Financial statements

Consolidated income statement

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Revenue	2, 3	**10,026.8**	9,934.3
Operating profit	2, 3	**756.0**	746.5
Finance income	6	**26.5**	48.3
Finance costs	6	**(218.2)**	(136.8)
Profit before tax	4	**564.3**	658.0
Income tax expense	7	**(106.3)**	(168.4)
Profit for the year		**458.0**	489.6
Attributable to:			
Equity shareholders of the Company		**466.7**	513.1
Non-controlling interests		**(8.7)**	(23.5)
		458.0	489.6
Basic earnings per share	8	**29.2p**	32.5p
Diluted earnings per share	8	**29.0p**	32.2p

Non-GAAP measures: Underlying profit before tax			
Profit before tax		**564.3**	658.0
Adjusted for:			
Strategic programme costs	5	**6.6**	18.4
Restructuring costs	5	**9.3**	–
IAS 36 Impairment of assets	5	**–**	44.9
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	5	**–**	(15.6)
IAS 39 Fair value movement of embedded derivative	5	**(5.8)**	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	5	**75.3**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	5	**15.5**	–
Underlying profit before tax	1	**665.2**	705.9
Underlying basic earnings per share	8	**32.7p**	34.9p
Underlying diluted earnings per share	8	**32.5p**	34.6p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit for the year		**458.0**	489.6
Other comprehensive income:			
Foreign currency translation differences		**7.9**	(15.1)
Actuarial gains/(losses) on retirement benefit schemes	11	**90.7**	(189.9)
Tax on retirement benefit schemes		**(19.9)**	50.4
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		**33.6**	53.0
– reclassified and reported in net profit		**(26.0)**	(23.0)
– amount recognised in inventories		**(13.6)**	13.7
Tax on cash flow hedges and net investment hedges		**(0.4)**	(7.3)
Other comprehensive income/(loss) for the year, net of tax		**72.3**	(118.2)
Total comprehensive income for the year		**530.3**	371.4
Attributable to:			
Equity shareholders of the Company		**539.0**	394.9
Non-controlling interests		**(8.7)**	(23.5)
		530.3	371.4

Consolidated statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Intangible assets	14	**695.0**	584.3
Property, plant and equipment	15	**5,033.7**	4,789.9
Investment property		**15.8**	15.9
Investment in joint ventures		**15.5**	14.4
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**206.1**	91.3
Trade and other receivables	17	**265.4**	270.2
Derivative financial instruments	21	**65.3**	44.2
		6,299.8	5,813.2
Current assets			
Inventories		**767.3**	681.9
Other financial assets	16	**16.9**	260.5
Trade and other receivables	17	**245.0**	253.0
Derivative financial instruments	21	**42.5**	67.0
Current tax assets		**3.1**	1.6
Cash and cash equivalents	18	**193.1**	196.1
		1,267.9	1,460.1
Total assets		**7,567.7**	7,273.3
Liabilities			
Current liabilities			
Trade and other payables	19	**1,503.8**	1,449.1
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**558.7**	327.7
Derivative financial instruments	21	**13.7**	60.5
Provisions	22	**19.2**	8.4
Current tax liabilities		**71.0**	87.8
		2,238.3	2,005.4
Non-current liabilities			
Retirement benefit deficit	11	**13.1**	13.3
Trade and other payables	19	**292.1**	280.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**550.7**	–
Borrowings and other financial liabilities	20	**1,727.3**	1,948.1
Derivative financial instruments	21	**13.1**	27.2
Provisions	22	**16.0**	24.0
Deferred tax liabilities	23	**230.7**	195.7
		2,843.0	2,489.1
Total liabilities		**5,081.3**	4,494.5
Net assets		**2,486.4**	2,778.8
Equity			
Issued share capital	24	**403.5**	401.4
Share premium account		**315.1**	294.3
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**9.2**	14.8
Other reserve		**(6,542.2)**	(6,114.3)
Retained earnings		**6,117.2**	5,991.4
Total shareholders' equity		**2,505.4**	2,790.2
Non-controlling interests in equity		**(19.0)**	(11.4)
Total equity		**2,486.4**	2,778.8

The financial statements were approved by the Board and authorised for issue on 20 May 2013. The financial statements also comprise the notes on pages 82 to 109.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve[1] £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
At 3 April 2011	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4
Profit/(loss) for the year	–	–	–	–	–	513.1	513.1	(23.5)	489.6
Other comprehensive income:									
Foreign currency translation	–	–	–	(1.1)	–	(14.0)	(15.1)	–	(15.1)
Actuarial losses on retirement benefit schemes	–	–	–	–	–	(189.9)	(189.9)	–	(189.9)
Tax on retirement benefit schemes	–	–	–	–	–	50.4	50.4	–	50.4
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	–	–	–	43.8	–	9.2	53.0	–	53.0
– reclassified and reported in net profit[3]	–	–	–	(23.0)	–	–	(23.0)	–	(23.0)
– amount recognised in inventories	–	–	–	13.7	–	–	13.7	–	13.7
Tax on cash flow hedges and net investment hedges	–	–	–	(7.3)	–	–	(7.3)	–	(7.3)
Other comprehensive income	–	–	–	26.1	–	(144.3)	(118.2)	–	(118.2)
Total comprehensive income/(expenses)	–	–	–	26.1	–	368.8	394.9	(23.5)	371.4
Transactions with owners:									
Dividends	–	–	–	–	–	(267.8)	(267.8)	–	(267.8)
Transactions with non-controlling shareholders	–	–	–	–	–	(6.4)	(6.4)	8.2	1.8
Recognition of financial liability	–	–	–	–	(71.9)	–	(71.9)	–	(71.9)
Shares issued on exercise of employee share options	5.2	39.1	–	–	–	–	44.3	–	44.3
Purchase of own shares held by employee trusts	–	–	–	–	–	(13.2)	(13.2)	–	(13.2)
Credit for share-based payments	–	–	–	–	–	32.5	32.5	–	32.5
Deferred tax on share schemes	–	–	–	–	–	4.3	4.3	–	4.3
At 31 March 2012	401.4	294.3	2,202.6	14.8	(6,114.3)	5,991.4	2,790.2	(11.4)	2,778.8
At 1 April 2012	**401.4**	**294.3**	**2,202.6**	**14.8**	**(6,114.3)**	**5,991.4**	**2,790.2**	**(11.4)**	**2,778.8**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**466.7**	**466.7**	**(8.7)**	**458.0**
Other comprehensive income:									
Foreign currency translation	**–**	**–**	**–**	**(1.5)**	**–**	**9.4**	**7.9**	**–**	**7.9**
Actuarial gain on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**90.7**	**90.7**	**–**	**90.7**
Tax on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(19.9)**	**(19.9)**	**–**	**(19.9)**
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	**–**	**–**	**–**	**35.9**	**–**	**(2.3)**	**33.6**	**–**	**33.6**
– reclassified and reported in net profit[3]	**–**	**–**	**–**	**(26.0)**	**–**	**–**	**(26.0)**	**–**	**(26.0)**
– amount recognised in inventories	**–**	**–**	**–**	**(13.6)**	**–**	**–**	**(13.6)**	**–**	**(13.6)**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Other comprehensive income	**–**	**–**	**–**	**(5.6)**	**–**	**77.9**	**72.3**	**–**	**72.3**
Total comprehensive income/(expenses)	**–**	**–**	**–**	**(5.6)**	**–**	**544.6**	**539.0**	**(8.7)**	**530.3**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(271.3)**	**(271.3)**	**–**	**(271.3)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.1**	**1.1**
Recognition of financial liability	**–**	**–**	**–**	**–**	**(427.9)**	**(178.1)**	**(606.0)**	**–**	**(606.0)**
Shares issued on exercise of employee share options	**2.1**	**20.8**	**–**	**–**	**–**	**–**	**22.9**	**–**	**22.9**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**28.0**	**28.0**	**–**	**28.0**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**	**–**	**2.6**
At 30 March 2013	**403.5**	**315.1**	**2,202.6**	**9.2**	**(6,542.2)**	**6,117.2**	**2,505.4**	**(19.0)**	**2,486.4**

1. The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction. Last year the reserve also included discretionary distributions to the Marks & Spencer UK Pension Scheme, which following the Group's payment of an interim dividend in relation to 2011/12 and the resultant recognition of the annual distribution of £71.9m as a financial liability was £427.9m. On 21 May 2012 the Group changed the terms of the Marks and Spencer Scottish Limited Partnership and the total equity instrument of £427.9m was derecognised and the fair value of the remaining distributions of £606.0m was recognised as a financial liability (see note 12).
2. The 'Retained earnings reserve' includes a cumulative £14.5m gain (last year £5.1m gain) in the currency reserve.
3. Amounts reclassified and reported in net profit have all been recorded in cost of sales.

