INDEPENDENT AUDITOR'S REPORT

Report on the audit of the financial statements

1. OPINION

In our opinion:

- **the financial statements of Marks and Spencer Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 28 March 2020 and of the Group's profit for the 52 weeks then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB');**
- **the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statement of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statement of Cash Flows; and
- the related notes 1 to 31 and C1 to C7.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current period were:

- disclosure of adjusting items;
- accounting for the UK store rationalisation programme;
- impairment of UK store assets;
- impairment of per una goodwill and brand;
- inventory provisions for UK Clothing & Home;
- recognition of leases under IFRS 16 Leases;
- accounting for the Ocado Retail Limited transaction; and
- the going concern basis of accounting.

Within this report, key audit matters are identified as follows:

Newly identified !

Increased level of risk

Similar level of risk

Decreased level of risk

MATERIALITY

The materiality that we used for the Group financial statements was £18.0 million (2019: £20.0 million) which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included:

- adjusted profit before tax;
- earnings before interest, tax, depreciation and amortisation; and
- revenue.

SCOPING

We have performed a full-scope audit on the UK component of the business, representing 95% (2019: 99%) of the Group's revenue, 93% (2019: 95%) of adjusted profit before tax, 92% (2019: 92%) of profit before tax, 82% (2019: 80%) of total assets and 90% (2019: 99%) of total liabilities. We perform analytical review procedures on the residual balances.

SIGNIFICANT CHANGES IN OUR APPROACH

We have changed the basis on which we have determined materiality in the current period to reflect the volatility in the results of the Group arising from the impact of Covid-19. For further details refer to section 6 of this report.

In 2020, we have reduced the scope of procedures performed in relation to the India and Ireland components. We have also identified Ocado Retail Limited ('ORL') as a new component. Refer to section 7 for further details of our approach to scoping the audit.

In the current period we have identified three new key audit matters related to:

- the going concern basis of accounting;
- the impairment of per una goodwill and brand; and
- the ORL transaction.

We have also determined that the valuation of the UK defined benefit pension obligation is no longer a key audit matter in the current year.

These changes and the reasons for identification of these areas as key audit matters are discussed further in section 5.

4. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

4.1. GOING CONCERN

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of both the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Refer to section 5.8 for details of our work regarding going concern.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 34-42 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 33 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 42-43 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Changes in the current period relative to previous periods are as follows:

– Due to the on-going Covid-19 pandemic which led to the mandatory closure of non-essential retail outlets in the Group's key market, the UK, and the subsequent uncertainty involved in scenario planning to underpin the management's going concern modelling and the associated audit work performed to assess the assumptions we have identified the going concern assumption applied to the financial statements as a key audit matter.

– We have identified the impairment of the per una goodwill and brand as a key audit matter for the first time in the current period. This is owing to both the continued challenging trading conditions following the relaunch of the brand in October 2019 and the subsequent impact of Covid-19 on the cash flow forecast used in the impairment assessment.

– In the current period we have identified the accounting for the ORL transaction as a key audit matter. The transaction occurred during the current period and is complex, involving a number of judgements to be made by management.

– We have not identified the defined benefit pension obligation as a key audit matter in the current period. This is due to a history of assessing the judgements and assumptions made by management at or near the middle of our independently calculated 'reasonable range' and the reduction in risk as a result of recent annuity buy-ins.

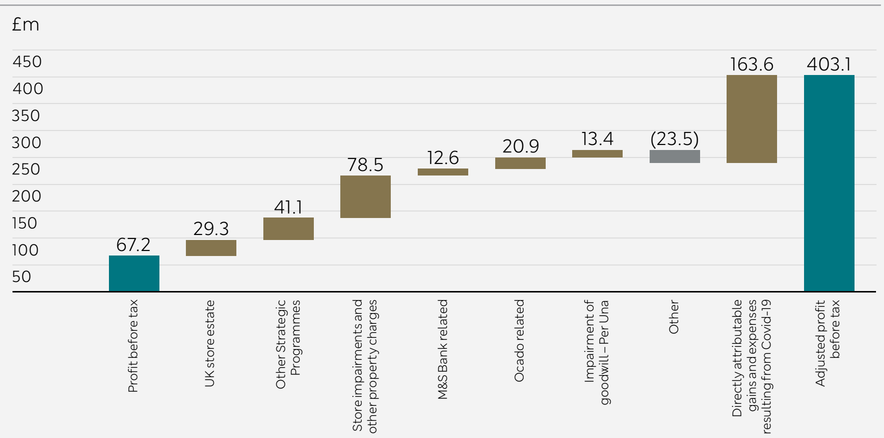
5.1 DISCLOSURE OF ADJUSTING ITEMS

KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profit before tax of £403.1 million (2019: £511.7 million), which is derived from statutory profit before tax of £67.2 million (2019: £84.2 million) adjusted for a number of items (totalling £335.9 million) which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items and accordingly we consider there to be a risk of fraud in the reporting of adjusting items.

In particular, we believe there is an increase in the level of risk associated with classification and disclosure of adjusting items in the current period, due to the effect of Covid-19 on adjusting item categories and balances. Additionally, recently updated guidance has been issued by the FRC and European Securities and Markets Authority ('ESMA') in relation to the impact of Covid-19 on alternative performance measures which encourages companies not to include such costs within adjusting items, rather to include separate disclosure. Separate disclosure has been made in the financial review on page 28.

Explanations of each adjusting item, which include a number that are related to material restructuring programmes carried out over a number of years, and in the current year items that relate to Covid-19, are set out in note 5 to the financial statements and are summarised in the graphic opposite.



In determining adjusted profit before tax, we identified the following risks:

– the identification and classification of items as 'adjusting' may be inappropriate, distorting the reported results;

– the omission of items which are considered material, one-off or significant in nature, distorting the reported results; and

– the clarity and detail of disclosures in respect of adjusting items may be insufficient, preventing investors from obtaining a clear understanding of the Group's results and performance.

