Marks and Spencer Group Plc
Full Year Results for 52 Weeks ended 28 March 2015

"M&S Grows Full Year Margin and Profit"

Improved full year results

- Group sales up 0.4% [1] to £10.3bn
- Underlying profit before tax[2] up 6.1% to £661.2m
- Statutory profit before tax up 3.4% to £600.0m

Food business outperforms in a very competitive market

- Specialist positioning differentiates us from the competition
- 62 new Simply Food stores opened, with performance ahead of expectations
- Gross margin up 30bps

General Merchandise gross margin up strongly

- Gross margin up 190bps
- Significant sourcing gains and slightly lower discounting

General Merchandise sales performance challenging

- Full year performance did not meet expectations, positive LFL growth in the final quarter
- Continued improvement in product quality and style
- M&S.com sales back in growth in the final quarter, following disruption earlier in the year

International business impacted by macro-economic issues

- Operating profit down 24.8% to £92m

Tight control of costs and capex

- Operating costs up 1.5%
- Capex down £183m to £526.6m

Strong cash generation

- EBITDA £1,312.6m, up £92.9m
- Free cash flow before dividend £524.2m, up £96.3m
- Final dividend up 7.4% to 11.6p; full year dividend up 5.9% to 18p

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- Share buyback programme of £150m announced for 2015/16

Marc Bolland, Chief Executive, said:

"We made good progress in three of our four key priorities for the year. In Food, we had an outstanding year in a difficult market. In GM, we significantly increased the gross margin, and, while sales performance was below our expectations, we returned to growth in the fourth quarter. We continued to control costs and capital expenditure tightly, resulting in significantly improved free cash flow.

"We are transforming M&S into a stronger, more agile business – putting the right infrastructure, capabilities and talent in place to drive our strategic priorities."

Robert Swannell, Chairman, said:

"We are a more capable business following a sustained period of investment in our infrastructure and in our people. Our focus continues to be on delivery of the strategy and improvement in shareholder returns.

"In line with our policy, the Board is recommending a final dividend of 11.6p per share, resulting in a full year dividend of 18p, 5.9% up on last year. In the context of continuing increased free cash flow in the business we are also pleased to announce the start of an ongoing programme of enhanced returns for shareholders with a share buyback programme of £150 million in the current year."

Guidance for financial year 2015/16:

- General Merchandise gross margin is expected to grow by 150bps to 200bps as a result of ongoing sourcing benefits.
- Food gross margin is expected to grow by 0 to 10bps due to further operational efficiencies.
- Operating costs are expected to increase by c. 4% primarily as a result of inflation and new Food space.
- Group capital expenditure is expected to be c. £500m to £550m.
- In Food, the planned opening of new stores will add c. 4.5% of space. We have a strong pipeline of new Simply Food stores and are increasing the planned number of new stores from 200 to 250 in the three years to March 2017. In GM there will be no new net space increase. International space is expected to grow by c. 5%.
- Underlying effective tax rate is expected to be c. 20%.

Looking ahead

With our new infrastructure largely in place, we are focused on delivery. Looking ahead we will continue to work on completing the final part of the single tier logistics network and GM4 systems, which will bring us closer to achieving our target of becoming a leading international, multichannel retailer. Our short term priorities remain the same: Food sales growth, GM gross margin improvement, improved GM performance and strong cash generation.

In our Food business, we see strong sales growth and modest gross margin opportunity. We expect the UK food market to remain challenging but we are well positioned with a differentiated product offer and a store format that caters for the changes in customer shopping habits. Delivery of our new stores will help drive sales growth over the coming year.

In General Merchandise we see significant gross margin improvement opportunity, with modest sales growth. In the year ahead we will continue to deliver gross margin benefits through a combination of a more direct approach to sourcing and improved trading capabilities. We expect a further step up with the completion of the single tier logistics network and GM4 systems implementation. Whilst we expect the Clothing and Home markets to remain highly competitive, we will continue to focus on stylish design, quality and newness, with better availability and more choice. Our M&S.com website and e-commerce distribution centre will help us drive online sales growth and improve our profitability.

We anticipate that in the short term our International business will be impacted by the weaker Euro and challenging macro-economic backdrop, particularly in our Middle East region and in the first half of the financial year. However, we still see a long term growth opportunity for the brand across a number of international markets.

Shareholder returns

Following the recent programme of investment, we now have a stronger, more capable business. While there is still more to do, the reduction in capital investment and the improving business performance will lead to strong cash generation.

The Board has set out clear capital allocation priorities:

- Commitment to a strong balance sheet and investment grade credit rating;
- Continuing to invest in the business for growth, underpinned by strong investment disciplines;
- Progressive dividend policy, broadly twice covered by earnings; and
- Returning excess cash to shareholders on a regular basis.

Consistent with this approach, M&S is today announcing an ongoing programme of returns of capital to shareholders, with the quantum and method determined by the Board each year based on the performance and the needs of the business.

This year we expect to return £150m of cash to shareholders by way of a share buyback programme.

We will update on our first quarter sales on 7 July 2015.

Notes:

[1] On constant currency basis.

[2] Underlying results are consistent with how the business is measured internally. Adjustments to derive underlying profit in the current period include net M&S Bank Charges incurred in relation to the insurance mis-selling provision, restructuring costs, IAS 39 fair value movement of embedded derivative, loss on disposal and impairment once commitment to closure and International store reviews.