Consolidated cash flow information

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,246.2**	1,352.1
Income tax paid		**(106.0)**	(149.1)
Net cash generated from operating activities		**1,140.2**	1,203.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(642.6)**	(564.3)
Purchase of intangible assets		**(187.1)**	(156.4)
Sale/(purchase) of current financial assets		**243.4**	(44.8)
Interest received		**5.9**	7.7
Net cash used in investing activities		**(580.4)**	(757.8)
Cash flows from financing activities			
Interest paid		**(135.2)**	(135.9)
Cash inflow/(outflow) from borrowings		**0.5**	(41.4)
Drawdown of syndicated loan notes		**81.0**	–
Issue of medium-term notes		**395.6**	295.5
Redemption of medium-term notes		**(606.4)**	(307.6)
Decrease in obligations under finance leases		**(11.0)**	(13.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(71.9)**	(71.9)
Equity dividends paid		**(271.3)**	(267.8)
Shares issued on exercise of employee share options		**22.9**	44.3
Purchase of own shares by employee trust		**–**	(13.2)
Net cash used in financing activities		**(595.8)**	(511.0)
Net cash outflow from activities		**(36.0)**	(65.8)
Effects of exchange rate changes		**0.9**	(1.9)
Opening net cash		**195.8**	263.5
Closing net cash	27	**160.7**	195.8

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(1,857.1)**	(1,900.9)
Net cash outflow from activities		**(36.0)**	(65.8)
(Decrease)/increase in current financial assets		**(243.4)**	44.8
Decrease in debt financing		**132.7**	138.4
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**(606.0)**	(71.9)
Exchange and other non-cash movements		**(4.5)**	(1.7)
Movement in net debt		**(757.2)**	43.8
Closing net debt	27	**(2,614.3)**	(1,857.1)

Overview Strategic review Financial review Governance Financial statements and other information

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 as well as the Group's principal risks and uncertainties as set out on pages 46 to 47. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

There are no IFRS or IFRS IC interpretations that are effective for the first time in this financial year that have had a material impact on the Group.

The following IFRS, IFRS IC interpretations and amendments have been issued but are not yet effective and have not been early adopted by the Group:

IAS 19, 'Employee Benefits' has been revised and was endorsed by the EU in June 2012. It is effective for periods beginning on or after 1 January 2013. The revised standard will change the amounts recognised in the income statement and in other comprehensive income. The expected return on plan assets and the interest cost on liabilities are replaced by a new component of the income statement charge – interest on the net retirement benefit asset/liability calculated by applying the discount rate to the net defined benefit asset/liability. The revised standard has retrospective application. Had the revised standard been applied to the 2012/13 results the underlying profit for the year would have been £17m lower, with a compensating credit in other comprehensive income.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. IFRS 13 is not expected to have a material impact on the Group.

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 for the requirement to prepare and deliver financial statements in accordance with the Companies Act.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered and the significant risks and rewards of ownership have been transferred to the buyer.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions

Funded pension plans are in place for the Group's UK employees and some employees overseas.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method.

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within finance income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge is also made within finance income representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1 Accounting policies continued

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment is recognised immediately in the income statement.

B. Brands Acquired brand values are held on the statement of financial position initially at cost. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment annually or as triggering events occur. Any impairment in value is recognised immediately in the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and ten years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is charged to the income statement.

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- freehold land – not depreciated;
- freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives;
- leasehold buildings with a remaining lease term of less than 50 years – depreciated over the remaining period of the lease; and
- fixtures, fittings and equipment – 3 to 25 years according to the estimated life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is charged to the income statement.

Leasing

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments

Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Were this method applied in the prior year, in place of the previously adopted retail method, there would have been no change in the value of inventory. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed annually and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Notes to the financial statements continued

1 Accounting policies continued

Taxation continued

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Investments and other financial assets Investments and other financial assets are classified as either 'available-for-sale' or 'fair value through profit or loss'. They are initially measured at fair value, including transaction costs, with the exception of 'fair value through profit or loss'. Financial assets held at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in comprehensive income is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in comprehensive income and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability.

1 Accounting policies continued

A. Cash flow hedges continued
For hedges that do not result in the recognition of an asset or a liability, amounts deferred in comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of the carrying amount, are recognised in the income statement.

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in comprehensive income and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to net profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

Critical accounting estimates and judgements
The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

A. Impairment of goodwill and brands The Group is required to test annually or as triggering events occur, whether the goodwill or brands have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 14 for further details.

B. Impairment of property, plant and equipment and computer software Property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See notes 14 and 15 for further details.

C. Depreciation of property, plant and equipment and amortisation of computer software Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 14 and 15 for further details.

D. Post-retirement benefits The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 11 for further details of assumptions and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

E. Refunds and loyalty scheme accruals Accruals for sales returns and deferred income in relation to loyalty scheme redemptions are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These balances are reviewed regularly and updated to reflect management's latest best estimates. However, actual returns and redemptions could vary from those estimates.

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

- profits and losses on the disposal of properties;
- significant and one-off impairment charges that distort underlying trading;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- restructuring costs;
- fair value movement in financial instruments; and
- reduction in income received from HSBC in relation to M&S Bank due to a non recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

Notes to the financial statements continued

2 Segmental information

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

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

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

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

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

			2013			2012
	Management £m	**Adjustment[2] £m**	**Statutory £m**	Management (Restated)[3] £m	Adjustment (Restated)[3] £m	Statutory £m
General Merchandise	**4,090.3**	**3.6**	**4,093.9**	4,197.3	(2.2)	4,195.1
Food	**4,857.5**	**–**	**4,857.5**	4,673.1	–	4,673.1
UK revenue	**8,947.8**	**3.6**	**8,951.4**	8,870.4	(2.2)	8,868.2
Franchised	**392.6**	**–**	**392.6**	379.4	–	379.4
Owned	**682.8**	**–**	**682.8**	689.4	(2.7)	686.7
International revenue	**1,075.4**	**–**	**1,075.4**	1,068.8	(2.7)	1,066.1
Group revenue	**10,023.2**	**3.6**	**10,026.8**	9,939.2	(4.9)	9,934.3
UK operating profit[1]	**661.4**	**(25.6)**	**635.8**	676.6	(18.6)	658.0
International operating profit	**120.2**	**–**	**120.2**	133.4	(44.9)	88.5
Group operating profit	**781.6**	**(25.6)**	**756.0**	810.0	(63.5)	746.5
Finance income	**26.5**	**–**	**26.5**	32.7	15.6	48.3
Finance costs	**(142.9)**	**(75.3)**	**(218.2)**	(136.8)	–	(136.8)
Profit before tax	**665.2**	**(100.9)**	**564.3**	705.9	(47.9)	658.0

1. UK statutory profit includes £35.6m (last year £50.7m) in respect of fees received from HSBC in relation to M&S Bank (formerly M&S Money). UK management operating profit includes fees in relation to M&S Bank of £51.1m (last year £50.7m), which reflects a non GAAP adjustment of £15.5m as detailed in note 5.
2. Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5).
3. Following a change in the presentation of internal reporting, management revenue and the corresponding adjustments that reconcile to statutory revenue have been re-presented. Certain revenue deductions (such as staff discounts and loyalty points) that were previously recognised in management cost of sales are now recognised in management revenue to align with statutory accounting. There have been no changes to the reported segments.

Other segmental information

			2013			2012
	UK £m	**International £m**	**Total £m**	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**761.6**	**59.7**	**821.3**	671.4	66.1	737.5
Depreciation and amortisation	**421.7**	**28.8**	**450.5**	435.8	34.3	470.1
Impairment and asset write-offs	**9.6**	**7.2**	**16.8**	7.3	50.5	57.8
Total assets	**6,120.4**	**1,447.3**	**7,567.7**	6,247.1	1,026.2	7,273.3
Non-current assets	**4,964.1**	**1,335.7**	**6,299.8**	4,894.6	918.6	5,813.2

3 Expense analysis

	2013 Underlying £m	2013 Adjustments £m	2013 Total £m	2012 Underlying £m	2012 Adjustments £m	2012 Total £m
Revenue	**10,026.8**	**–**	**10,026.8**	9,934.3	–	9,934.3
Cost of sales	**(6,230.3)**	**–**	**(6,230.3)**	(6,179.1)	–	(6,179.1)
Gross profit	**3,796.5**	**–**	**3,796.5**	3,755.2	–	3,755.2
Selling and administrative expenses	**(3,107.0)**	**–**	**(3,107.0)**	(3,021.9)	–	(3,021.9)
Other operating income	**92.1**	**–**	**92.1**	76.7	–	76.7
Non-GAAP adjustments to underlying profit (see note 5)	**–**	**(25.6)**	**(25.6)**	–	(63.5)	(63.5)
Operating profit	**781.6**	**(25.6)**	**756.0**	810.0	(63.5)	746.5

The selling and administrative expenses are further analysed below:

	2013 £m	2012 £m
Employee costs (see note 10A)	**1,321.2**	1,253.5
Occupancy costs	**651.2**	637.9
Repairs, renewals and maintenance of property	**96.7**	101.4
Depreciation, amortisation and asset write-offs	**463.2**	479.7
Other costs	**574.7**	549.4
Selling and administrative expenses	**3,107.0**	3,021.9

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2013 £m	2012 £m
Net foreign exchange gains	**–**	0.1
Cost of inventories recognised as an expense	**5,639.6**	6,127.0
Depreciation of property, plant, and equipment		
– owned assets	**364.2**	393.5
– under finance leases	**9.9**	11.3
Amortisation of intangible assets	**76.4**	65.3
Operating lease rentals payable		
– property	**293.9**	278.7
– fixtures, fittings and equipment	**4.2**	7.8

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Company's auditors PricewaterhouseCoopers LLP and its associates as follows:

	2013 £m	2012 £m
Annual audit of the Company and the consolidated financial statements	**0.8**	0.6
Audit of subsidiary companies	**1.0**	1.0
Other assurance services	**0.2**	0.3
Tax compliance services	**0.3**	0.3
Tax advisory services	**0.3**	0.1
Other non-audit services	**0.5**	0.1
	3.1	2.4

Notes to the financial statements continued

5 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significant and distort the Group's underlying performance. These adjustments include:

- Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business;
- Restructuring costs relating to the commencement of the Group's strategy to transition to a one tier distribution network and the closure costs of legacy logistics sites;
- IAS 36 Impairment of assets – last year, the carrying value of the Marks and Spencer Marinopolous B.V. goodwill was fully impaired to reflect its recoverable value and the net book value of property, plant and equipment in loss making stores in the Greece group was impaired due to the continuing decline of the Greek economy;
- IAS 39 Fair value movement on put option over non-controlling interest in Czech business – the put option value has been revised to zero to reflect the latest three year business plan;
- IAS 39 Fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%;
- Fair value movement of the Puttable Callable Reset medium-term notes (PCR notes) realised on the repurchase of debt – in December 2007 the Group issued £250m of 30 year puttable callable bonds which included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the Group bought back and cancelled these bonds in January 2013, resulting in a one-off fair value loss. This charge is the fair value movement of the bond net of any immaterial associated unamortised bond costs and fees. It is not considered a normal finance cost of the business; and
- The Group has an economic interest in M&S Bank, a wholly-owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obligated to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. In the current year, the fee income has been impacted by the deduction of the estimated liability for providing redress to customers in respect of possible mis-selling of financial products. This estimated liability has been recognised by M&S Bank in its audited financial statements for the year ended 31 December 2012, the Group's share of which reduces the overall income due to it (under the Relationship Agreement) and has been treated as an adjustment to reported profit before tax on the basis that the directors believe that the impact of the provision recognised by M&S Bank materially distorts the Group's underlying performance. The Group expects there to be a further reduction in fee income of c.£45m in the year to 29 March 2014. The effect of the significant, one-off adjustments to the Group's income received from HSBC in the prior year was not material. We are discussing with M&S Bank whether these charges are properly for our account under the terms of our agreement with HSBC.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

	Note	**2013 £m**	2012 £m
Strategic programme costs		**(6.6)**	(18.4)
Restructuring costs		**(9.3)**	–
IAS 36 Impairment of assets	14, 15	**–**	(44.9)
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	6, 21	**–**	15.6
IAS 39 Fair value movement of embedded derivative	21	**5.8**	(0.2)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	6, 20	**(75.3)**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	2	**(15.5)**	–
Total adjustments		**(100.9)**	(47.9)

6 Finance income/costs

	2013 £m	2012 £m
Bank and other interest receivable	**5.3**	7.1
Pension net finance income (see note 11E)	**21.2**	25.6
Underlying finance income	**26.5**	32.7
Fair value movement of put option over non-controlling interest in Czech business (see note 5)	**–**	15.6
Finance income	**26.5**	48.3
Interest on bank borrowings	**(2.1)**	(5.5)
Interest payable on syndicated bank facility	**(6.1)**	(3.0)
Interest payable on medium-term notes	**(114.3)**	(126.4)
Interest payable on finance leases	**(2.8)**	(0.7)
Unwind of discount on financial instruments	**(1.0)**	(1.2)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	**(16.6)**	–
Underlying finance costs	**(142.9)**	(136.8)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes (see note 5)	**(75.3)**	–
Finance costs	**(218.2)**	(136.8)
Net finance costs	**(191.7)**	(88.5)

7 Income tax expense

A. Tax charge

	2013 £m	2012 £m
Current tax		
UK corporation tax on profits for the year		
– current year	**125.5**	175.9
– adjustments in respect of prior years	**(24.6)**	(9.3)
UK current tax	**100.9**	166.6
Overseas current tax		
– current year	**12.8**	11.6
– adjustments in respect of prior years	**3.8**	–
Total current tax	**117.5**	178.2
Deferred tax		
– origination and reversal of temporary differences	**(2.7)**	(10.5)
– adjustments in respect of prior years	**(2.8)**	14.0
– changes in tax rate	**(5.7)**	(13.3)
Total deferred tax (see note 23)	**(11.2)**	(9.8)
Total income tax expense	**106.3**	168.4

B. Tax reconciliation

	2013 £m	2012 £m
Profit before tax	**564.3**	658.0
Tax at the standard UK corporation tax rate of 24% (last year 26%)	**135.4**	171.1
Depreciation, charges and other amounts on non-qualifying fixed assets	**3.0**	3.6
Other income and expenses not taxable or deductible	**(8.1)**	(11.1)
Deferred tax rate change benefit	**(5.4)**	(13.1)
Overseas profits taxed at rates different to those of the UK	**(4.0)**	(8.6)
Benefit of current year losses not recognised	**9.3**	14.3
Adjustments to tax charge in respect of prior periods	**(3.2)**	4.7
Adjustments to underlying profit:		
IAS 36 Impairment of assets	**–**	11.7
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	**–**	(4.0)
Deferred tax rate change benefit	**(0.3)**	(0.2)
Non-underlying adjustment to tax charge in respect of prior periods	**(20.4)**	–
Total income tax expense	**106.3**	168.4

The effective tax rate was 18.8% (last year 25.6%) and the underlying effective tax rate was 22.7% (last year 24.5%).

The non–underlying adjustment to the tax charge in respect of prior periods relates to the reassessment of historic tax liabilities following discussions with the tax authorities.

On 3 July 2012, the Finance Bill received its third reading in the House of Commons and so the previously announced reduced rate of corporation tax of 23% from 1 April 2013 was substantively enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 23%, which has resulted in the recognition of a deferred tax credit of £5.7m in the income statement (reducing the total effective tax rate by 1%), and the recognition of a deferred tax credit of £4.0m in other comprehensive income. The Chancellor has further stated his intention to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have not been substantively enacted at the date of the statement of financial position. Had these changes been enacted, then the cumulative effects would have been a credit to the income statement of £11.5m (21%) or £17.3m (20%) and a credit to other comprehensive income of £7.9m (21%) or £11.9m (20%).

Notes to the financial statements continued

8 Earnings per share

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

The underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, significant and are not considered normal operating costs of the underlying business (see note 5). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

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

	2013 £m	2012 £m
Profit attributable to equity shareholders of the Company	**466.7**	513.1
(Less)/add (net of tax):		
Strategic programme costs	**5.0**	13.8
Restructuring costs	**7.1**	–
IAS 36 Impairment of assets	**–**	39.6
IAS 39 Fair value movement of put option over non controlling interest in Czech business	**–**	(15.6)
IAS 39 Fair value movement of embedded derivative	**(4.7)**	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	**57.3**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	**11.8**	–
Non-underlying adjustment to tax charge in respect of prior periods	**(20.4)**	–
Underlying profit attributable to equity shareholders of the Company	**522.8**	551.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,599.7**	1,579.3
Potentially dilutive share options under Group's share option schemes	**10.6**	12.9
Weighted average number of diluted ordinary shares	**1,610.3**	1,592.2

	Pence	Pence
Basic earnings per share	**29.2**	32.5
Diluted earnings per share	**29.0**	32.2
Underlying basic earnings per share	**32.7**	34.9
Underlying diluted earnings per share	**32.5**	34.6

9 Dividends

	2013 per share	2012 per share	2013 £m	2012 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**172.3**	170.2
Paid interim dividend	**6.2p**	6.2p	**99.0**	97.6
	17.0p	17.0p	**271.3**	267.8

The directors have proposed a final dividend in respect of the year ended 30 March 2013 of 10.8p per share amounting to a dividend of £173.5m. It will be paid on 12 July 2013 to shareholders on the register of members as at close of business on 31 May 2013, subject to approval of shareholders at the Annual General Meeting, to be held on 9 July 2013. In line with the requirements of IAS 10 – 'Events after the reporting period', this dividend has not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 29 May 2013. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 21 June 2013.

The Group's policy to grow dividends in line with underlying earnings per share is explained in the Financial Review on page 34.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2013 Total £m	2012 Total £m
Wages and salaries	**1,136.7**	1,061.3
Social security costs	**75.8**	77.7
Pension costs	**68.4**	57.7
Share-based payments (see note 13)	**25.8**	32.5
Employee welfare and other personnel costs	**51.0**	46.0
Capitalised staff costs	**(36.5)**	(21.7)
Total aggregate remuneration	**1,321.2**	1,253.5

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2013	2012
UK stores		
– management and supervisory categories	**5,511**	5,784
– other	**65,053**	63,003
UK head office		
– management and supervisory categories	**3,033**	2,782
– other	**922**	718
Overseas	**7,215**	6,450
Total average monthly number of employees	**81,734**	78,737

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 57,518 (last year 54,984).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 55 to 70.

	2013 £000	2012 £000
Aggregate emoluments	**8,149**	7,796

The emoluments include payments to directors who retired from the Board in 2012/13 of £482,000 (last year included payments and bonus entitlements to directors who have retired from the Board of £279,000).

11 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 13,000 active members (last year 14,000), 55,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 33,000 active members (last year 9,000) and some 3,000 deferred members (last year 2,000).