The Group's policy regarding adjusting items is set out in note 1. This is a significant matter considered by the Audit Committee on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

– obtained an understanding of key controls relating to the identification and disclosure of adjusting items;

– performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature, particularly with regard to the Covid-19 related adjusting item;

5.1 DISCLOSURE OF ADJUSTING ITEMS CONTINUED

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER CONTINUED

- assessed the identification and consistency of items reported as adjusting in light of the latest guidance published by the ESMA and the FRC, in particular in relation to the transparency of disclosures made regarding Covid-19;
- performed tests over a representative sample of adjusting items through agreement to supporting evidence;
- used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which displayed characteristics of being material, significant or one-off in nature;
- considered the impact of adjusting items on the directors' remuneration targets to determine whether any increased fraud risk factor existed based on actual results for the year; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied that the items included in adjusting items (including the directly attributable (gains)/expenses resulting from the Covid-19 pandemic of £163.6 million) are in line with the Group's policy and that they are appropriately disclosed.

5.2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME

KEY AUDIT MATTER DESCRIPTION

In February 2018 the Board approved a list of stores marked for closure as part of its UK store rationalisation programme. Including the impact of IFRS 16 Leases on the way rental payments and other property costs are accounted for the total charge recognised in connection with this closure programme in the previous two periods was £537.6 million. A further net charge of £29.3 million has been recognised in the current period as a result of:

- management revisiting its assessment of stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market, including as a result of Covid-19;
- further accelerated depreciation of stores previously identified for closure as they approach their planned closure dates; and
- accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme.

Further information is set out in notes 1 and 5 to the financial statements and page 16 of the strategic report.

Our key audit matter was focused on the specific assumptions applied in the discounted cash flow analysis prepared by management including the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs.

We consider this to represent a key audit matter as a result of the level of judgement applied by management. There is an increased level of judgement in the current period as a result of the Covid-19 pandemic, which may impact the ability of the Group to negotiate closure or exit from certain stores in the forecast timeframes or on forecast terms.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the review and approval of the Group's UK store exit model;
- performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings;
- understood and challenged the basis of management's judgement where stores previously marked for closure are no longer expected to close and additional stores have been identified for closure;
- with the involvement of our internal real estate specialists, we evaluated the appropriateness of management's judgements for a representative sample of properties and benchmarked these with reference to external data, particularly as a result of the market uncertainty caused by the Covid-19 pandemic;
- assessed the mechanical accuracy of discounted cash flow models and other key provision calculations;
- assessed the integrity of key inputs to the discounted cash flow models including lease data, agent valuations, surveyor plans and rental payments with reference to supporting evidence;
- recalculated the closing provision for a representative sample of stores;
- evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the Group's estimate of the impairments and store exit charges and the associated disclosures are appropriate.

KEY AUDIT MATTERS CONTINUED

5.3 IMPAIRMENT OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

As at 28 March 2020 the Group held £3,925.5 million (2019: £2,830.0 million) of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 Impairment of Assets, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £69.3 million (2019: £103.0 million) has been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period (which takes in to account the time new stores take to establish themselves in the market), all of which involve a high degree of estimation uncertainty (as disclosed in note 1 and note 15). We believe the level of risk related to the impairment of UK store assets has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the Covid-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.

The key assumptions applied by management in the impairment reviews performed are:

- future revenue growth and changes in gross margin;
- long term growth rates; and
- discount rates.

The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately, with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to be a single group of assets for the purpose of impairment testing.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the impairment review process;
- evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts;
- assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- evaluated the appropriateness and completeness of information included in the impairment model based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the judgements applied, impairments recorded and disclosures within the financial statements are appropriate.

5.4 IMPAIRMENT OF PER UNA GOODWILL AND BRAND

KEY AUDIT MATTER DESCRIPTION

As at 28 March 2020 the Group held £56.1 million (2019: £69.5 million) of goodwill associated with the per una brand. The Group is required to assess the goodwill and intangible assets annually for impairment in accordance with IAS 36.

Following difficult trading conditions the per una brand was relaunched in October 2019. Trading conditions have been challenging throughout the period and deteriorated further around the period end as a result of the Covid-19 pandemic. The level of risk associated with per una has increased as a result of the inherent challenges in forecasting results due to Covid-19 as well as the pre-existing macro-economic uncertainty. These represent a key source of estimation uncertainty as disclosed in note 1, and management has provided sensitivities in note 14.

The test for impairment of intangible assets compares the carrying value of related assets to the higher of their fair value or value-in-use (a 'recoverable amount') using an impairment model. Developing a recoverable amount requires significant management judgement; the key judgements applied by management in the development of its impairment model are:

- the sales forecasts for the brand;
- longer term growth forecasts; and
- the discount rate used.

As set out in note 14, the forecast shows a sales decrease of 46.4% in 2020/21 driven by the impact of Covid-19 before returning to the pre-Covid-19 budgeted level in 2021/22.

Following the completion of the impairment review, management has recognised an impairment charge of £13.4 million in relation to the per una goodwill.

We consider this to represent a key audit matter reflecting the sensitivity of the recoverable amount calculation to changes in these key assumptions.

Refer to note 14 of the financial statements.

The Audit Committee considers this to be a significant matter. Their consideration is on page 62.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the review and approval of the impairment review;
- tested the integrity of the model and cash flow forecasts and assessed that the methodology used is consistent with IAS 36;
- assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data to determine if it provided corroborative or contradictory evidence in relation to management's assumptions, and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts;
- assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36;
- with the involvement of our internal valuation specialists, we assessed the discount rate assumptions;
- evaluated other material assumptions applied to the cash flow forecasts with reference to the macro-economic and industry environment; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied that the assumptions used by management in determining their valuation and the disclosure made are appropriate.

GOVERNANCE

KEY AUDIT MATTERS CONTINUED

5.5 INVENTORY PROVISIONS FOR UK CLOTHING & HOME

KEY AUDIT MATTER DESCRIPTION

As at 28 March 2020, the Group held UK Clothing & Home inventories of £355.6 million (2019: £496.1 million). The Group has recorded an incremental write-down of £157.0 million of inventory reflecting management's best estimate of the impact of Covid-19 on the Group (of which £145.3 million relates to UK Clothing & Home inventory), which is included within the Group's directly attributable (gains)/expenses resulting from the Covid-19 pandemic adjusting item as discussed in section 5.1. As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value.

As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement due to historical trading performance and the quantum of gross inventory.