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Investor & Analyst webcast:

Investor and analyst presentation will be held at 9am on 20 May 2015. This presentation can be viewed live on the Marks and Spencer Group plc website on:
www.marksandspencer.com/investors

Fixed Income Investor Conference Call:

This will be hosted by Helen Weir, Chief Finance Officer at 2pm on 20 May 2015:

Dial in number: +44 (0)20 3427 1913 Access code: 1609026

A recording of this call will be available until 29 May 2015:

Dial in number: +44 (0)20 3427 0598 Access code: 1609026

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Business and financial review

Summary of Results	52 weeks ended		
	28 Mar 15	29 Mar 14	% var
	£m	£m	
Group revenue[3]	**10,311.4**	**10,309.7**	Level
UK	9,223.1	9,155.7	+0.7
International[3]	1,088.3	1,154.0	-5.7
Underlying operating profit	**762.5**	**741.9**	+2.8
UK	670.2	619.2	+8.2
International	92.3	122.7	-24.8
Underlying profit before tax	**661.2**	**622.9**	+6.1
Non-underlying items	(61.2)	(42.5)	-44.0
Profit before tax	**600.0**	**580.4**	+3.4
Underlying basic earnings per share	**33.1p**	**32.2p**	+2.8
Basic earnings per share	**29.7p**	**32.5p**	-8.6
Dividend per share (declared)	**18.0p**	**17.0p**	+5.9

[3]*On reported currency basis*

GROUP REVENUE

Group revenues were level (up 0.4% on a constant currency basis). UK revenues were up 0.7% in total with a like-for-like decrease of 1.0%. International revenues were down 5.7% (down 2.1% on constant currency basis).

Food

Sales were up 3.4%, up 0.6% on a like-for-like basis. Our strategy to be more specialist and focus on quality and innovation continues to deliver results. Despite the competition intensifying through the period, we outperformed the market by some 3.5% pts, and have now delivered 22 consecutive quarters of like-for-like growth.

Our focus has been on being 'more relevant, more often' for our customers, whether they are doing the weekly shop or buying for tonight. This year we introduced 1,700 new products, equivalent to almost a quarter of our entire range, including our new Taste range of prepared meals as well new categories such as frozen meals.

While the competition continued to intensify in the supermarket space, we maintained a competitive stance on price without compromising on quality, whilst also ensuring our farmers get a fair deal too.

Our operational execution continues to improve, delivering better on-shelf availability as well as operational cost efficiencies which have allowed us to invest in both product quality and lower prices for our customers, as well as improve our gross margin.

People are shopping more regularly and more locally, and the Simply Food format caters to these evolving shopping habits. Our store opening programme continued at pace. This year we opened 62 Simply Food stores in the UK with performance ahead of expectations.

General Merchandise

General Merchandise sales were down 2.5% with like-for-like sales down 3.1%. We made good progress against one of our two GM priorities this year, with strong improvement in gross margin. Whilst we returned to growth in the final quarter, sales for the year as a whole were disappointing. The UK retail sector was impacted by the third warmest autumn on record and we were disproportionately affected due to our high market shares in winter categories such as knitwear and coats. We also faced disruption at our online distribution centre over the peak Christmas period, but have made good progress since then, with M&S.com sales back in growth in the fourth quarter.

We developed our in-house design capabilities, resulting in improvements in both product quality and style, with perception scores of these up 6% and 4%, respectively. Our ranges received positive fashion press coverage giving customers confidence to turn to us for our interpretation of key trends.

We made a number of improvements to our stores to make them easier and more inspiring to shop. We introduced more newness all the way down the chain bringing the best of our ranges to more of our customers, and we extended our Womenswear Limited Edition brand to every store, giving our customers more choice no matter where they shop.

We also launched a new TV and print ad campaign unifying our Food and Fashion message providing customers with a clearer, more consistent message about the M&S brand both in stores and on M&S.com.

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M&S.com

Sales were down 2.0% over the year. Following the move from the Amazon platform, this was the first full year in which we had control of our website. Whilst it proved to be technically resilient, the new site presented a bigger change for our customers than we had anticipated, which impacted sales. We worked hard to address this and made a number of updates to improve the shopping experience.

Sales performance was also impacted by operational challenges at our Castle Donington distribution centre over the peak Christmas period. We have learned from this, made improvements to our systems, and further strengthened the logistics management team.

As a result of these actions, sales returned to growth in the fourth quarter and we saw gradual improvement across all key metrics: traffic grew by 15%, customer satisfaction rose by 18% and conversion rates improved. Some 7m shoppers have registered on the new site.

Our investment in supply chain infrastructure gives us confidence in our long-term ability to serve our customers better. We launched an improved delivery proposition and will continue to look at ways of improving the service to our customers.

International

Sales in our International business were down 2.1% on a constant currency basis (down 5.7% on reported currency).

Last year has been very turbulent geopolitically in a number of our franchise territories. This particularly affected performance in Russia, Ukraine and Turkey, where our franchise partner was impacted by political instability and local currency fluctuations resulting in lower shipments. Elsewhere in the Middle East region the macro-economic situation impacted consumer demand leading to some de-stocking by our partners.

A number of our owned businesses delivered a good performance despite challenging trading conditions in some markets. Following the actions we took to restructure our business in Ireland and Czech Republic, we were pleased to see an improvement in profitability in both of these markets. In India we opened 12 stores and continued to see double digit like-for-like performance. Having seen strong results from the trial stores, we have started the roll-out of standalone Food stores, opening six in Paris and four in Hong Kong. Overall sales per square foot in these stores have been ahead of our Simply Food stores in the UK.

In China, following the completion of a review, we took a decision to focus on Shanghai and closed five of our smaller regional stores. We also announced our intention to open flagships in Beijing and Guangzhou.