The Group also operates a funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost of £47.2m (last year £32.1m), £23.0m (last year £12.0m) relates to the UK defined benefit section, £20.3m (last year £15.9m) to the UK defined contribution section and £3.9m (last year £4.2m) to other retirement benefit schemes.

Notes to the financial statements continued

11 Retirement benefits continued

A. Pensions and other post-retirement liabilities

	2013 £m	2012 £m
Total market value of assets	**6,930.0**	6,186.4
Present value of scheme liabilities	**(6,723.9)**	(6,095.1)
Net funded pension plan asset	**206.1**	91.3
Unfunded retirement benefits	**(0.8)**	(0.8)
Post-retirement healthcare	**(12.3)**	(12.5)
Net retirement benefit asset	**193.0**	78.0
Analysed in the statement of financial position as:		
Retirement benefit asset	**206.1**	91.3
Retirement benefit deficit	**(13.1)**	(13.3)
	193.0	78.0

B. Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

	2013 %	2012 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**2.4 – 3.2**	2.3 – 3.1
Discount rate	**4.3**	4.6
Inflation rate	**3.4**	3.1
Long-term healthcare cost increases	**7.1**	7.1

The inflation rate of 3.4% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.4% (last year 2.1%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c.£115m (last year £110m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£50m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£75m.

C. Demographic assumptions

Apart from post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2012. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2012 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2013	2012
Current pensioners (at age 65)	– males	**22.4**	22.1
	– females	**24.1**	23.4
Future pensioners (at age 65)	– males	**21.8**	23.2
	– females	**24.5**	24.3

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c.£230m.

11 Retirement benefits continued

D. Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2013 £m	2012 £m	2013 %	2012 %
Scottish Limited Partnership interest (see note 12)	**645.7**	664.8	**9**	11
UK equities	**224.0**	232.6	**3**	4
Overseas equities	**736.3**	777.4	**11**	13
Government bonds	**3,188.3**	1,750.9	**46**	28
Corporate bonds	**1,388.5**	1,455.7	**20**	23
Swaps[1]	**276.1**	275.9	**4**	4
Cash and other	**471.1**	1,029.1	**7**	17
Total market value of assets	**6,930.0**	6,186.4	**100**	100

1. The swaps hedge interest and inflation rate exposures within the schemes' liabilities.

The expected long-term rates of return are:

	2013 %	2012 %
Scottish Limited Partnership interest (see note 12)	**2.3**	3.5
UK equities	**7.8**	7.8
Overseas equities	**7.8**	7.8
Government bonds	**3.2**	3.3
Corporate bonds	**4.3**	4.9
Swaps	**3.0**	3.3
Cash and other	**3.0**	3.3
Overall expected return	**4.4**	4.9

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 150,955 (last year 107,216) ordinary shares in the Company through its investment in UK Equity Index Funds.

E. Analysis of amount charged against profits

	2013 £m	2012 £m
Operating cost		
Current service cost	**68.8**	56.7
Curtailment charge	**1.0**	1.0
Past service cost	**(1.4)**	–
	68.4	57.7
Finance cost		
Expected return on scheme assets	**(298.0)**	(307.4)
Interest on scheme liabilities	**276.8**	281.8
Net finance income	**(21.2)**	(25.6)
Total	**47.2**	32.1

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2013 £m	2012 £m
Fair value of scheme assets at start of year	**6,186.4**	5,398.1
Expected return on scheme assets[1]	**298.0**	307.4
Employer contributions	**70.9**	131.9
Benefits paid	**(235.0)**	(230.4)
Actuarial gain	**607.3**	581.0
Exchange movement	**2.4**	(1.6)
Fair value of scheme assets at end of year	**6,930.0**	6,186.4

1. The actual return on scheme assets was £905.3m (last year return of £888.4m).

Future contributions to the UK scheme will be made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c.£28m to the UK defined benefit scheme for the year ended 29 March 2014.

Notes to the financial statements continued

11 Retirement benefits continued

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2013 £m	2012 £m
Present value of obligation at start of year	**6,108.4**	5,229.6
Current service cost	**68.8**	56.7
Curtailment charge	**1.0**	1.0
Past service cost	**(1.4)**	–
Interest cost	**276.8**	281.8
Benefits paid	**(235.0)**	(230.4)
Actuarial loss	**516.6**	770.9
Exchange movement	**1.8**	(1.2)
Present value of obligation at end of year	**6,737.0**	6,108.4
Analysed as:		
Present value of pension scheme liabilities	**6,723.9**	6,095.1
Unfunded pension plans	**0.8**	0.8
Post-retirement healthcare	**12.3**	12.5
Present value of obligation at end of year	**6,737.0**	6,108.4

H. Cumulative actuarial gains and losses recognised in equity

	2013 £m	2012 £m
Loss at start of year	**(1,412.8)**	(1,222.9)
Net actuarial gains/(losses) recognised in the year	**90.7**	(189.9)
Loss at end of year	**(1,322.1)**	(1,412.8)

I. History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustments arising on scheme assets	**607.3**	581.0	124.1	867.7	(1,280.3)
Experience (losses)/gains arising on scheme liabilities	**(5.3)**	(85.3)	(8.4)	36.2	81.2
Changes in assumptions underlying the present value of scheme liabilities	**(511.3)**	(685.6)	170.3	(1,155.5)	272.0
Actuarial gains/(losses) recognised in equity	**90.7**	(189.9)	286.0	(251.6)	(927.1)
Fair value of scheme assets	**6,930.0**	6,186.4	5,398.1	4,948.6	3,977.0
Present value of scheme liabilities	**(6,723.9)**	(6,095.1)	(5,215.5)	(5,298.6)	(4,112.4)
Pension scheme asset/(deficit)	**206.1**	91.3	182.6	(350.0)	(135.4)

12 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

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

The Partnership holds £1.6bn (last year £1.5bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income.

In 2009 it was agreed with the Trustee that this distribution was discretionary at the instance of Marks and Spencer plc. The discretionary right was exercisable if the Group did not pay a dividend or make any other form of return to its shareholders. On this basis, the future value of total discretionary scheduled payments was an an equity instrument, disclosed within other reserves.

On 21 May 2012 the Group changed the terms of the Partnership to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee.

The change has been reflected by the derecognition of the related equity instruments and recognition of a financial liability. The financial liability has been initially measured at fair value of £606.0m, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument of £427.9m and the fair value of the liability has been recognised in equity in accordance with IAS 32. The change has no impact on the cash flows of the Group.

During the year to 30 March 2013 an interest charge of £16.6m was recognised in the income statement representing the unwinding of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £645.7m (last year £664.8m). The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

13 Share-based payments

The charge for share-based payments for the year was £25.8m (last year £32.5m). Of the total share-based payments charge, £13.4m (last year £15.0m) relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 60 to 62.

A. Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six month period after the completion of the SAYE contract, either three or five years after entering the scheme.

	2013		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**47,245,342**	**259.3p**	54,295,921	249.9p
Granted	**9,977,206**	**312.0p**	18,366,990	258.0p
Exercised	**(7,369,406)**	**266.0p**	(19,345,308)	205.6p
Forfeited	**(3,575,404)**	**273.3p**	(4,327,447)	285.6p
Expired	**(1,004,451)**	**418.0p**	(1,744,814)	481.8p
Outstanding at end of the year	**45,273,287**	**265.2p**	47,245,342	259.3p
Exercisable at end of year	**1,700,575**	**366.9p**	2,803,103	278.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 370.4p (last year 325.0p).

Notes to the financial statements continued

13 Share-based payments continued

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2013 3-year plan	2012 3-year plan
Grant date	**Nov 12**	Nov 11
Share price at grant date	**389p**	322p
Exercise price	**312p**	258p
Option life in years	**3 years**	3 years
Risk-free rate	**0.3%**	0.5%
Expected volatility	**25.2%**	31.4%
Expected dividend yield	**4.4%**	5.4%
Fair value of option	**74p**	67p

Volatility has been estimated by taking the historic volatility in the Company's share price over a three year period.

The resulting fair value is expensed over the service period of three years on the assumption that 10% (last year 15%) of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees' SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	2013	2012	2013	2012	Option price
January 2007	**–**	583,961	**–**	0.2	559p
January 2008	**617,258**	655,213	**0.3**	1.2	517p
January 2009	**12,912,056**	15,727,797	**1.3**	1.9	203p
January 2010	**941,711**	6,349,388	**0.3**	1.2	292p
January 2011	**5,315,855**	6,016,473	**1.3**	2.2	319p
January 2012	**15,817,394**	17,912,510	**2.3**	3.2	258p
January 2013	**9,669,013**	–	**3.3**	–	312p
	45,273,287	47,245,342	**2.0**	2.3	265p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on underlying basic earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 61. Awards under this scheme have been made in each year since 2005.

During the year, 9,333,652 shares (last year 7,887,169) were awarded under the Plan. The weighted average fair value of the shares awarded was 329.7p (last year 350.8p). As at 30 March 2013, 21,492,589 shares (last year 19,651,115) were outstanding under the scheme.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 450 of the most senior managers. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment and the value of any dividends earned during the deferred period will be paid on vesting.

During the year, 1,181,637 shares (last year 2,366,847) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 325.1p (last year 378.4p). As at 30 March 2013, 6,576,038 shares (last year 6,396,018) were outstanding under the scheme.