Covid-19 has required management to exercise considerable judgement in a period of extreme uncertainty with regard to the level of provisioning that is made for inventory, as such there is an increased level of judgement in the current period. Due to the inherent uncertainty around the future saleability of stock held at period end, management determined that it was no longer appropriate to determine the level of provision required based on historical experience and as such has changed the related methodology to consider future sales. Management has described its methodology for the calculation of the inventory provision in notes 1 and 5.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to inventory management and the review and approval of the inventory provision;
- assessed the validity, accuracy and completeness of the information used by management in computing the provision;
- assessed the mechanical accuracy and logic of the models underpinning the provision;
- understood the changes in the provisioning methodology and challenged the appropriateness thereof;
- challenged and validated the key assumptions applied by management in estimating the provision, with particular reference to the impact of Covid-19 on sales and purchasing assumptions, by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, assessed the historical accuracy of forecasting stock to be subject to a future discount and by using audit analytics;
- tested the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations

We are satisfied with the judgements taken by management and that the resulting inventory provision for UK Clothing & Home is appropriate. We believe the disclosures made around the level of uncertainty appropriately reflect reasonably possible future changes to management's estimates.

5.6 RECOGNITION OF LEASES UNDER IFRS 16 LEASES

KEY AUDIT MATTER DESCRIPTION

The Group has elected to apply IFRS 16 Leases under the fully retrospective transition option from 31 March 2019. Management determined there to be an increase in total assets of £1,740.2 million and an increase in total liabilities of £1,961.2 million for the opening transition balance sheet at 1 April 2018. The current period is the first period in which the business has implemented IFRS 16.

Further information is set out in note 29 to the financial statements.

Our key audit matter was focused on the following areas of risk:

– new lease arrangements entered into in the period that should be accounted for under IFRS 16 are not identified;

– the lease data which underpins the IFRS 16 calculation of new lease arrangements is not accurate; and

– the disclosures in the financial statements are insufficient, precluding investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard.

The Audit Committee considers this to be a significant matter. Their consideration is on page 63.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

– obtained an understanding of key controls over the identification of new leases, the underlying lease data and the associated disclosures;

– leveraged the work performed in the prior period over the transition impact, including our understanding of key controls over the transition impact and the calculation of the discount rate applied;

– verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;

– considered completeness by testing the reconciliation to the Group's operating lease commitments as reported in the prior year's financial statements, and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and

– assessed whether the disclosures within the financial statements are in accordance with IFRS 16.

Key observations

We are satisfied that the lease data underpinning the IFRS 16 disclosures is complete and accurate and that new lease arrangements entered in during the financial year ended 28 March 2020 have been captured appropriately.

The disclosures management have made in relation to IFRS 16 are appropriate.

GOVERNANCE

KEY AUDIT MATTERS CONTINUED

5.7 ACCOUNTING FOR THE OCADO RETAIL LIMITED TRANSACTION

KEY AUDIT MATTER DESCRIPTION

On 5 August 2019 the Group signed a share purchase agreement to acquire 50% of the ordinary shares of ORL from Ocado Group plc, and contracted with ORL to supply M&S food products for sale through its online platform.

The Group has accounted for its 50% share of ORL as an associate on the basis that the shareholders' agreement gives control over ORL to Ocado Group plc.

The consideration paid comprises an initial cash payment of £560.9 million plus contingent consideration of £202.4 million which becomes payable after five years if certain performance conditions are met.

Management has completed a purchase price allocation ("PPA") exercise in order to allocate the consideration between the assets recognised following the transaction, including the identification and valuation of previously unrecognised intangible assets (£314.2 million) and goodwill (£449.1 million).

Management considers its conclusion that ORL is an associate to be a critical accounting judgement and the valuation of contingent consideration to be a key accounting estimate. These are discussed further in note 1.

We have defined the ORL transaction as a key audit matter owing to the significant effort required in auditing the transaction, including the PPA and, in particular, the judgement relating to the valuation of contingent consideration.

The Audit Committee considers this to be a significant matter and discusses its considerations on page 63. Refer to page 29 for management's discussion of the ORL transaction and to note 30 for financial disclosures.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls relating to the transaction and subsequent accounting;
- inspected the shareholders' agreement and other relevant contracts to independently assess the accounting treatment applied;
- assessed the appropriateness of management's judgements and the basis of conclusion for the valuation of contingent consideration with reference to supporting and contradictory evidence;
- inspected the ORL business plan and challenged key inputs and assumptions compared to internal and external data sources to support the valuation of contingent consideration and the PPA valuations;
- inspected the ORL board minutes relating to the business plan and key operational matters;
- evaluated actual trading performance with reference to the business plan and considered the impact of variance on the probability of meeting operational and financial targets related to the contingent consideration payment;
- calculated an independent acceptable range for the discount rate applied to the PPA valuation calculations and used this to recalculate the resulting fair value of consideration; and
- assessed the presentation and disclosure of the transaction including the accounting estimates.

Key observations

We are satisfied with the judgements made around accounting for the ORL transaction, including accounting for the investment as an associate and the valuation and completeness of the intangible assets identified by management. We are satisfied that the judgements taken in valuing the contingent consideration are appropriate.

5.8 THE GOING CONCERN BASIS OF ACCOUNTING

KEY AUDIT MATTER DESCRIPTION

In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant waiver that the Group has obtained in relation to its financing facility, and cost saving actions that the Group may take in responding to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme and business rates holidays). The Group has applied for the Bank of England's Covid Corporate Financing Facility ('CCFF') with an issuer limit of £300.0 million which was confirmed as successful on 23 April 2020, however the Directors have not relied on the CCFF as part of their assessment of going concern. The Directors have also determined appropriate sensitivities to these forecasts, including a reverse-stress test of the Group's liquidity, and considered the results in forming their conclusion.

Due to the on-going Covid-19 pandemic, which has led to the mandatory closure of non-key retail outlets in the Group's key market, the UK, there is significantly more judgement applied in developing cash flow forecasts including assumptions relating to the period of closure for retailers, the impact on the Group's sales and the anticipated cost savings throughout the going concern period.

Taking into account the sensitivities, the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

We have identified a key audit matter related to going concern as a result of the judgement required to conclude there is not a material uncertainty related to going concern.

Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on pages 42-43 and 96 and in note 1 to the financial statements.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

In responding to the identified key audit matter we completed the following audit procedures:

- obtained an understanding of key controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- obtained management's board approved three year cash flow forecasts and covenant compliance forecasts, including the impact of Covid-19 and the reverse stress test;
- involved our internal specialists in our assessment of the appropriateness of forecast assumptions by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions;
  - comparing forecast sales with recent historical financial information to consider accuracy of forecasting;
  - enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Company's control;
  - testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast;
  - reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough;
  - reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant waivers obtained by the Group in relation to its financing facility and the availability of CCFF funding;
  - understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and
  - considering the results of the reverse stress tests performed; and
- evaluating the Group's disclosures on going concern against the requirements of IAS 1.

Key observations

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and Parent Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

6. OUR APPLICATION OF MATERIALITY

6.1. MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£18.0 million (2019: £20.0 million)	£16.2 million (2019: £18.0 million)
Basis for determining materiality	We considered the following metrics: – Adjusted profit before tax – Earnings before interest, tax, depreciation and amortisation – Revenue Using professional judgement we determined materiality to be £18.0m.	3% of net assets We have used 3% of net assets in both the current and prior period, capped at 90% of Group materiality, as the basis for materiality.
Rationale for the benchmark applied	In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements. This approach is a change from the prior year (which was based on adjusted profit before tax, but excluding the impact of certain adjusting items) to reflect the volatility in the results of the Group arising from the impact of Covid-19. Group materiality represents:	Net assets is used as the benchmark as the Company operates primarily as a holding company for the Group and we therefore consider this as they key metric for the Company. We capped materiality at 90% of Group materiality to reduce the risk of a material error arising as a result of the consolidation of the Company's result in the Group financial statements.

Metric	%
Adjusted profit before tax	4.5
Earnings before interest, tax, depreciation and amortisation	2.0
Revenue	0.18

6.2. PERFORMANCE MATERIALITY

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 50% of Group materiality for the 2020 audit (2019: 60%). We have reduced the percentage used, primarily in response to the impact that Covid-19 has had on the Group's internal control environment and financial close process. In determining performance materiality, we considered the following factors:

- the pervasive impact of Covid-19 on the financial statements, the judgements taken by management and the associated disclosures;
- our cumulative knowledge of the Group and its environment, including industry wide pressure on retailers;
- the level of change to the business in the period, including the ORL investment;
- the changes to management personnel;
- the level of centralisation in the Group's financial reporting controls and processes; and
- the level of misstatements identified in prior periods.

6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9 million (2019: £1.0 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. IDENTIFICATION AND SCOPING OF COMPONENTS

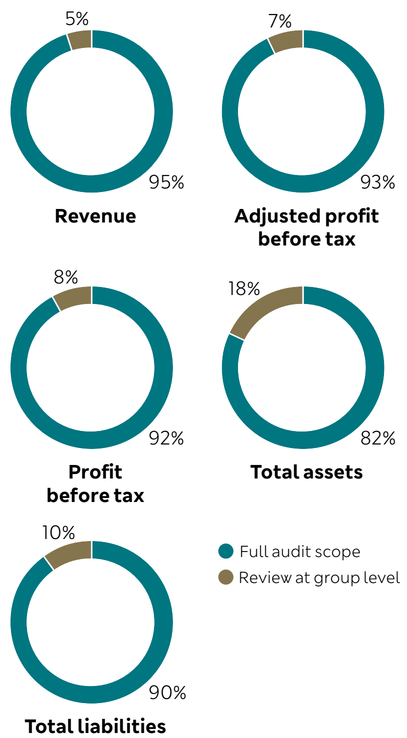
Our audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

Components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified. Based on our assessment we have focused our audit on the UK business which was subject to full audit procedures. We have performed our full audit scope of the UK component using a materiality of £16.2 million (or 90% of Group materiality) (2019: £18.0 million) as this makes up substantially all of the Group's operations (95% of the Group's revenue, 2019: 91%).

India and Ireland have been removed from full-scope audit procedures in the current period, owing to their financial insignificance in the context of the Group as a whole. Except for ORL, all other wholly owned and associate businesses, including the Irish and Indian components, were subject to analytical review procedures performed by the Group audit team. Whilst we audit the revenues received by the Group from franchise operations, which account for 4% (2019: 4%) of the Group's revenue, we do not audit the underlying franchise operations as part of our group audit.

As a result of the Group's acquisition of 50% of Ocado Retail Limited we have identified ORL as a new component in this period, subject to specified audit procedures.

We have also tested the consolidation process and carried out analytical procedures in forming our conclusion that there were no significant risks of material misstatement remaining in the consolidated financial information arising from the components not subject to a full audit.



7.2. WORKING WITH OTHER AUDITORS

ORL is the only component where work is conducted by a component auditor. As a recent acquisition of the Group, we have performed a review of the component auditor's files for the statutory audit of the entity for the period from acquisition up to 1 December 2019. We have also issued detailed instructions to our component audit team relating to procedures for the period subsequent to 1 December 2019, engaged regularly with them throughout the audit process, determined the nature, timing and extent of specified audit procedures to be performed and reviewed their component reporting. A dedicated member of the Group audit team is assigned to facilitate an effective and consistent approach to component oversight.

8. OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, other key persons and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas in which management is required to exercise significant judgement, such as the disclosure of adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Financial Conduct Authority regulations including the Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the competition and anti-bribery laws, data protection, Groceries Supply Code of Practice, and employment, environmental and health and safety regulations.

11.2. AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the disclosure of adjusting items as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains this matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD CONTINUED

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. OTHER MATTERS

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6, covering the periods ending 28 March 2015 to 28 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Muschamp FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London
26 May 2020

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 28 March 2020 Results before adjusting items £m	52 weeks ended 28 March 2020 Adjusting items £m	52 weeks ended 28 March 2020 Total £m	52 weeks ended 30 March 2019 (Restated) Results before adjusting items £m	52 weeks ended 30 March 2019 (Restated) Adjusting items £m	52 weeks ended 30 March 2019 (Restated) Total £m
Revenue	2, 3	**10,181.9**	**–**	**10,181.9**	10,377.3	–	10,377.3
Share of result in associate – Ocado Retail Limited	3, 5	**2.6**	**(16.8)**	**(14.2)**	–	–	–
Operating profit	2, 3, 5	**590.7**	**(335.9)**	**254.8**	725.6	(427.5)	298.1
Finance income	5, 6	**44.0**	**2.9**	**46.9**	34.8	–	34.8
Finance costs	5, 6	**(231.6)**	**(2.9)**	**(234.5)**	(248.7)	–	(248.7)
Profit before tax	4, 5	**403.1**	**(335.9)**	**67.2**	511.7	(427.5)	84.2
Income tax expense	7	**(83.4)**	**43.6**	**(39.8)**	(106.0)	67.1	(38.9)
Profit for the year		**319.7**	**(292.3)**	**27.4**	405.7	(360.4)	45.3
Attributable to:							
Owners of the parent		**316.0**	**(292.3)**	**23.7**	402.1	(360.4)	41.7
Non-controlling interests		**3.7**	**–**	**3.7**	3.6	–	3.6
		319.7	**(292.3)**	**27.4**	405.7	(360.4)	45.3
Basic earnings per share	8	**16.7p**		**1.3p**	23.7p		2.5p
Diluted earnings per share	8	**16.7p**		**1.2p**	23.6p		2.4p