GROSS MARGIN

UK gross margin was up 75bps at 41.4% as a result of the strong improvement in General Merchandise.

General Merchandise gross margin was up 190bps at 52.6% driven mainly by an improvement in the buying margin as a result of sourcing initiatives, which have enabled us to buy more effectively. Despite a highly promotional marketplace, we remained focused on full price sales and we reduced the number of price promotions. However, this was partly offset by higher clearance markdown from the additional stock into sale as a result of unseasonal Autumn / Winter conditions.

Food gross margin was up 30bps at 32.8% due to ongoing operational efficiencies. Some of the benefits realised through streamlining our operations have been reinvested in price and quality, and also shared with suppliers to help them create further efficiencies.

OPERATING COSTS

	52 weeks ended		
	28 Mar 15	29 Mar 14	
	£m	£m	% var
Retail staffing	954.5	978.8	-2.5
Retail occupancy	1,116.4	1,054.4	+5.9
Distribution	408.7	445.5	-8.3
Marketing and related	167.6	147.7	+13.5
Support	560.2	533.2	+5.1
Total	**3,207.4**	**3,159.6**	**+1.5**

UK operating costs were up £47.8m (1.5%), with higher depreciation and asset impairments contributing £76m (2.4%) of the total increase.

Retail staffing costs were down in part as a result of lower volumes, but also helped by better resource allocation following the implementation of a new labour planning system. Our store customer satisfaction scores were up on the year.

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The increase in occupancy costs mainly reflects increased depreciation and asset impairments arising from investment made in the UK store environment as well as the addition of new space in food.

Distribution costs were down reflecting new contractual terms with a key food logistics supplier, the benefits of the first stage of our single tier network, and lower volumes in General Merchandise.

Marketing and related costs increased due to the re-launch of the M&S brand including new TV advertising campaigns across both Food and General Merchandise.

Support costs were up largely due to higher depreciation on the new M&S.com platform and additional staff incentive costs this year, partially offset by the release of employee benefit provisions.

UNDERLYING OPERATING PROFIT

Underlying group operating profit was £762.5m (last year £741.9m). Within this, UK operating profit was £670.2m (last year £619.2m) and International operating profit was £92.3m (last year £122.7m).

NET FINANCE COSTS

	52 weeks ended	
	28 Mar 15	29 Mar 14
	£m	£m
Interest payable	(99.8)	(121.1)
Interest income	5.0	8.4
Net underlying interest payable	**(94.8)**	**(112.7)**
Pension net finance income	10.5	11.7
Unwinding of discount on partnership liability	(16.1)	(17.8)
Unwinding of discounts on financial instruments and provisions	(0.9)	(0.2)
Net underlying finance costs	**(101.3)**	**(119.0)**
Interest income on tax repayment	-	4.9
Net Finance Cost	**(101.3)**	**(114.1)**

Net underlying interest payable was down 15.9% to £94.8m due to a decrease in the average cost of funding to 5.0% (last year 5.4%) and a £240m reduction in net debt. This has resulted in a decrease in net finance costs of £12.8m.

NON-UNDERLYING PROFIT ITEMS

Non-underlying adjustments to profit were £61.2m net charge (last year £42.5m net charge). In the current year £37.2m has been charged for impairment of assets and onerous lease provisions in underperforming stores in Western Europe, Ireland and China, and a £6.9m charge recognised in relation to loss on disposal or impairment of UK stores where there is a commitment to close. Full details of all non-underlying items are disclosed in note 3.

TAXATION

The full year underlying effective tax rate was 18.9% (last year 18.8%). Statutory effective tax rate was 19.7% (last year 12.8%).

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 2.8% to 33.1p per share. The weighted average number of shares in issue during the period was 1,635.6m (last year 1,615.0m).

SHAREHOLDER RETURNS

We are pleased by the improvement in cash generation over the year. Following the increase in the interim dividend, the Board has proposed a 7.4% increase in the final dividend to 11.6p. This will result in a total dividend of 18.0p, up 5.9% on last year.

In addition, we have announced the start of an ongoing programme of returns of capital to shareholders. In the year ahead, we expect to return £150m of cash to shareholders in a form of a share buyback programme.

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CAPITAL EXPENDITURE

	52 weeks ended	
	28 Mar 15	29 Mar 14
	£m	£m
UK store environment	92.7	163.2
New UK stores	63.5	89.4
International	37.5	69.0
Supply chain and technology	273.8	346.2
Maintenance	94.5	67.2
Proceeds from property disposals	(35.4)	(25.0)
Total capital expenditure	**526.6**	**710.0**

Group capital expenditure was down £183.4m versus last year, in line with our plans, as many of our large infrastructure projects have now been completed.

We continued to invest in our UK store estate to create a more inspiring environment for our customers, including the launch of our new look and feel Menswear department.

We added c.1.5% of selling space in the UK (on a weighted average basis), trading from 16.7m square feet at the end of March 2015. We opened 67 new stores in the year, including 62 Simply Food stores, and closed 13 stores of which 5 were relocations. International space increased by c.7% mainly in key markets of India and Western Europe.

In line with our strategy to build an infrastructure fit to support the future growth of the business, we continued to invest in supply chain and technology. In supply chain, we have invested in our second NDC in Bradford, which is scheduled to open in 2016. In IT, we are making good progress implementing our new General Merchandise commercial systems, GM4.

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

SUPPLIER INCOME

The Financial Reporting Council (FRC) has asked retailers 'to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements'. Due to our focus on own brand products, supplier income is a relatively small proportion of our value of stock expensed.

As at the year-end, accrued income in relation to supplier income was £13.5m (2014 £9.3m). Further detail on our accounting policies will be included in the 2014/15 Annual Report.