D. Restricted Share Plan*

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The Plan operates for senior managers below executive director level. Awards under the Plan are made as part of ongoing reviews of reward packages, and for recruitment. The shares are held in trust for a period of between one and three years, at which point they are released to the employee subject to them still being in employment. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 1,257,044 shares (last year 1,356,046) have been awarded under the plan. The weighted average fair value of the shares awarded was 371.0p (last year 356.9p). As at 30 March 2013, 3,177,564 shares (last year 2,364,183) were outstanding under the scheme.

13 Share-based payments continued

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 147,557 (last year 97,270) options were granted, at a fair value of 73.8p (last year 67.3p).

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 8,046,847 shares (last year 10,621,823) with a book value of £26.9m (last year £34.4m) and a market value of £31.4m (last year £40.2m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes. Dividends are waived on all of these plans.

***Nil cost options**

For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

Notes to the financial statements continued

14 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 2 April 2011					
Cost or valuation	127.6	80.0	427.1	58.2	692.9
Accumulated amortisation	–	(34.6)	(130.6)	–	(165.2)
Net book value	127.6	45.4	296.5	58.2	527.7
Year ended 31 March 2012					
Opening net book value	127.6	45.4	296.5	58.2	527.7
Additions	–	32.4	72.9	52.9	158.2
Transfers	–	–	37.0	(37.0)	–
Disposals	–	–	(1.0)	–	(1.0)
Impairment	(34.4)	–	–	–	(34.4)
Amortisation charge	–	(5.3)	(60.0)	–	(65.3)
Exchange difference	(0.6)	–	(0.3)	–	(0.9)
Closing net book value	92.6	72.5	345.1	74.1	584.3
At 31 March 2012					
Cost	127.0	112.4	535.4	74.1	848.9
Accumulated amortisation and impairment	(34.4)	(39.9)	(190.3)	–	(264.6)
Net book value	92.6	72.5	345.1	74.1	584.3
Year ended 30 March 2013					
Opening net book value	**92.6**	**72.5**	**345.1**	**74.1**	**584.3**
Additions	**–**	**–**	**50.2**	**136.9**	**187.1**
Transfers	**–**	**–**	**27.8**	**(27.8)**	**–**
Amortisation charge	**–**	**(5.3)**	**(71.1)**	**–**	**(76.4)**
Closing net book value	**92.6**	**67.2**	**352.0**	**183.2**	**695.0**
At 30 March 2013					
Cost	**127.0**	**112.4**	**613.4**	**183.2**	**1,036.0**
Accumulated amortisation and impairment	**(34.4)**	**(45.2)**	**(261.4)**	**–**	**(341.0)**
Net book value	**92.6**	**67.2**	**352.0**	**183.2**	**695.0**

Goodwill relates to the following business units:

	per una £m	**Marks and Spencer Czech Republic a.s. £m**	**Supreme Tradelinks Private Limited £m**	**Total £m**
Net book value at 31 March 2012	**69.5**	**15.4**	**7.7**	**92.6**
Exchange difference	**–**	**–**	**–**	**–**
Net book value at 30 March 2013	**69.5**	**15.4**	**7.7**	**92.6**

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made: per una discount rate 10.7% (last year 10.6%), Marks and Spencer Czech Republic a.s. 12.2% (last year 12.3%) and Supreme Tradelinks Private Limited 17.4% (last year 12.7%).

The valuations use cash flows based on detailed financial budgets prepared by management covering a three year period. Cash flows beyond this three year period are extrapolated for Marks and Spencer Czech Republic a.s. at a growth rate of 1.5% (last year 1.5%) and Supreme Tradelinks Private Limited at a growth rate of 6% (last year 1.5%). To stress test, nil growth has been assumed for per una. These rates do not exceed the long-term average growth rate for the Group's retail businesses.

If a zero per cent growth rate is assumed or the discount rate is increased by a pre-tax rate of 3%, per una, Marks and Spencer Czech Republic a.s. and Supreme Tradelinks Private Limited goodwill would not be impaired.

Last year, due to the economic environment in Greece and neighbouring countries, the Marks and Spencer Marinopoulos B.V. goodwill was impaired in full giving rise to a charge of £34.4m.

Brands consist of the per una brand cost of £80.0m and the M&S Mode brands of £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business. No brand impairment charge has been recognised in 2012/13.

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 2 April 2011				
Cost	2,730.0	5,263.2	200.9	8,194.1
Accumulated depreciation	(244.0)	(3,287.9)	–	(3,531.9)
Net book value	2,486.0	1,975.3	200.9	4,662.2
Year ended 31 March 2012				
Opening net book value	2,486.0	1,975.3	200.9	4,662.2
Additions	17.1	279.5	282.7	579.3
Transfers	25.3	127.9	(153.2)	–
Disposals	(0.8)	(6.8)	–	(7.6)
Asset write-offs	(13.0)	(10.4)	–	(23.4)
Depreciation charge	(16.4)	(388.4)	–	(404.8)
Exchange difference	(9.4)	(6.1)	(0.3)	(15.8)
Closing net book value	2,488.8	1,971.0	330.1	4,789.9
At 31 March 2012				
Cost	2,759.4	5,612.9	330.1	8,702.4
Accumulated depreciation	(270.6)	(3,641.9)	–	(3,912.5)
Net book value	2,488.8	1,971.0	330.1	4,789.9
Year ended 30 March 2013				
Opening net book value	**2,488.8**	**1,971.0**	**330.1**	**4,789.9**
Additions	**17.3**	**430.3**	**186.6**	**634.2**
Transfers	**16.1**	**189.8**	**(205.9)**	**–**
Disposals	**(0.4)**	**(4.6)**	**–**	**(5.0)**
Asset write-offs	**(0.6)**	**(16.2)**	**–**	**(16.8)**
Depreciation charge	**(11.7)**	**(362.4)**	**–**	**(374.1)**
Exchange difference	**2.1**	**1.8**	**1.6**	**5.5**
Closing net book value	**2,511.6**	**2,209.7**	**312.4**	**5,033.7**
At 30 March 2013				
Cost	**2,817.1**	**6,198.1**	**312.4**	**9,327.6**
Accumulated depreciation	**(305.5)**	**(3,988.4)**	**–**	**(4,293.9)**
Net book value	**2,511.6**	**2,209.7**	**312.4**	**5,033.7**

The net book value above includes land and buildings of £41.0m (last year £41.1m) and equipment of £11.1m (last year £20.7m) where the Group is a lessee under a finance lease.

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

Notes to the financial statements continued

16 Other financial assets

	2013 £m	2012 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**10.7**	254.4
Unlisted investments	**6.2**	6.1
	16.9	260.5

1. Includes £0.3m (last year £179.4m) and £0.3m (last year £49.2m) of money market deposits held by the Marks and Spencer Scottish Limited Partnership and Marks and Spencer plc respectively.

Non-current unlisted investments are carried as available-for-sale assets. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 Trade and other receivables

	2013 £m	2012 £m
Non-current		
Other receivables	**30.4**	33.8
Prepayments and accrued income	**235.0**	236.4
	265.4	270.2
Current		
Trade receivables	**113.7**	115.8
Less: Provision for impairment of receivables	**(5.4)**	(1.2)
Trade receivables – net	**108.3**	114.6
Other receivables	**29.1**	23.9
Prepayments and accrued income	**107.6**	114.5
	245.0	253.0

Trade receivables that were past due but not impaired amounted to £1.8m (last year £1.3m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

18 Cash and cash equivalents

Cash and cash equivalents are £193.1m (last year £196.1m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.03% (last year 0.36%). These deposits have an average maturity of three days (last year four days).

19 Trade and other payables

	2013 £m	2012 £m
Current		
Trade and other payables	**972.7**	959.5
Social security and other taxes	**56.4**	71.5
Accruals and deferred income	**474.7**	418.1
	1,503.8	1,449.1
Non-current		
Other payables	**292.1**	280.8

20 Borrowings and other financial liabilities

	2013 £m	2012 £m
Current		
Bank loans and overdrafts[1]	**151.8**	38.4
5.875% £267m medium-term notes 2012[2]	**–**	280.6
5.625% £400m medium term notes 2014[2]	**400.2**	–
Finance lease liabilities	**6.7**	8.7
	558.7	327.7
Non-current		
Bank loans	**0.3**	0.3
5.625% £400m medium term notes 2014[2]	**–**	399.9
6.250% US$500m medium-term notes 2017[3]	**335.7**	317.8
6.125% £400m medium-term notes 2019[2]	**436.9**	428.5
6.125% £300m medium-term notes 2021[2]	**301.6**	301.6
4.75% £400m medium term notes 2025[2]	**401.4**	–
7.125% US$300m medium-term notes 2037[3]	**200.7**	189.9
6.875% £250m puttable callable reset medium-term notes 2037[2]	**–**	253.3
Finance lease liabilities	**50.7**	56.8
	1,727.3	1,948.1
Total	**2,286.0**	2,275.8

1. Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.

On 12 December 2012, the Group issued £400m of 12.5 year medium-term notes at a coupon rate of 4.75%.