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Profit for the year		**27.4**	45.3
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	11	**927.9**	(79.9)
Tax (charge)/credit on retirement benefit schemes		**(196.7)**	14.0
		731.2	(65.9)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**5.1**	(14.6)
– reclassified and reported in profit or loss		**2.9**	–
Cash flow hedges			
– fair value movements recognised in other comprehensive income	21	**140.3**	132.0
– reclassified and reported in profit or loss		**(18.4)**	(16.0)
Tax charge on cash flow hedges		**(27.0)**	(19.0)
		102.9	82.4
Other comprehensive income for the year, net of tax		**834.1**	16.5
Total comprehensive income for the year		**861.5**	61.8
Attributable to:			
Owners of the parent		**857.8**	58.2
Non-controlling interests		**3.7**	3.6
		861.5	61.8

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 28 March 2020 £m**	As at 30 March 2019 (Restated) £m	As at 1 April 2018 (Restated) £m
Assets				
Non-current assets				
Intangible assets	14	**399.1**	499.9	599.2
Property, plant and equipment	15	**5,494.2**	5,662.3	6,189.6
Investment property		**15.5**	15.5	15.5
Investment in joint ventures and associates	30	**760.4**	4.0	7.0
Other financial assets	16	**9.7**	9.9	9.9
Retirement benefit asset	11	**1,915.0**	931.5	970.7
Trade and other receivables	17	**262.6**	273.0	209.5
Derivative financial instruments	21	**112.4**	19.8	27.1
		8,968.9	7,415.9	8,028.5
Current assets				
Inventories	1	**564.1**	700.4	781.0
Other financial assets	16	**11.7**	141.8	13.7
Trade and other receivables	17	**298.0**	267.2	252.4
Derivative financial instruments	21	**73.5**	40.3	7.1
Current tax assets		**19.3**	–	–
Cash and cash equivalents	18	**248.4**	285.4	207.7
		1,215.0	1,435.1	1,261.9
Total assets		**10,183.9**	8,851.0	9,290.4
Liabilities				
Current liabilities				
Trade and other payables	19	**1,426.4**	1,424.4	1,377.1
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9	71.9
Borrowings and other financial liabilities	20	**316.6**	694.4	283.7
Derivative financial instruments	21	**13.0**	7.3	73.8
Provisions	22	**21.5**	100.7	56.2
Current tax liabilities		**–**	26.2	50.0
		1,849.4	2,324.9	1,912.7
Non-current liabilities				
Retirement benefit deficit	11	**12.4**	17.2	22.5
Trade and other payables	19	**222.6**	15.6	16.3
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**135.5**	200.5	263.6
Borrowings and other financial liabilities	20	**3,865.9**	3,628.5	4,054.5
Derivative financial instruments	21	**0.7**	2.8	30.7
Provisions	22	**56.5**	72.7	91.8
Deferred tax liabilities	23	**332.4**	119.6	165.1
		4,626.0	4,056.9	4,644.5
Total liabilities		**6,475.4**	6,381.8	6,557.2
Net assets		**3,708.5**	2,469.2	2,733.2
Equity				
Issued share capital	24	**487.6**	406.3	406.2
Share premium account	24	**910.4**	416.9	416.4
Capital redemption reserve		**2,210.5**	2,210.5	2,210.5
Hedging reserve		**68.6**	(14.6)	(76.0)
Cost of hedging reserve		**5.7**	11.7	10.7
Other reserve		**(6,542.2)**	(6,542.2)	(6,542.2)
Foreign exchange reserve		**(35.9)**	(43.9)	(29.3)
Retained earnings		**6,597.8**	6,024.8	6,339.4
Equity attributable to owners of the parent		**3,702.5**	2,469.5	2,735.7
Non-controlling interests		**6.0**	(0.3)	(2.5)
Total equity		**3,708.5**	2,469.2	2,733.2

Comparative information has been restated for the impact of IFRS 16 (see note 29).

The financial statements were approved by the Board and authorised for issue on 26 May 2020. The financial statements also comprise notes 1 to 31.