CASH FLOW AND NET DEBT

	52 weeks ended	
	28 Mar 15	29 Mar 14
	£m	£m
Underlying EBITDA	1,312.6	1,219.7
Working capital	179.5	47.9
Pension funding	(143.0)	(92.0)
Capex and disposals	(664.4)	(616.6)
Interest and taxation	(177.1)	(175.2)
Share transactions	16.6	44.1
Free cash flow pre dividends	**524.2**	**427.9**
Dividends paid	(280.7)	(273.6)
Free cash flow	**243.5**	**154.3**
Opening net debt	**(2,463.6)**	**(2,614.3)**
Exchange and other non-cash movements	(3.1)	(3.6)
Closing net debt	**(2,223.2)**	**(2,463.6)**

The business delivered strong free cash flow pre dividends of £524.2m which, after the payment of dividends, led to a reduction in net debt of £240.4m. The improved free cash flow reflects stronger business performance, resulting in £1,312.6m of underlying EBITDA, an increase of £92.9m (7.6%) on last year. In addition there was a £179.5m reduction in working capital, as a result of lower inventory levels and also higher creditor levels, in part due to the earlier timing of Easter this year. In addition the free cash flow includes an ex-gratia payment of £40.0m (last year nil) from HSBC following agreement reached over a number of issues in connection with the Relationship Agreement. These movements are partially off-set by capital expenditure cash payments of £664.4m. These are higher than our actual capital expenditure as a result of high prior year-end capex accruals which were paid in the first half of this year. Pension funding includes £56.0m of additional deficit reduction funding contributions paid into the UK defined benefit scheme during the year.

PENSION

At 28 March 2015, the IAS 19 net retirement benefit surplus was £449.0m (last year £189.0m). The increase is due to movement in the UK defined benefit surplus, specifically an increase in the market value of scheme assets attributable to higher than expected returns. This is partly offset by an increase in the present value of scheme liabilities due to a decrease in the discount rate from 4.45% to 3.10% from the movement in corporate bond yields.

Plan A 2020

During the last 12 months we reviewed and refreshed the Marks & Spencer brand. We have defined a compelling brand purpose, 'Enhancing Lives, Every Day', supported by our four brand values of Inspiration, In Touch, Integrity and Innovation. Our purpose and values are integral to Plan A 2020, the third stage of our Plan A journey which we set out in June 2014. It brings Plan A to life for our millions of customers and puts it at the heart of our brand.

A key initiative this year has been helping to tackle youth unemployment. We offered 2,000 work placements to people aged 25 or under, with 62 per cent finding employment as a result. Additionally, 90 M&S suppliers, covering more than 150 individual sites, also worked with us to provide an additional 1,700 placements. The scheme, known as 'Make Your Mark', won the Mayor's Fund for London Work Experience Provider Award and the 2014 IGD Employability Award.

Working in collaboration with others, businesses, governments and NGOs, to achieve industry-wide change is also a key part of Plan A 2020. Through the Consumer Goods Forum and World Economic Forum, we have actively supported global progress on deforestation, refrigeration, the circular economy, youth unemployment and engaging the 'millennial' generation's attitudes to sustainable consumption.

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

- Ends -

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Consolidated income statement

	Notes	52 weeks ended 28 March 2015 Underlying £m	Non-underlying £m	Total £m	52 weeks ended 29 March 2014 Underlying £m	Non-underlying £m	Total £m
Revenue	2	**10,311.4**	**-**	**10,311.4**	10,309.7	-	10,309.7
Operating profit	2, 3	**762.5**	**(61.2)**	**701.3**	741.9	(47.4)	694.5
Finance income	4	15.5	-	15.5	20.1	4.9	25.0
Finance costs	4	(116.8)	-	(116.8)	(139.1)	-	(139.1)
Profit before tax		**661.2**	**(61.2)**	**600.0**	622.9	(42.5)	580.4
Income tax expense	5	(124.8)	6.5	(118.3)	(117.1)	42.7	(74.4)
Profit for the year		**536.4**	**(54.7)**	**481.7**	505.8	0.2	506.0
Attributable to:							
Owners of the parent		541.2	(54.7)	486.5	520.0	4.8	524.8
Non-controlling interests		(4.8)	-	(4.8)	(14.2)	(4.6)	(18.8)
		536.4	**(54.7)**	**481.7**	505.8	0.2	506.0
Basic earnings per share	6	33.1p	(3.4p)	29.7p	32.2p	0.3p	32.5p
Diluted earnings per share	6	32.9p	(3.4p)	29.5p	31.9p	0.3p	32.2p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 28 March 2015 £m	52 weeks ended 29 March 2014 £m
Profit for the year		**481.7**	506.0
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	8	193.7	(85.3)
Tax (charge)/credit on retirement benefit schemes		(40.2)	31.8
		153.5	(53.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(7.5)	(22.3)
Cash flow and net investment hedges			
- fair value movements in other comprehensive income		221.2	(109.9)
- reclassified and reported in net profit		(60.0)	36.4
- amount recognised in inventories		(21.6)	18.7
Tax (charge)/credit on cash flow hedges and net investment hedges		(21.2)	12.2
		110.9	(64.9)
Other comprehensive income/(expense) for the year, net of tax		264.4	(118.4)
Total comprehensive income for the year		**746.1**	387.6
Attributable to:			
Owners of the parent		750.9	406.4
Non-controlling interests		(4.8)	(18.8)
		746.1	387.6

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Consolidated statement of financial position