In December 2007, the Group issued £250m of 6.875% 30 year Puttable Callable Reset medium-term notes (PCR notes). These included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the Group bought back and cancelled these bonds in January 2013 for £330.0m. This resulted in a one-off finance charge of £75.3m representing the difference between the cost of the buy back and the carrying value of the PCR notes, offset by associated unamortised bond costs and fees (see note 5).

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years (last year five years) and 125 years (last year 125 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 Financial instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate and currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

Notes to the financial statements continued

21 Financial instruments continued

Financial risk management

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due:

– The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
– Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.325bn set to mature on 29 September 2017. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £81m (last year £nil) was drawn under the committed facilities and £nil (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1.5bn (last year £1.6bn) was in issuance as at the balance sheet date.

The 5.875% £267m bond was repaid in May 2012. A new 4.75% £400m bond was issued under the programme in December 2012 maturing in June 2025.

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 19)) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the Marks & Spencer UK pension scheme £m	Total borrowings and other financial liabilities £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(38.4)	–	(398.5)	(11.8)	(71.9)	(520.6)	1,540.1	(1,529.4)	10.7
Between one and two years	(0.3)	–	(517.1)	(8.8)	–	(526.2)	163.6	(161.9)	1.7
Between two and five years	–	–	(283.8)	(9.2)	–	(293.0)	110.5	(103.3)	7.2
More than five years	–	–	(2,310.9)	(192.1)	–	(2,503.0)	804.6	(841.8)	(37.2)
	(38.7)	–	(3,510.3)	(221.9)	(71.9)	(3,842.8)	2,618.8	(2,636.4)	(17.6)
Effect of discounting and foreign exchange	–	–	1,338.7	156.4	–	1,495.1			
At 31 March 2012	(38.7)	–	(2,171.6)	(65.5)	(71.9)	(2,347.7)			
Timing of cash flows									
Within one year	**(70.8)**	**(81.0)**	**(509.6)**	**(9.3)**	**(71.9)**	**(742.6)**	**1,787.4**	**(1,751.9)**	**35.5**
Between one and two years	**(0.3)**	**–**	**(96.6)**	**(4.3)**	**(71.9)**	**(173.1)**	**201.7**	**(192.0)**	**9.7**
Between two and five years	**–**	**–**	**(619.5)**	**(7.3)**	**(215.5)**	**(842.3)**	**449.3**	**(431.1)**	**18.2**
More than five years	**–**	**–**	**(1,854.3)**	**(188.6)**	**(359.2)**	**(2,402.1)**	**485.6**	**(468.1)**	**17.5**
	(71.1)	**(81.0)**	**(3,080.0)**	**(209.5)**	**(718.5)**	**(4,160.1)**	**2,924.0**	**(2,843.1)**	**80.9**
Effect of discounting and foreign exchange	**–**	**–**	**1,003.5**	**152.1**	**95.9**	**1,251.5**			
At 30 March 2013	**(71.1)**	**(81.0)**	**(2,076.5)**	**(57.4)**	**(622.6)**	**(2,908.6)**			

The present value of finance lease liabilities is as follows:

	2013 £m	2012 £m
Within one year	**(6.7)**	(8.7)
Later than one year and not later than five years	**(9.1)**	(8.7)
Later than five years	**(41.6)**	(48.1)
Total	**(57.4)**	(65.5)

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A-/A3 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

21 Financial instruments continued

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty[3]							
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	Total
Short-term investments[1]	198.5	–	2.0	42.8	27.1	20.0	–	290.4
Derivative assets[2]	–	–	1.9	9.8	–	18.2	7.6	37.5
At 31 March 2012	198.5	–	3.9	52.6	27.1	38.2	7.6	327.9

	AAAm £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**Total**
Short-term investments[1]	**0.3**	**–**	**–**	**9.5**	**11.6**	**13.2**	**–**	**34.6**
Derivative assets[2]	**–**	**–**	**–**	**16.9**	**6.4**	**42.4**	**16.1**	**81.8**
At 30 March 2013	**0.3**	**–**	**–**	**26.4**	**18.0**	**55.6**	**16.1**	**116.4**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and M.S. General Insurance LP.
2. Excludes the embedded derivative within the lease host contract.
3. Standard & Poor's equivalent rating shown as reference to the lowest credit rating of the counterparty from either Standard & Poor's or Moody's.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £114m (last year £115m), other receivables £60m (last year £58m), cash and cash equivalents £193m (last year £196m) and derivatives £108m (last year £111m).

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out for longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,342m (last year £1,221m) with a weighted average maturity date of seven months (last year seven months).

Gains and losses in equity on forward foreign exchange contracts as at 30 March 2013 will be released to the income statement at various dates over the following 15 months (last year 15 months) from the balance sheet date.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €200m (last year €242m) and HK$484m (last year HK$291m) of derivatives was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £307m (last year £187m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme (which has no currency or interest rate exposure) and the Marks and Spencer Czech Republic a.s. put option, is set out below:

			2013			2012
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,929.9**	**318.1**	**2,248.0**	2,030.4	205.2	2,235.6
Euro	**3.9**	**6.7**	**10.6**	6.8	5.1	11.9
Other	**–**	**27.4**	**27.4**	–	28.3	28.3
	1,933.8	**352.2**	**2,286.0**	2,037.2	238.6	2,275.8

Notes to the financial statements continued

21 Financial instruments continued

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and six months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.6% (last year 5.8%) and the weighted average time for which the rate is fixed is eight years (last year nine years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,933.8m (last year £2,037.2m) representing the public bond issues and finance leases, amounting to 85% (last year 90%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2013 %	2012 %
Committed and uncommitted borrowings	**1.2**	0.5
Medium-term notes	**5.6**	5.8
Finance leases	**4.3**	4.5

Derivative financial instruments

		2013		2012	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Options	– held for trading	**–**	**–**	53.6	(53.6)
Forward foreign exchange contracts	– cash flow hedges	**34.0**	**(12.8)**	13.3	(5.1)
	– held for trading	**3.6**	**(0.9)**	0.1	(1.3)
	– net investment hedges	**4.9**	**–**	–	(0.5)
		42.5	**(13.7)**	67.0	(60.5)
Non-current					
Cross currency swaps	– cash flow hedges	**3.2**	**(12.4)**	–	(26.5)
Forward foreign exchange contracts	– cash flow hedges	**3.8**	**(0.7)**	0.1	(0.7)
Interest rate swaps	– fair value hedge	**32.4**	**–**	24.0	–
Embedded derivative (see note 5)		**25.9**	**–**	20.1	–
		65.3	**(13.1)**	44.2	(27.2)

Last year, the amounts reported as options held for trading in derivatives assets and liabilities represented the fair value of the call option with the Puttable Callable reset notes mirrored by the fair value of the sold option to have this call assigned. In January 2013 the Group bought back and cancelled these notes. The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £nil (last year £0.2m loss) as the loss on the hedged item was £8.0m (last year £23.6m loss) and the gain on the hedging instrument was £8.0m (last year £23.8m gain).The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The Directors consider that a 2% +/- (last year 2%) movement in interest rates and a 20% +/- (last year 20%) weakening in sterling represents a reasonable possible change. However this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross currency swaps.

The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

21 Financial instruments continued

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2012				
Impact on income statement: gain	1.5	0.8	–	–
Impact on other comprehensive income: (loss)/gain	(5.3)	3.0	70.2	(46.8)
At 30 March 2013				
Impact on income statement: gain/(loss)	**3.7**	**(5.6)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(6.9)**	**3.5**	**100.8**	**(67.2)**

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgement around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

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

				2013				2012
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
– Trading derivatives	**–**	**3.6**	**–**	**3.6**	–	53.7	–	53.7
Derivatives used for hedging	**–**	**78.3**	**–**	**78.3**	–	37.4	–	37.4
Embedded derivatives (note 5)	**–**	**–**	**25.9**	**25.9**	–	–	20.1	20.1
Available-for-sale financial assets								
– Equity securities	**–**	**–**	**3.0**	**3.0**	–	–	3.0	3.0
Short term investments	**–**	**10.7**	**–**	**10.7**		254.4		254.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	**–**	**(0.9)**	**–**	**(0.9)**	–	(54.9)	–	(54.9)
Derivative used for hedging	**–**	**(25.9)**	**–**	**(25.9)**	–	(32.8)	–	(32.8)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

The following table presents the changes in Level 3 instruments:

	2013 £m	2012 £m
Opening balance	**23.1**	8.7
Gains recognised in the income statement	**5.8**	14.4
Closing balance	**28.9**	23.1

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. A discount unwind on the put option over a non-controlling interest of £nil (last year £1.0m) has been recorded within underlying interest charges, with the fair value movement of the put option of £nil (last year £15.6m) and the fair value movement of the embedded derivative of £5.8m (last year £0.2m) treated as adjustment to reported profit (see note 5).

Fair value of financial instruments

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

The carrying value of the Group's fixed rate bond debt was £2,076.5m (last year £2,171.6m); the fair value of this debt was £2,196.6m (last year £2,121.7m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £622.6m and the fair value of this liability is £606.0m.