Steve Rowe, Chief Executive Officer

David Surdeau, Interim Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
As at 1 April 2018	406.2	416.4	2,210.5	(76.0)	10.7	(6,542.2)	(29.3)	6,559.9	2,956.2	(2.5)	2,953.7
Adjustment on initial application of IFRS 16	–	–	–	–	–	–	–	(220.5)	(220.5)	–	(220.5)
Adjusted opening shareholders' equity	406.2	416.4	2,210.5	(76.0)	10.7	(6,542.2)	(29.3)	6,339.4	2,735.7	(2.5)	2,733.2
Profit for the year	–	–	–	–	–	–	–	41.7	41.7	3.6	45.3
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	(14.6)	–	(14.6)	–	(14.6)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	(79.9)	(79.9)	–	(79.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	–	–	14.0	14.0	–	14.0
Cash flow hedges											
– fair value movements in other comprehensive income	–	–	–	130.5	1.5	–	–	–	132.0	–	132.0
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	–	–	(16.0)	–	(16.0)
Tax on cash flow hedges	–	–	–	(18.5)	(0.5)	–	–	–	(19.0)	–	(19.0)
Other comprehensive income/(expense)	–	–	–	96.0	1.0	–	(14.6)	(65.9)	16.5	–	16.5
Total comprehensive income/(expense)	–	–	–	96.0	1.0	–	(14.6)	(24.2)	58.2	3.6	61.8
Cash flow hedges recognised in inventories	–	–	–	(42.7)	–	–	–	–	(42.7)	–	(42.7)
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	–	–	8.1	–	8.1
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(303.5)	(303.5)	–	(303.5)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	(1.4)	(1.4)
Shares issued on exercise of employee share options	0.1	0.5	–	–	–	–	–	–	0.6	–	0.6
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(5.5)	(5.5)	–	(5.5)
Credit for share-based payments	–	–	–	–	–	–	–	19.2	19.2	–	19.2
Deferred tax on share schemes	–	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
As at 30 March 2019 (Restated)	406.3	416.9	2,210.5	(14.6)	11.7	(6,542.2)	(43.9)	6,024.8	2,469.5	(0.3)	2,469.2
As at 31 March 2019 (Restated)	**406.3**	**416.9**	**2,210.5**	**(14.6)**	**11.7**	**(6,542.2)**	**(43.9)**	**6,024.8**	**2,469.5**	**(0.3)**	**2,469.2**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23.7**	**23.7**	**3.7**	**27.4**
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**5.1**	**–**	**5.1**	**–**	**5.1**
– reclassified and reported in profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**2.9**	**–**	**2.9**	**–**	**2.9**
Remeasurements of retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**927.9**	**927.9**	**–**	**927.9**
Tax charge on items that will not be reclassified	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(196.7)**	**(196.7)**	**–**	**(196.7)**
Cash flow hedges											
– fair value movements in other comprehensive income	**–**	**–**	**–**	**147.8**	**(7.5)**	**–**	**–**	**–**	**140.3**	**–**	**140.3**
– reclassified and reported in profit or loss	**–**	**–**	**–**	**(18.4)**	**–**	**–**	**–**	**–**	**(18.4)**	**–**	**(18.4)**
Tax on cash flow hedges	**–**	**–**	**–**	**(28.5)**	**1.5**	**–**	**–**	**–**	**(27.0)**	**–**	**(27.0)**
Other comprehensive income/(expense)	**–**	**–**	**–**	**100.9**	**(6.0)**	**–**	**8.0**	**731.2**	**834.1**	**–**	**834.1**
Total comprehensive income/(expense)	**–**	**–**	**–**	**100.9**	**(6.0)**	**–**	**8.0**	**754.9**	**857.8**	**3.7**	**861.5**
Cash flow hedges recognised in inventories	**–**	**–**	**–**	**(21.8)**	**–**	**–**	**–**	**–**	**(21.8)**	**–**	**(21.8)**
Tax on cash flow hedges recognised in inventories	**–**	**–**	**–**	**4.1**	**–**	**–**	**–**	**–**	**4.1**	**–**	**4.1**
Transactions with owners:											
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(191.1)**	**(191.1)**	**–**	**(191.1)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**
Shares issued on exercise of employee share options	**–**	**0.1**	**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Shares issued on rights issue[3]	**81.3**	**493.4**	**–**	**–**	**–**	**–**	**–**	**–**	**574.7**	**–**	**574.7**
Purchase of own shares held by employee trusts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8.9)**	**(8.9)**	**–**	**(8.9)**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18.5**	**18.5**	**–**	**18.5**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**	**–**	**(0.4)**
As at 28 March 2020	**487.6**	**910.4**	**2,210.5**	**68.6**	**5.7**	**(6,542.2)**	**(35.9)**	**6,597.8**	**3,702.5**	**6.0**	**3,708.5**

1. The "Other reserve" was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.
2. Included within "Retained earnings" is the fair value through other comprehensive income reserve.
3. The share premium amount of £493.4m is net of £26.6m in relation to transaction costs associated with the rights issue.

Comparative information has been restated for the impact of IFRS 16 (see note 29).

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	26	**1,064.7**	1,350.4
Income tax paid		**(91.6)**	(105.7)
Net cash inflow from operating activities		**973.1**	1,244.7
Cash flows from investing activities			
Proceeds on property disposals		**2.7**	48.1
Purchase of property, plant and equipment		**(251.0)**	(217.8)
Purchase of intangible assets		**(77.6)**	(95.1)
Sale/(purchase) of current financial assets		**130.1**	(128.1)
Purchase of investments in associates and joint ventures[1]	30	**(580.3)**	(2.5)
Interest received		**10.4**	7.4
Net cash used in investing activities		**(765.7)**	(388.0)
Cash flows from financing activities			
Interest paid[2]		**(224.2)**	(229.0)
Repayment of borrowings		**–**	(46.7)
Issuance of Medium Term Notes		**250.0**	1.4
Redemption of Medium Term Notes		**(400.0)**	–
Repayment of lease liabilities		**(201.4)**	(170.1)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(63.5)**	(61.6)
Equity dividends paid	9	**(191.1)**	(303.5)
Shares issued on exercise of employee share options	24	**0.1**	0.6
Proceeds from rights issue net of costs	24	**574.4**	–
Purchase of own shares by employee trust		**(8.9)**	(5.5)
Cash received from settlement of derivatives		**7.7**	–
Net cash used in financing activities		**(256.9)**	(814.4)
Net cash (outflow)/inflow from activities		**(49.5)**	42.3
Effects of exchange rate changes		**0.5**	(0.2)
Opening net cash		**213.1**	171.0
Closing net cash	27	**164.1**	213.1

1. Includes investment in Ocado Retail Limited of £577.8m (last year: £nil) and Founders Factory Retail Limited of £2.5m (last year: £2.5m). In addition to the £560.9m cash paid to Ocado Group plc per Note 30, £11.5m is included within trade and other receivables (Note 17) as at 28 March 2020 following finalisation of the transaction. In addition, there are £5.4m transaction costs paid during the year.
2. Includes interest paid on the partnership liability to the Marks and Spencer UK Pension Scheme of £8.4m (last year: £10.3m) and interest paid on lease liabilities of £134.3m (last year: £142.6m (restated)).

Comparative information has been restated for the impact of IFRS 16 (see note 29).

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations is as a Clothing & Home and Food retailer.

These financial statements are presented in sterling, which is also the Company's functional currency, and are rounded to the nearest hundred thousand. Foreign operations are included in accordance with the policies set out within this note.

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 2 to 26, and the principal risks and uncertainties as set out on pages 34 and 43, including by modelling a Covid-19 scenario.

Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast paced changes taking place across the retail sector, we expect to see significant volatility and business disruption reducing our expected performance in 2020/21. We have already felt the impact of the government's guidelines on lockdown, with our Food stores open and trading (albeit with social-distancing rules in place), but with Clothing & Home unable to trade from stores, and all sales therefore predominantly coming from online sales and Click & Collect in stores.

The Covid-19 scenario assumes that the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

– On average, a 70% decline in Clothing & Home sales vs budget for the four months to July 2020, followed by a slow recovery back to budget by February 2021, reducing expected revenue by £1.5bn for the financial year.
– A 20% decline in Food sales vs budget for the four months to July, impacting annual revenue by £384m.
– International sales following a similar profile to Clothing & Home, with a significant decline in April due to closures, and a recovery back to budget extended to March 2021, impacting annual revenue by £214m.

Further downside sensitivities which extend the length of the social-distancing measures or increase the depth of the impact on sales and margin were also considered, as explained in the Viability Statement. In addition, reverse stress testing has also been applied to the model, which represents a significant decline in sales compared to the Covid-19 scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

The Covid-19 scenario reflects the actions already taken by management, including:

– Cost-saving initiatives, such as reducing marketing spend, freezing pay and recruitment, and technology and operating expenditure cuts.
– Reducing the capital expenditure budget to c.£140m.
– Reducing the supply pipeline of Clothing & Home stock by c.£560m, and lengthening payment terms.
– Ceasing to pay the final dividend payment for 2019/20 and for 2020/21, resulting in a total anticipated cash saving of c.£340m.

The Group will also benefit from c.£172m of business rates relief in 2020/21 and the government's job retention scheme to help meet the cost of furloughed roles in stores, distribution and support centres, which should generate cash savings of c.£50m up to 30 June 2020.

In addition, the following further steps have also been taken:

– Formal agreement has been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
– The Group confirmed on 23 April 2020 its eligibility under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m, providing significant further liquidity headroom.

The agreement with the banks combined with the other measures taken means that, even under the Covid-19 scenario, the business would continue to have significant liquidity headroom on its existing facilities and against the revolving credit facility financial covenant. As at 28 March 2020 the financial covenant was met.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

New accounting standards adopted by the Group

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 31 March 2019:

– IFRS 16 Leases.
– IFRIC 23 Uncertainty over Income Tax Treatments.
– Amendments to IFRS 9 Prepayment Features with Negative Compensation.
– Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.
– Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.
– Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).

The Group also elected to adopt the following amendments early:

– Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform.

1 ACCOUNTING POLICIES CONTINUED

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is described in note 29. The impact of early adopting the amendments to IFRS 9 as a result of interest rate benchmark reform is described in the financial instruments accounting policy and in note 21.

The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IAS 1 and IAS 8 Definition of Material.
- Amendments to IFRS 3 Definition of a Business.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

Alternative Performance Measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 28 March 2020:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the historical changes to the UK defined benefit scheme practices.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products as well as forward economic guidance provisions recognised by M&S Bank as a result of Covid-19.
- Significant costs arising from establishing the investment in Ocado Retail Limited.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.[1]
- Remeasurement of contingent consideration including discount unwind.[1]
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.[2]
- Other adjusting items include credits recognised in relation to potential liabilities for employee-related matters previously recognised within adjusting items.

1. As a result of the investment in Ocado Retail Limited during the year these items have been included within adjusting items for the first time.
2. As a result of the Covid-19 pandemic and subsequent UK government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified gains and expenses incurred as a direct result of Covid-19 as adjusting items for the first time. The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 34 as well as set out within the basis of preparation on page 116 which summarises the Covid-19 scenario modelled by the Group and within the subsequent events note.

Refer to note 5 for a summary of the adjusting items.

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, except for certain financial instruments (including derivative instruments) and plan assets of defined benefit pension schemes which are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

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 period 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.

1 ACCOUNTING POLICIES CONTINUED

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Company has control. Control is achieved when the Company has the power over the entity; is exposed, or has rights to, variable returns from its involvement with the entity; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of these three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. 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 on consolidation.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment.

Associated undertakings acquired during the year are recorded using the equity method of accounting and their results are included from the date of acquisition. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired. The Group's share of the net fair value of identified intangible assets is amortised over the expected useful economic life of the assets.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount.

When a Group company transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

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 performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer.

A right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

The Group enters into agreements which entitle other parties to operate under the Marks & Spencer brand name for certain activities and operations, such as M&S Bank and M&S Energy. These contracts give rise to performance-based variable consideration. Income dependent on the performance of the third-party operations is recognised when it is highly probable that a significant reversal in the amount of income recognised will not occur, and presented as other operating income.

Supplier income

In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

The types of supplier income recognised by the Group and the associated recognition policies are:

A. Promotional contribution Includes supplier contributions to promotional giveaways and pre-agreed contributions to annual "spend and save" activity.

Income is recognised as a deduction to cost of sales over the relevant promotional period. Income is calculated and invoiced at the end of the promotional period based on actual sales or according to fixed contribution arrangements. Contributions earned but not invoiced are accrued at the end of the relevant period.

B. Volume-based rebates Includes annual growth incentives, seasonal contributions and contributions to share economies of scale resulting from moving product supply.

Annual growth incentives are calculated and invoiced at the end of the financial year, once earned, based on fixed percentage growth targets agreed for each supplier at the beginning of the year. They are recognised as a reduction in cost of sales in the year to which they relate. Other volume-based rebates are agreed with the supplier and spread over the relevant season/contract period to which they relate. Contributions earned but not invoiced are accrued at the end of the relevant period.

1 ACCOUNTING POLICIES CONTINUED

Supplier income continued

Uncollected supplier income at the balance sheet date is classified within the financial statements as follows:

A. Trade and other payables The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the legal right and intention to offset these balances.

B. Trade and other receivables Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

M&S Bank

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate contractual deductions.

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 overseas employees.

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. An asset can be recognised as in the event of a plan wind-up, the pension scheme rules provide the Group with an unconditional right to a refund of surplus assets assuming a full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up, or change, the benefits due to the members of the scheme. As a result, any net surplus in the UK defined benefit (DB) scheme is recognised in full.

The service cost of providing retirement benefits to employees during the year, together with the cost of any curtailment, is charged to operating profit in the year. The Group no longer incurs any service cost or curtailment costs related to the UK DB pension scheme as the scheme is closed to future accrual.