	Notes	**As at 28 March 2015 £m**	As at 29 March 2014 £m
Assets			
Non-current assets			
Intangible assets		858.2	808.4
Property, plant and equipment		5,031.1	5,139.9
Investment property		15.6	15.7
Investment in joint ventures		12.2	12.7
Other financial assets		3.0	3.0
Retirement benefit asset	8	460.7	200.7
Trade and other receivables		283.3	313.5
Derivative financial instruments	10	75.8	40.6
Deferred tax assets		1.2	-
		6,741.1	6,534.5
Current assets			
Inventories		797.8	845.5
Other financial assets		11.6	17.7
Trade and other receivables		321.8	309.5
Derivative financial instruments	10	117.9	13.7
Cash and cash equivalents		205.9	182.1
		1,455.0	1,368.5
Total assets		**8,196.1**	7,903.0
Liabilities			
Current liabilities			
Trade and other payables		1,642.4	1,692.8
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	71.9
Borrowings and other financial liabilities		279.4	448.7
Derivative financial instruments	10	7.7	51.5
Provisions		46.2	44.8
Current tax liabilities		64.0	39.6
		2,111.6	2,349.3
Non-current liabilities			
Retirement benefit deficit	8	11.7	11.7
Trade and other payables		319.7	334.0
Partnership liability to the Marks & Spencer UK Pension Scheme	9	441.0	496.8
Borrowings and other financial liabilities		1,745.9	1,655.1
Derivative financial instruments	10	20.0	75.4
Provisions		32.1	31.4
Deferred tax liabilities		315.3	242.6
		2,885.7	2,847.0
Total liabilities		**4,997.3**	5,196.3
Net assets		**3,198.8**	2,706.7
Equity			
Issued share capital		412.0	408.1
Share premium account		392.4	355.5
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		64.3	(41.8)
Other reserve		(6,542.2)	(6,542.2)
Retained earnings		6,670.5	6,325.1
Total shareholders' equity		**3,199.6**	2,707.3
Non-controlling interests in equity		(0.8)	(0.6)
Total equity		**3,198.8**	2,706.7

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total £m
As at 31 March 2013	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5
Profit/(loss) for the year	-	-	-	-	-	524.8	524.8	(18.8)	506.0
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(0.7)	-	(21.6)	(22.3)	-	(22.3)
Remeasurements of retirement benefit schemes	-	-	-	-	-	(85.3)	(85.3)	-	(85.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	31.8	31.8	-	31.8
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	(117.6)	-	7.7	(109.9)	-	(109.9)
- reclassified and reported in net profit	-	-	-	36.4	-	-	36.4	-	36.4
- amount recognised in inventories	-	-	-	18.7	-	-	18.7	-	18.7
Tax on cash flow hedges and net investment hedges	-	-	-	12.2	-	-	12.2	-	12.2
Other comprehensive expense	-	-	-	(51.0)	-	(67.4)	(118.4)	-	(118.4)
Total comprehensive (expense)/income	-	-	-	(51.0)	-	457.4	406.4	(18.8)	387.6
Transactions with owners:									
Dividends	-	-	-	-	-	(273.6)	(273.6)	-	(273.6)
Transactions with non-controlling shareholders	-	-	-	-	-	(39.3)	(39.3)	37.2	(2.1)
Shares issued on exercise of employee share options	4.6	40.4	-	-	-	-	45.0	-	45.0
Credit for share-based payments	-	-	-	-	-	21.3	21.3	-	21.3
Deferred tax on share schemes	-	-	-	-	-	9.0	9.0	-	9.0
As at 29 March 2014	408.1	355.5	2,202.6	(41.8)	(6,542.2)	6,325.1	2,707.3	(0.6)	2,706.7
As at 30 March 2014	**408.1**	**355.5**	**2,202.6**	**(41.8)**	**(6,542.2)**	**6,325.1**	**2,707.3**	**(0.6)**	**2,706.7**
Profit/(loss) for the year	-	-	-	-	-	486.5	486.5	(4.8)	481.7
Other comprehensive (expense)/income:									
Foreign currency translation	-	-	-	(2.0)	-	(5.5)	(7.5)	-	(7.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	193.7	193.7	-	193.7
Tax charge on retirement benefit schemes	-	-	-	-	-	(40.2)	(40.2)	-	(40.2)
Cash flow and net investment hedges									
- fair value movements in other comprehensive income	-	-	-	210.9	-	10.3	221.2	-	221.2
- reclassified and reported in net profit	-	-	-	(60.0)	-	-	(60.0)	-	(60.0)
- amount recognised in inventories	-	-	-	(21.6)	-	-	(21.6)	-	(21.6)
Tax on cash flow hedges and net investment hedges	-	-	-	(21.2)	-	-	(21.2)	-	(21.2)
Other comprehensive income	-	-	-	106.1	-	158.3	264.4	-	264.4
Total comprehensive (expense)/income	**-**	**-**	**-**	**106.1**	**-**	**644.8**	**750.9**	**(4.8)**	**746.1**
Transactions with owners:									
Dividends	-	-	-	-	-	(280.7)	(280.7)	-	(280.7)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	4.6	4.6
Shares issued on exercise of employee share options	3.9	36.9	-	-	-	-	40.8	-	40.8
Purchase of own shares held by employee trusts	-	-	-	-	-	(24.2)	(24.2)	-	(24.2)
Release of share-based payments	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Deferred tax on share schemes	-	-	-	-	-	6.6	6.6	-	6.6
As at 28 March 2015	**412.0**	**392.4**	**2,202.6**	**64.3**	**(6,542.2)**	**6,670.5**	**3,199.6**	**(0.8)**	**3,198.8**

