, affecting our people and operations. This has significantly influenced the risks reflected in the Group Risk Profile, which forms the basis of the principal risks and uncertainties disclosed below.

### Principal Risks and Uncertainties

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Current Context</th>
<th>Mitigating Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>CLOTHING &amp; HOME RECOVERY</td>
<td>Our future performance will be impacted if we fail to meet customer expectations. As we continue to reassess our Clothing &amp; Home credentials, we are focused on ensuring that product relevance, pricing and quality meet customer expectations. Meeting our customers’ needs in all respects is key to driving improved performance in an increasingly competitive market.</td>
<td>Early signs of improved performance are being seen in Clothing &amp; Home following ongoing efforts to strengthen product style and quality. Irrespective of this, there is no room for complacency and achieving recovery and further growth of our Clothing &amp; Home business remains a key priority.</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>FOOD SAFETY AND INTEGRITY</td>
<td>A food safety or integrity related incident occurs or is not effectively managed. Our brand is based on trust and our customers have high expectations of both the quality and integrity of our food. It is of paramount importance that we effectively manage safety and integrity, especially as we continue to grow our global food business.</td>
<td>While we set our own exacting standards, the external pressures facing the food industry are continually evolving. Fraudulent supply chain behaviour, supplier cost pressures, innovation demands and stringent regulatory requirements are just some of the contributors to this risk.</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>CORPORATE RESPONSIBILITY</td>
<td>Our reputation as a sustainable retailer relies on our ability to meet our social responsibility agenda and stakeholder expectations. Our sustainability credentials have historically been a key differentiator in the retail market. As our peers place greater focus on this and the regulatory environment continues to develop, it is essential that we continue to evolve our aims, maintain strong ethical standards and meet stakeholder expectations.</td>
<td>Our business values and practices are being influenced by a broader range of factors than ever before, including modern slavery and human rights. It is essential that our commitment to our ethical standards remains at the forefront of our behaviours, especially during a period of significant change.</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>INFORMATION SECURITY (INCLUDING CYBER)</td>
<td>We experience a major information security breach. Our business, and society, continues to be subject to external threats to security – including external hackers and viruses, physical security attacks or sensitive data being lost or accessed without authorisation.</td>
<td>Experiences across the corporate landscape have continued to highlight the real threat of cyber and physical security exposure. The external threat profile is ever changing, becoming more sophisticated and more unpredictable. In addition, regulatory responsibilities in relation to data protection are becoming increasingly stringent, including the implementation of the General Data Protection Regulation from 2018.</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>TECHNOLOGY</td>
<td>To support future profitable growth, we need to keep pace and develop our technology capability. Our business needs to identify, keep pace with and embrace developments in technology. This will encompass a range of technology demands driven by the needs of our customers, deployment of tools that promote effective and flexible working and maintaining an overarching IT infrastructure that enables resilient business delivery.</td>
<td>The ever-increasing importance of technology in meeting customer needs, successfully growing our business and supporting our people means this remains an area of change and focus.</td>
</tr>
</tbody>
</table>

**Risk key:**
- New risk
- Evolved from prior year
- No material change to risk
## Principal Risks and Uncertainties

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
<th>Current Context</th>
<th>Mitigating Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Customer Proposition &amp; Experience</td>
<td>Our business recognises the need to deliver a reliable and competitive customer proposition across all channels to keep pace with changing consumer behaviours, drive performance and leverage growth opportunities.</td>
<td>Appointed dedicated Head of Customer Experience. Omnichannel approach adopted to drive consistent experiences online and in store. Projective monitoring of social media to observe and respond to trends in customer experience. Further integration of M&amp;S.com functions within core teams to drive consistency across all channels. Robust business continuity plans, incident reporting and management procedures in place across all channels. Ongoing review of future strategic opportunities to meet customer needs.</td>
</tr>
<tr>
<td>7</td>
<td>Talent &amp; Succession</td>
<td>Our people continue to be a pillar of our business and ensuring that the right people are in the right roles is a significant enabler to leveraging performance and growth.</td>
<td>Completion of top tier talent review. Review of cross-group talent management processes under way. Third party review completed to help support consumer behaviour and customer experience. Targeted development programmes in place. Clear line manager responsibility for succession planning supported by appropriate people forums. Ongoing focus on enhancing recruitment processes across the business.</td>
</tr>
<tr>
<td>8</td>
<td>Margin</td>
<td>Ongoing sourcing and pricing strategies are placing increasing focus on our margin performance and the need to further evolve our sourcing strategies and ways of working in response to this.</td>
<td>Clearly defined margin targets across the business with performance monitored and reported to management. Comprehensive sourcing plans in place for key products/suppliers. Regular review of strategy to actively manage foreign exchange rate fluctuations. Ongoing monitoring of pricing strategy in the context of the wider retail market. Strong engagement with buying teams to communicate fluctuations in raw material prices and foreign exchange rates. Enhanced Clothing &amp; Home product development system in place, improving efficiency to leverage margin growth.</td>
</tr>
<tr>
<td>9</td>
<td>Brand</td>
<td>To drive future performance and leverage opportunities, our brand needs to stay relevant and appeal to customers as they move from one stage of life to the next. We recognise the importance of ensuring that the M&amp;S brand resonates with customers of differing lifestyles and outlooks.</td>
<td>Focus on clearly defined brand purpose to Make Every Moment Special, connecting with customers through our Spend It Well campaigns with greater focus on lifestyle and outlook. Engagement with customers through our Customer Insight Unit and focus groups, providing rich insights and quantifiable data. Strengthened Customer Insight Unit leadership. Continued investment in the development of Sparks.</td>
</tr>
<tr>
<td>10</td>
<td>UK Store Estate</td>
<td>Stores are, and will remain, a critical part of our customer focus alongside a fully integrated online offer. We recognise the importance of proactively managing our UK store estate to ensure that our space is relevant to the customer, while supporting strong business performance and profitable growth.</td>
<td>Full review of our UK store portfolio during 2016/17. Multi-year programme under way to improve our estate to better meet customers’ needs. Strengthened property capabilities, including appointment of senior external hires. Cross-business Steering Group and working groups set up to manage and monitor the store estate change programme. Property Board approval process and governance framework in place. Continued expansion of our Simply Food business alongside improvements to the UK store estate.</td>
</tr>
<tr>
<td>11</td>
<td>Profitable Growth</td>
<td>We must successfully drive innovation and diversification to secure future profitable growth for our business.</td>
<td>Customer Insight Unit provides horizon scanning of changes in consumer behaviour. Review of innovation processes underway. New operating model implemented to drive efficiency and effective decision-making. Business structure completed to help drive our business objectives and strategic aims. Ongoing focus on establishing foundations for new paths to growth.</td>
</tr>
<tr>
<td>12</td>
<td>Third Party Management</td>
<td>A significant level of expertise and effort is required to effectively manage third parties. As our business model evolves, we need to maintain focus on this area to continue to drive commercial and cost benefits.</td>
<td>Ongoing Board-level review of key relationships and partnerships. Dedicated personnel managing key contracts. Defined service level agreements and key performance indicator standards in place for key contracts. Defined contract governance and oversight standards. Strong engagement with in-house Legal and Procurement teams. Periodic, independent review of performance.</td>
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</tbody>
</table>