Notes to the financial statements continued

21 Financial instruments continued

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 27) and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was eight years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22 Provisions

	2013 £m	2012 £m
At start of year	**32.4**	44.7
Provided in the year	**13.9**	7.8
Released in the year	**(1.3)**	(3.4)
Utilised during the year	**(9.8)**	(16.5)
Exchange differences	**–**	(0.2)
At end of year	**35.2**	32.4
Analysis of provisions:		
Current	**19.2**	8.4
Non-current	**16.0**	24.0
Total provisions	**35.2**	32.4

The provisions primarily comprise of one-off costs related to the strategic restructure in the UK in 2008/09, including onerous leases and costs in relation to the current restructure of the logistics distribution network.

The current element of the provision primarily relates to onerous leases and redundancies. The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of ten years.

23 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 23% (last year 24%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after offsetting balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the year are shown below.

Deferred tax (liabilities)/assets

	Non-current assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 3 April 2011	(63.8)	(104.8)	(27.8)	10.0	(186.4)	(10.1)	(196.5)
Credited/(charged) to the income statement	5.6	4.2	4.4	(2.9)	11.3	(1.5)	9.8
(Charged)/credited to equity	–	–	(5.1)	(0.6)	(5.7)	(3.3)	(9.0)
At 31 March 2012	(58.2)	(100.6)	(28.5)	6.5	(180.8)	(14.9)	(195.7)
At 1 April 2012	**(58.2)**	**(100.6)**	**(28.5)**	**6.5**	**(180.8)**	**(14.9)**	**(195.7)**
Credited/(charged) to the income statement	**5.7**	**10.0**	**(6.5)**	**0.7**	**9.9**	**1.3**	**11.2**
(Charged)/credited to equity	**–**	**–**	**(51.7)**	**(0.7)**	**(52.4)**	**6.2**	**(46.2)**
At 30 March 2013	**(52.5)**	**(90.6)**	**(86.7)**	**6.5**	**(223.3)**	**(7.4)**	**(230.7)**

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £62.0m (last year £71.4m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £30.8m (last year £26.8m).

In addition, the Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of the continuing litigation no asset has been recognised in respect of these claims.

No deferred tax has been recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures, as no material liability is expected to arise on distribution of these earnings under applicable tax legislation.

24 Ordinary share capital

	2013		2012	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,605,507,102**	**401.4**	1,584,863,882	396.2
Shares issued on exercise of share options	**8,381,090**	**2.1**	20,643,220	5.2
At end of year	**1,613,888,192**	**403.5**	1,605,507,102	401.4

Issue of new shares

8,381,090 (last year 20,643,220) ordinary shares having a nominal value of £2.1m (last year £5.2m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £22.9m (last year £44.3m).

25 Contingencies and commitments

A. Capital commitments

	2013 £m	2012 £m
Commitments in respect of properties in the course of construction	**9.5**	71.4

In respect of its interest in a joint venture, the Group is committed to incur capital expenditure of £nil (last year £nil).

B. Other material contracts

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

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2013 £m	2012 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**276.9**	257.8
Later than one year and not later than five years	**1,064.5**	997.4
Later than five years and not later than ten years	**1,053.7**	1,029.5
Later than ten years and not later than 15 years	**695.1**	772.7
Later than 15 years and not later than 20 years	**366.8**	385.1
Later than 20 years and not later than 25 years	**247.0**	259.3
Later than 25 years	**1,143.0**	1,210.1
Total	**4,847.0**	4,911.9

The total future sublease payments to be received are £50.6m (last year £63.3m).

26 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2013 £m	2012 £m
Profit on ordinary activities after taxation	**458.0**	489.6
Income tax expense	**106.3**	168.4
Finance costs	**218.2**	136.8
Finance income	**(26.5)**	(48.3)
Operating profit	**756.0**	746.5
Increase in inventories	**(91.2)**	(0.1)
Decrease/(increase) in receivables	**9.5**	(17.1)
Payments to acquire leasehold properties	**–**	(1.2)
Increase in payables	**77.0**	103.4
Non-underlying operating cash outflows	**(21.4)**	(22.9)
Depreciation, amortisation and asset write-offs	**467.4**	479.7
Share-based payments	**25.8**	32.5
Pension costs charged against operating profit	**68.4**	57.7
Cash contributions to pension schemes	**(70.9)**	(89.9)
Non-underlying operating profit items (see note 5)	**25.6**	63.5
Cash generated from operations	**1,246.2**	1,352.1

Non-underlying operating cash outflows relate to the utilisation of the provisions for UK restructuring, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

Notes to the financial statements continued

27 Analysis of net debt

A. Reconciliation of movement in net debt

	At 1 April 2012 £m	Cash flow £m	Exchange and other non-cash movements £m	**At 30 March 2013 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility (note 20)	(38.7)	(113.4)	–	**(152.1)**
Less: amounts treated as financing (see below)	38.4	81.3	–	**119.7**
	(0.3)	(32.1)	–	**(32.4)**
Cash and cash equivalents (note 18)	196.1	(3.9)	0.9	**193.1**
Net cash per statement of cash flows	195.8	(36.0)	0.9	**160.7**
Current financial assets (see note 16)	260.5	(243.7)	0.1	**16.9**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(38.4)	(81.3)	–	**(119.7)**
Medium-term notes	(2,137.6)	131.4	(2.6)	**(2,008.8)**
Finance lease liabilities (note 20)	(65.5)	11.0	(2.9)	**(57.4)**
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	(71.9)	71.9	(606.0)	**(606.0)**
Debt financing	(2,313.4)	133.0	(611.5)	**(2,791.9)**
Net debt	(1,857.1)	(146.7)	(610.4)	**(2,614.3)**

B. Reconciliation of net debt to statement of financial position

	2013 £m	2012 £m
Statement of financial position and related notes		
Cash and cash equivalents (note 18)	**193.1**	196.1
Current financial assets (note 16)	**16.9**	260.5
Bank loans and overdrafts (note 20)	**(152.1)**	(38.7)
Medium-term notes – net of hedging derivatives	**(2,040.2)**	(2,181.8)
Finance lease liabilities (note 20)	**(57.4)**	(65.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	**(622.6)**	(71.9)
	(2,662.3)	(1,901.3)
Interest payable included within related borrowing	**48.0**	44.2
Total net debt	**(2,614.3)**	(1,857.1)

28 Related party transactions

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2013. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008. At 30 March 2013, £21.7m (last year £25.4m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.6m (last year £4.5m) of rental charges were incurred. There was no outstanding balance at March 2013.

28 Related party transactions continued

D. Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

E. Key management compensation

	2013 £m	2012 £m
Salaries and short-term benefits	**9.2**	8.8
Post-employment benefits	**–**	0.1
Share-based payments	**2.6**	6.0
Total	**11.8**	14.9

Key management comprises Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, a former executive director of the Group. These transactions amounted to £6.5m during the period to 1 October 2012, the date of Kate Bostock's resignation (last year £12.7m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amounted to £2.4m during the year (last year £1.9m) with an outstanding trade payable of £0.2m at 30 March 2013 (last year £0.5m).

Company statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C5	**9,207.8**	9,194.6
Total assets		**9,207.8**	9,194.6
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,516.8**	2,541.7
Total liabilities		**2,516.8**	2,541.7
Net assets		**6,691.0**	6,652.9
Equity			
Ordinary share capital		**403.5**	401.4
Share premium account		**315.1**	294.3
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,372.5**	2,357.3
Total equity		**6,691.0**	6,652.9

The financial statements were approved by the Board and authorised for issue on 20 May 2013. The financial statements also comprise the notes on pages 111 and 112.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 3 April 2011	396.2	255.2	2,202.6	1,397.3	2,336.7	6,588.0
Profit for the year	–	–	–	–	273.6	273.6
Dividends	–	–	–	–	(267.8)	(267.8)
Capital contribution for share-based payments	–	–	–	–	14.8	14.8
Shares issued on the exercise of employee share options	5.2	39.1	–	–	–	44.3
At 31 March 2012	401.4	294.3	2,202.6	1,397.3	2,357.3	6,652.9
At 1 April 2012	**401.4**	**294.3**	**2,202.6**	**1,397.3**	**2,357.3**	**6,652.9**
Profit for the year	**–**	**–**	**–**	**–**	**273.3**	**273.3**
Dividends	**–**	**–**	**–**	**–**	**(271.3)**	**(271.3)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**13.2**	**13.2**
Shares issued on the exercise of employee share options	**2.1**	**20.8**	**–**	**–**	**–**	**22.9**
At 30 March 2013	**403.5**	**315.1**	**2,202.6**	**1,397.3**	**2,372.5**	**6,691.0**

Company statement of cash flows

	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from investing activities		
Dividends received	**273.3**	273.6
Net cash generated from investing activities	**273.3**	273.6
Cash flows from financing activities		
Shares issued on exercise of employee share options	**22.9**	44.3
Repayment of intercompany loan	**(24.9)**	(50.1)
Equity dividends paid	**(271.3)**	(267.8)
Net cash used in financing activities	**(273.3)**	(273.6)
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

Company notes to the financial statements

C1 Accounting policies
The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement.

C2 Employees
The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £968,000 (last year £932,000). The Company did not operate any pension schemes during the current or preceding year.

C3 Auditors' remuneration
Auditors' remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 Dividends

	2013 per share	2012 per share	**2013 £m**	2012 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**172.3**	170.2
Paid interim dividend	**6.2p**	6.2p	**99.0**	97.6
	17.0p	17.0p	**271.3**	267.8

In addition, the directors have proposed a final dividend in respect of the year ended 30 March 2013 of 10.8p per share amounting to a dividend of £173.5m. It will be paid on 12 July 2013 to shareholders who are on the Register of Members on 31 May 2013. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results.