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

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Consolidated statement of cash flows

	Notes	**52 weeks ended 28 March 2015 £m**	52 weeks ended 29 March 2014 £m
Cash flows from operating activities			
Cash generated from operations	12	1,349.1	1,175.5
Income tax paid		(71.1)	(45.9)
Net cash inflow from operating activities		**1,278.0**	1,129.6
Cash flows from investing activities			
Proceeds on property disposals		35.4	25.0
Purchase of property, plant and equipment		(521.8)	(440.1)
Purchase of intangible assets		(178.0)	(201.5)
Reduction/(purchase) of current financial assets		6.0	(1.7)
Interest received		9.3	3.4
Net cash used in investing activities		**(649.1)**	(614.9)
Cash flows from financing activities			
Interest paid[1]		(115.3)	(132.7)
Cash (outflow)/inflow from borrowings		(165.7)	167.5
(Repayment)/drawdown of syndicated loan notes		(10.2)	154.1
Redemption of medium-term notes		-	(400.0)
Decrease in obligations under finance leases		(4.8)	(7.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		(54.4)	(50.3)
Equity dividends paid		(280.7)	(273.6)
Shares issued on exercise of employee share options		40.8	44.2
Purchase of own shares held in employee trusts		(24.2)	-
Net cash used in financing activities		**(614.5)**	(498.1)
Net cash inflow from activities		**14.4**	16.6
Effects of exchange rate changes		(2.3)	(1.6)
Opening net cash		175.7	160.7
Closing net cash		**187.8**	175.7

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

Reconciliation of net cash flow to movement in net debt

	Notes	**52 weeks ended 28 March 2015 £m**	52 weeks ended 29 March 2014 £m
Opening net debt		**(2,463.6)**	(2,614.3)
Net cash inflow from activities		14.4	16.6
(Decrease)/increase in current financial assets		(6.0)	1.7
Decrease in debt financing		235.1	136.0
Exchange and other non cash movements		(3.1)	(3.6)
Movement in net debt		**240.4**	150.7
Closing net debt	13	**(2,223.2)**	(2,463.6)

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1 General information and basis of preparation

General Information

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, does not constitute full accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. The auditor has reported on the Group's statutory accounts for each of the years 2014/15 and 2013/14, which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for 2013/14 have been delivered to the Registrar of Companies and the statutory accounts for 2014/15 will be filed with the Registrar in due course.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are drawn up on the historical cost basis of accounting, as modified by the use of valuations for certain financial instruments, share-based payments and retirement benefits.

Going concern basis

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

Accounting Policies

The following IFRS, IFRS IC interpretations and amendments are effective for the first time in this financial year:

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' and the amendments to IAS 27 (2011) 'Separate Financial Statements' and IAS 28 (2011) 'Investments in Associates and Joint Ventures'. These have not had a material impact on the Group.

There are no IFRS, IFRS IC interpretations or amendments that have been issued but are not yet effective that would be expected to have a material impact on the Group.

Non-underlying items

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

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

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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 and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by subcategory and gross profit within the UK segment by subcategory.

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

			2015			2014
	Management	**Adjustment[1]**	**Statutory**	Management	Adjustment[1]	Statutory
	£m	**£m**	**£m**	£m	£m	£m
Revenue						
General Merchandise	3,987.4	1.0	**3,988.4**	4,094.5	(2.0)	4,092.5
Food	5,234.7	-	**5,234.7**	5,063.2	-	5,063.2
UK revenue	9,222.1	1.0	**9,223.1**	9,157.7	(2.0)	9,155.7
Franchised	341.3	-	**341.3**	404.0	-	404.0
Owned	747.0	-	**747.0**	750.0	-	750.0
International revenue	1,088.3	-	**1,088.3**	1,154.0	-	1,154.0
Group revenue	10,310.4	1.0	**10,311.4**	10,311.7	(2.0)	10,309.7
General Merchandise gross profit	2,098.9			2,074.9		
Food gross profit	1,718.5			1,646.7		
UK gross profit	3,817.4	(293.4)	**3,524.0**	3,721.6	(345.3)	3,376.3
UK operating costs	(3,207.4)	277.6	**(2,929.8)**	(3,159.6)	377.2	(2,782.4)
M&S Bank	60.2	(13.8)	**46.4**	57.2	(50.8)	6.4
UK operating profit	670.2	(29.6)	**640.6**	619.2	(18.9)	600.3
International operating profit	92.3	(31.6)	**60.7**	122.7	(28.5)	94.2
Group operating profit	762.5	(61.2)	**701.3**	741.9	(47.4)	694.5
Finance income	15.5	-	**15.5**	20.1	4.9	25.0
Finance costs	(116.8)	-	**(116.8)**	(139.1)	-	(139.1)
Profit before tax	661.2	(61.2)	**600.0**	622.9	(42.5)	580.4

[1.] Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes (£1.3m credit, last year £2.0m charge) and an adjustment for agency transactions presented gross in management accounts (£0.3m charge, last year £nil). Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 3). Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £293.4m (last year £345.3m).

Other segmental information

			2015			2014
	UK	**International**	**Total**	UK	International	Total
	£m	**£m**	**£m**	£m	£m	£m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	544.4	33.4	**577.8**	688.6	65.1	753.7
Depreciation and amortisation	490.8	32.0	**522.8**	434.9	34.4	469.3
Impairment and asset write-offs	36.0	35.3	**71.3**	21.3	13.9	35.2
Total assets	7,763.2	432.9	**8,196.1**	7,411.4	491.6	7,903.0
Non-current assets	6,424.0	317.1	**6,741.1**	6,157.6	376.9	6,534.5

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3 Non-underlying items

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:

- The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any fees received from M&S Bank although future income may be impacted by significant one-off deductions.
  Since the year ended 31 December 2012 M&S Bank has recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability (under the Relationship Agreement) in both the current and prior years. The total charge to date for the deduction in the Group's fee income is £139.2m. The deduction in the period is £53.7m. This has been treated as a non-underlying adjustment to reported profit before tax, in line with previous periods.
  On 26 September 2014 the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historic mis-selling charges). This resulted in an ex gratia payment of £40.0m by HSBC which was recognised as a non-underlying credit in the period (net of £0.1m legal fees), consistent with the deduction to the Group's fee income. On the same basis as previous periods, any future increase in the liability recognised by M&S Bank will result in a further reduction in the Group's fee income;
- Restructuring costs relating to the Group's strategy to transition to a one tier distribution network and the closure costs of the legacy logistics sites (current period cost of £10.2m). To date, £72.7m has been expensed in relation to this programme. Restructuring costs have been incurred in Ireland in previous periods following a thorough commercial review of the Ireland business. In the current period, resolution has been reached on a number of employee matters in Ireland resulting in recognition of a net credit of £5.6m;
- 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%;
- A small number of stores have been closed or are committed to close at year end resulting in a charge of £6.9m in the year from loss on disposals (£2.3m) and asset impairments (£4.6m). The profit on property disposal in the prior year relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years;
- International store review in the current year relates to the impairment of assets (£34.9m) and onerous lease provisions (£2.3m) in underperforming stores in Western Europe, Ireland and China. The prior year charge relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in underperforming international stores in non-strategic locations in China and the Czech Group;
- Pension credit recognised in the prior year as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post retirement pension increases were removed and prior year pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m);
- Strategic programme costs relating to the strategy announcements made in November 2010 and included the costs associated with the initial Focus on the UK plans. These included asset write-offs and accelerated depreciation. These costs were not considered normal operating costs of the business. We do not anticipate incurring any further cost in relation to this programme; and
- Interest income (and related fees incurred) in the prior year on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries.

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

	Notes	**2015** **£m**	2014 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	2	(13.8)	(50.8)
Restructuring costs		(4.6)	(77.3)
IAS 39 Fair value movement of embedded derivative		1.3	(3.5)
(Loss)/profit on disposal and impairment once commitment to closure		(6.9)	82.2
International store review		(37.2)	(21.9)
UK and Ireland one-off pension credits	8	-	27.5
Strategic programme costs		-	(2.0)
Fees incurred on tax repayment		-	(1.6)
Adjustment to operating profit		**(61.2)**	(47.4)
Interest income on tax repayment	4	-	4.9
Adjustment to profit before tax		**(61.2)**	(42.5)

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4 Finance income/costs

	2015 £m	2014 £m
Bank and other interest receivable	5.0	8.4
Pension net finance income	10.5	11.7
Underlying finance income	**15.5**	20.1
Interest income on tax repayment	-	4.9
Finance income	**15.5**	25.0
Interest on bank borrowings	(3.3)	(3.3)
Interest payable on syndicated bank facility	(6.4)	(5.0)
Interest payable on medium-term notes	(88.1)	(110.5)
Interest payable on finance leases	(2.0)	(2.3)
Unwind of discount on financial instruments	(0.6)	(0.2)
Unwind of discount on provisions	(0.3)	-
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 9)	(16.1)	(17.8)
Finance costs	**(116.8)**	(139.1)
Net finance costs	**(101.3)**	(114.1)

5 Taxation

The effective tax rate was 19.7% (last year 12.8%) and after excluding non-underlying items the underlying effective tax rate was 18.9% (last year 18.8%).

6 Earnings per share

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

The underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, significant and are not considered normal operating costs of the underlying business (see note 3). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

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

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

	2015 £m	2014 £m
Profit attributable to owners of the parent	**486.5**	524.8
Add/(less) (net of tax):		
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	10.9	39.1
Restructuring costs	3.9	62.5
IAS 39 Fair value movement of embedded derivative	(1.0)	2.8
Loss/(profit) on disposal and impairment once commitment to closure	4.3	(76.3)
International store review	36.6	17.3
UK and Ireland one-off pension credits	-	(23.3)
Strategic programme costs	-	1.6
Fees incurred on tax repayment	-	(2.5)
Non-underlying adjustment to tax charge in respect of prior periods	-	(26.0)
Underlying profit attributable to owners of the parent	**541.2**	520.0

	Million	Million
Weighted average number of ordinary shares in issue	**1,635.6**	1,615.0
Potentially dilutive share options under Group's share option schemes	11.3	14.1
Weighted average number of diluted ordinary shares	**1,646.9**	1,629.1

	Pence	Pence
Basic earnings per share	**29.7**	32.5
Diluted earnings per share	**29.5**	32.2
Underlying basic earnings per share	**33.1**	32.2
Underlying diluted earnings per share	**32.9**	31.9

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7 Dividends

	2015 per share	2014 per share	2015 £m	2014 £m
Dividends on equity ordinary shares				
Paid final dividend	10.8p	10.8p	176.2	173.6
Paid interim dividend	6.4p	6.2p	104.5	100.0
	17.2p	17.0p	**280.7**	273.6

The directors have proposed a final dividend in respect of the year ended 28 March 2015 of 11.6p per share amounting to a dividend of £191.1m. It will be paid on 10 July 2015 to shareholders on the register of members as at close of business on 29 May 2015, subject to approval of shareholders at the Annual General Meeting, to be held on 7 July 2015. 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 28 May 2015. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 19 June 2015.