C5 Investments
A. Investments in subsidiary undertakings

	2013 £m	2012 £m
Beginning of the year	**9,194.6**	9,179.8
Additional investment in subsidiary undertakings relating to share-based payments	**13.2**	14.8
End of year	**9,207.8**	9,194.6

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc.

Company notes to the financial statements continued

C5 Investments continued

B. Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding company	The Netherlands	–	100%
Marks and Spencer Marinopoulos BV	Holding company	The Netherlands	–	100%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks & Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	80%
M.S. General Insurance L.P.	Financial services	Guernsey	–	100%
per una Group Limited	Procurement	Great Britain	–	100%
Marks and Spencer Scottish Limited Partnership	Property investment	Great Britain	–	–[1]

1. Marks and Spencer plc is the general partner.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

C6 Related party transactions

During the year, the Company has received dividends from Marks and Spencer plc of £273.3m (last year £273.6m) and decreased its loan from Marks and Spencer plc by £24.9m (last year £50.1m). The outstanding balance was £2,516.8m (last year £2,541.7m) and is non-interest bearing. There were no other related party transactions.

Group financial record

	2013 52 weeks £m	2012 52 weeks £m	2011 52 weeks £m	2010 53 weeks £m	2009 52 weeks £m
Income statement					
Revenue[1]					
UK	**8,951.4**	8,868.2	8,733.0	8,567.9	8,164.3
International	**1,075.4**	1,066.1	1,007.3	968.7	897.8
	10,026.8	9,934.3	9,740.3	9,536.6	9,062.1
Operating profit[1]					
UK	**635.8**	658.0	679.0	701.1	755.0
International	**120.2**	88.5	157.9	150.9	115.7
Total operating profit	**756.0**	746.5	836.9	852.0	870.7
Net interest payable	**(212.9)**	(114.1)	(93.9)	(160.1)	(199.9)
Pension finance income	**21.2**	25.6	37.6	10.8	35.4
Profit on ordinary activities before taxation – continuing operations	**564.3**	658.0	780.6	702.7	706.2
Analysed between:					
Underlying profit before tax	**665.2**	705.9	714.3	694.6	604.4
Adjustments to reported profit	**(100.9)**	(47.9)	66.3	8.1	101.8
Income tax expense	**(106.3)**	(168.4)	(182.0)	(179.7)	(199.4)
Profit after taxation	**458.0**	489.6	598.6	523.0	506.8

		2013 52 weeks	2012 52 weeks	2011 52 weeks	2010 53 weeks	2009 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**29.2p**	32.5p	38.8p	33.5p	32.3p
Underlying basic earnings per share[1]	Underlying basic earnings/ Weighted average ordinary shares in issue	**32.7p**	34.9p	34.8p	33.0p	28.0p
Dividend per share declared in respect of the year		**17.0p**	17.0p	17.0p	15.0p	17.8p
Dividend cover	Underlying earnings per share/ Dividend per share	**1.9p**	2.1x	2.0x	2.2x	1.6x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.5x**	3.9x	4.0x	4.0x	3.5x
Statement of financial position						
Net assets (£m)		**2,486.4**	2,778.8	2,677.4	2,185.9	2,100.6
Net debt[2] (£m)		**2,614.3**	1,857.1	1,900.9	2,068.4	2,490.8
Capital expenditure (£m)		**821.3**	737.5	491.5	397.1	653.3
Stores and space						
UK stores		**766**	731	703	690	668
UK selling space (m sq ft)		**16.4**	16.0	15.6	15.4	14.9
International stores		**418**	387	361	320	296
International selling space (m sq ft)		**5.4**	4.7	4.2	3.6	3.1
Staffing (full-time equivalent)						
UK		**51,835**	51,938	49,922	48,722	50,614
International		**5,683**	5,116	4,753	4,272	3,539

1. Based on continuing operations.
2. Excludes accrued interest.

Shareholder information

Analysis of share register

Ordinary shares

As at 30 March 2013, there were 195,544 holders of ordinary shares whose shareholdings are analysed below.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Range				
1 – 500	98,889	50.57%	19,338,260	1.20%
501 – 1,000	38,611	19.75%	28,865,092	1.79%
1,001 – 2,000	29,835	15.26%	42,861,153	2.66%
2,001 – 5,000	20,015	10.23%	61,545,081	3.81%
5,001 – 10,000	5,201	2.66%	36,001,930	2.23%
10,001 – 100,000	2,427	1.24%	54,969,725	3.41%
100,001 – 1,000,000	385	0.20%	126,882,718	7.86%
1,000,001 – HIGHEST	181	0.09%	1,243,424,233	77.04%
Total	195,544	100%	1,613,888,192	100%

Many private investors hold their shares through nominee companies, therefore the percentage of private holders is much higher than that shown – we estimate approximately 30%.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Holders				
Private	187,711	95.99%	271,377,253	16.82%
Institutional and Corporate	7,833	4.01%	1,342,510,939	83.18%
Total	195,544	100%	1,613,888,192	100%

Managing your shares

The Company's register of shareholders is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly. Their contact details can be found on the opposite page. Alternatively, shareholders may find the 'Investors' section of our corporate website useful for general queries.

Dividends

Paid in January and July each year. We encourage shareholders to have dividends paid directly into their bank account to ensure efficient payment and cleared funds on the payment date. Those selecting this payment method receive an annual consolidated tax voucher in January, showing both dividend payments in the respective tax year. However, we are able to send separate tax vouchers with each payment, if preferred.

To change how you receive your dividends either log on to shareview.co.uk or contact Equiniti.

Duplicate documents

Around 10,000 shareholders still receive duplicate documentation and split dividend payments due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact Equiniti.

If you move house

It is extremely important that you contact Equiniti to inform them of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the telephone. However, for holdings greater than 1,500 your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), previous address and new address.

Corporate website

Whether you are interested in learning more about our heritage, our social, environmental and ethical responsibilities, our approach to corporate governance or viewing our latest press releases, the M&S corporate website provides a wealth of information for shareholders.

If you have a general query regarding your shareholding, it can often be worthwhile making the 'Investors' section of our corporate website your first port of call as it contains much of the information that is most frequently requested from our shareholder helpline. Shareholders are also encouraged to sign up to receive emailed news alerts, which include all financial news releases throughout the year. These are not mailed to shareholders. You can access the corporate website at marksandspencer.com/thecompany.

The directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

Electronic communication

In recent years, changes in legislation have removed the need for companies to mail endless amounts of paper to shareholders. Instead, companies are turning to the speed, environmental and cost-saving benefits of communicating with their shareholders via the internet. M&S has actively been encouraging shareholders to sign up to this method of communication, as the reduction in printing costs and paper usage make a valuable contribution to our Plan A commitments. It is equally beneficial to shareholders, who can be notified by email whenever we release trading updates for investors to the London Stock Exchange. These are not mailed to shareholders.

Registration is very straightforward through Shareview, the internet based platform provided by Equiniti. For information about how to register, please visit the 'Investors' section of our corporate website.

Capital Gains Tax

For the purpose of Capital Gains Tax, the price of an ordinary share on 31 March 1982 was 153.5p, which when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p. Following the capital reorganisation in March 2002, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

AGM 2013

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 9 July 2013. The meeting will start at 11am and registration will be available from 9.30am.

Shareholder security

An increasing number shareholders have been contacting us to report unsolicited and suspicious phone calls that they have received from 'brokers' offering to buy their shares at a price far in excess of their market value. We believe this may be a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company Share Register, and are extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. Remember, if it sounds too good to be true, it probably is!

More detailed information and guidance is available on the 'Investors' section of our corporate website. An overview of common current scams is available on the Action Fraud website www.actionfraud.police.uk

American Depositary Receipts (ADRs)

The Company has a Level 1 ADR program. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to otcqx.com

For Deutsche Bank email: DB@amstock.com

ADR website: adr.db.com

Toll free callers within the US: 1 866 249 2593

For those calling outside the US: +1 (718) 921 8137

Key dates

29 May 2013	Ex-dividend date – Final dividend
31 May 2013	Record date to be eligible for the final dividend
9 July 2013*	Results – Quarter 1 Interim Management Statement†
9 July 2013	Annual General Meeting (11am)
12 July 2013	Final dividend payment date for the year to 30 March 2013
November 2013*	Results – Half Year†
13 November 2013*	Ex-dividend date – Interim dividend
15 November 2013*	Record date to be eligible for the interim dividend
January 2014*	Results – Quarter 3 Interim Management Statement†
10 January 2014*	Interim dividend payment date

† Those registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.
* provisional dates.

How to get in touch

Registered office and Head Office

Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

Registrars

Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
United Kingdom
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071
Online: help.shareview.co.uk
From here, you will be able to securely email Equiniti with your enquiry.

Group Secretary and Head of Corporate Governance

Amanda Mellor

Additional documents

For both the Annual Report or Annual Review go to marksandspencer.com/thecompany

Alternatively, call 0800 591 697

Please note, students are advised to source information from our website.

Contact us

email us at chairman@marks-and-spencer.com
Customer queries: 0845 302 1234
Shareholder queries: 0845 609 0810

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