8 Retirement benefits

	2015 £m	2014 £m
Opening net retirement benefit asset	**189.0**	236.0
Current service cost	(82.4)	(88.7)
Administration costs	(2.0)	(3.0)
Past service costs - curtailment charge	(1.0)	(1.0)
UK and Ireland one-off pension credits (see note 3)	-	27.5
Net interest income (see note 4)	10.5	11.7
Employer contributions	143.0	92.1
Actual return on scheme assets excluding amounts included in net interest income	1,722.4	(322.0)
Actuarial gain/(loss) - experience	33.7	(17.4)
Actuarial loss - demographic assumptions	(83.9)	-
Actuarial (loss)/gain - financial assumptions	(1,478.5)	254.1
Exchange movement	(1.8)	(0.3)
Closing net retirement benefit asset	**449.0**	189.0

Total market value of assets	8,596.5	6,729.4
Present value of scheme liabilities	(8,135.8)	(6,528.7)
Net funded pension plan asset	460.7	200.7
Unfunded retirement benefits	(0.7)	(0.7)
Post-retirement healthcare	(11.0)	(11.0)
Net retirement benefit asset	**449.0**	189.0
Analysed in the Statement of Financial Position as:		
Retirement benefit asset	460.7	200.7
Retirement benefit deficit	(11.7)	(11.7)
Net retirement benefit asset	**449.0**	189.0

Financial assumptions

The main financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 3.1% (last year 4.45%) and 3.1% (last year 3.4%) respectively. The inflation rate of 3.1% 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 2.1% (last year 2.4%) has been used.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased by 0.25% the surplus would decrease by c.£70m. If the inflation rate increased by 0.25%, the surplus would increase by c.£30m.

9 Marks and Spencer Scottish Limited Partnership

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

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc 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.

The Partnership liability to the Marks and Spencer UK pension scheme of £512.9m (last year £568.7m) is valued at the net present value of the future expected distributions from the Partnership.

During the year to 28 March 2015 an interest charge of £16.1m (last year £17.8m) 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 £531.3m (last year £574.7m).

10 Financial Instruments

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The fair value of the embedded derivative is calculated using an option valuation model based on the present value of a 35 year lease with annual lease payments increasing by Retail Price Index (RPI), capped and floored at 1.5% and 2.5% respectively and then discounted back to the valuation date. The valuation is sensitive to changes in RPI.

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

				2015				2014
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
- Trading derivatives	**-**	**3.1**	**-**	**3.1**	-	1.6	-	1.6
Derivatives used for hedging	**-**	**166.9**	**-**	**166.9**	-	30.3	-	30.3
Embedded derivatives (see note 3)	**-**	**-**	**23.7**	**23.7**	-	-	22.4	22.4
Short term investments	**-**	**11.6**	**-**	**11.6**	-	12.4	-	12.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- Trading derivatives	**-**	**(0.4)**	**-**	**(0.4)**	-	(0.6)	-	(0.6)
Derivatives used for hedging	**-**	**(27.3)**	**-**	**(27.3)**	-	(126.3)	-	(126.3)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements in the current or prior reporting period. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table represents the changes in Level 3 instruments:

	2015	2014
	£m	£m
Opening balance	**22.4**	25.9
Gains and losses recognised in the income statement	1.3	(3.5)
Closing balance	**23.7**	22.4

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £1.3m gain (last year £3.5m loss) is treated as adjustment to reported profit (see note 3).

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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 £1,697.7m (last year £1,605.9m), the fair value of this debt was £1,883.6m (last year £1,780.3m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £512.9m (last year £568.7m) and the fair value of this liability is £501.3m (last year £555.7m).

11 Contingencies and commitments

A Capital commitments

	2015 £m	2014 £m
Commitments in respect of properties in the course of construction	102.9	86.1
Commitments in respect of computer software under development	25.5	-
	128.4	86.1

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

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

	2015 £m	2014 £m
Profit on ordinary activities after taxation	481.7	506.0
Income tax expense	118.3	74.4
Finance costs	116.8	139.1
Finance income	(15.5)	(25.0)
Operating profit	**701.3**	694.5
Decrease/(increase) in inventories	45.7	(86.4)
Increase in receivables	(13.0)	(45.8)
Increase in payables	87.6	107.7
Non-underlying operating cash inflows/(outflows)	28.6	(17.4)
Depreciation, amortisation and write-offs	550.1	504.7
Share-based payments	(1.1)	21.3
Pensions costs charged against operating profit	85.4	92.4
Cash contributions to pension schemes	(143.0)	(92.1)
Non-underlying non-cash items	(53.7)	(50.8)
Non-underlying operating profit items	61.2	47.4
Cash generated from operations	**1,349.1**	1,175.5

13 Reconciliation of net debt to statement of financial position

	2015 £m	2014 £m
Statement of financial position and related notes		
Cash and cash equivalents	205.9	182.1
Current financial assets	11.6	17.7
Bank loans and overdrafts	(279.0)	(445.7)
Medium term notes - net of hedging derivatives	(1,652.0)	(1,649.0)
Finance lease liabilities	(48.6)	(52.2)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 9)	(512.9)	(568.7)
	(2,275.0)	(2,515.8)
Interest payable included within related borrowing and the partnership liability to the M&S UK pension	51.8	52.2
Total net debt	**(2,223.2)**	(2,463.6)

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14 Related party transactions

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 related to the receipt of services and amounted to £2.5m during the year (last year £1.8m) with an outstanding trade payable of £0.2m at 28 March 2015 (last year £0.4m).

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