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements, being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in other comprehensive income.

During 2017/18, the UK DB pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS 19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in other comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense on an accruals basis.

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration paid 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 in value is recognised within the income statement.

B. Acquired intangible assets Acquired intangible assets include trademarks or brands and customer relationships. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets identified on investments in associates are included in investments in associates at fair value. Intangible assets are amortised on a straight-line basis over their estimated useful lives of between 10 and 40 years.

Acquired intangible assets are tested for impairment as triggering events occur. Any impairment in value is recognised within 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 3 and 10 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within 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 on a straight-line basis as follows:

- Freehold land – not depreciated.
- Buildings – depreciated to their residual value over their estimated remaining economic lives.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic 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 recognised within the income statement.

1 ACCOUNTING POLICIES CONTINUED

Leasing

The Group recognises a right-of-use asset and corresponding liability at the date at which a leased asset is made available for use by the Group, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities are measured at the present value of the future lease payments, excluding any payments relating to non-lease components. Future lease payments include fixed payments, in-substance fixed payments, and variable lease payments that are based on an index or a rate, less any lease incentives receivable. Lease liabilities also take into account amounts payable under residual value guarantees and payments to exercise options to the extent that it is reasonably certain that such payments will be made. The payments are discounted at the rate implicit in the lease or, where that cannot be readily determined, at an incremental borrowing rate.

Right-of-use assets are measured initially at cost based on the value of the associate lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease. The Group presents right-of-use assets in 'property, plant and equipment' in the consolidated statement of financial position.

Subsequent to initial recognition, the lease liability is reduced for payments made and increased to reflect interest on the lease liability (using the effective interest method). The related right-of-use asset is depreciated over the term of the lease or, if shorter, the useful economic life of the leased asset. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

– The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
– The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
– A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Leases for which the Group is a lessor are classified as finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee and classified as an operating lease if it does not. When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant 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. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment").

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 at each reporting period and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The financial statements are presented in sterling, which is the Company's functional currency.

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 booked into reserves and reported in the consolidated statement of comprehensive income. On disposal of an overseas subsidiary the related cumulative translation differences recognised in reserves are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

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, except when deferred in other comprehensive income and accumulated in the cash flow hedge reserve as qualifying cash flow hedges.

1 ACCOUNTING POLICIES CONTINUED

Taxation

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

Provision is made for uncertain tax positions when it is considered probable that there will be a future outflow of funds to a tax authority. The provision is calculated using the single best estimate where that outcome is more likely than not and a weighted average probability in other circumstances. The position is reviewed on an ongoing basis, to ensure appropriate provision is made for each known tax risk.

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 that 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. Financial assets are initially classified as at fair value through profit and loss, fair value through other comprehensive income or amortised cost depending on the Group's intention with regard to the collection of contractual cash flows (or sale) and whether the financial asset's cash flows relate solely to the payment of principal and interest.

A. Trade and other receivables Trade receivables are recorded initially at transaction price and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments with a maturity date of over 90 days and are classified as either fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). Financial assets held at FVOCI are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at FVPL are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as FVPL, gains and losses arising from changes in fair value are included in the income statement for the period.

For equity investments at FVOCI, gains or losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income and accumulated in the FVOCI reserve is transferred to retained earnings.

For debt instruments at FVOCI, gains and losses arising from changes in fair value are recognised in other 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 other comprehensive income and accumulated in equity is reclassified to the income statement. Impairments in debt securities are recognised based on management's expectation of losses in each investment ("expected credit loss" model).

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. They are subsequently held at amortised cost. 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 or deducted from 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 net of direct issue costs and are subsequently held at amortised cost. If the loan is designated in a fair value hedge relationship, the carrying value of the loan is adjusted to the hedged risk.

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 Group are recorded at the consideration received, net of direct issue costs.

1 ACCOUNTING POLICIES CONTINUED

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps, cross-currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates 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).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions, and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective effectiveness testing is performed to ensure that 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.

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The application of the amendments impacts the Group's accounting in relation to a sterling denominated fixed rate debt, which it fair value hedge accounts using sterling fixed to GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

The Group has chosen to early apply the amendments to IFRS 9 for the reporting period ended 28 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

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 other comprehensive income. The element of the change in fair value which relates to the currency spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve and any ineffective portion is recognised immediately in the income statement in finance costs. 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 other comprehensive income and accumulated in the cash flow hedge reserve are removed directly from equity and included in the initial measurement of the asset or liability.

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

B. Fair value hedges Changes in the fair value of a derivative instrument designated in a fair value hedge or, for non-derivatives, the foreign currency component of carrying value are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry 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.

C. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, the hedge relationship no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur. The Group cannot voluntarily de-designate a hedging relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument accumulated in the cash flow hedge reserve is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss accumulated in the cash flow hedge reserve is transferred to the income statement for the period.

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement based on the recalculated effective interest rate at that date.

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

Reserves

The following describes the nature and purpose of each reserve within equity:

A. Share premium account Proceeds received in excess to the nominal value of shares issued, net of any transaction costs.

B. Capital redemption reserve Amounts transferred from share capital on redemption or repurchase of issued shares.

C. Hedging reserve Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges.

D. Cost of hedging Cumulative gains and losses on the portion excluded from the designated hedging instrument that relates to changes in the foreign currency basis.

E. Other reserve 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.

F. Foreign exchange reserve Gains and losses arising on retranslating the net assets of overseas operations into sterling.

G. Retained earnings All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

1 ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. 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 which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the Glossary. These definitions have been applied consistently year on year, with additional items due to the investment in Ocado Retail Limited and certain directly attributable gains and expenses resulting from the Covid-19 pandemic.

Note 5 provides further details on current year adjusting items and their adherence to Group policy.

UK defined benefit pension surplus

Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK defined benefit scheme is in surplus at 28 March 2020. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £1,915.0m has been recognised.

Assessment of control

The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate (see note 30). This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. These rights include determinative rights currently held by Ocado Group Plc, after agreed dispute-resolution procedures, in relation to the approval of the Ocado Retail Limited business plan and budget and the appointment and removal of Ocado Retail Limited's Chief Executive Officer. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

Determining the lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts for land and buildings that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination, including: whether there are significant penalties to terminate (or not extend); whether any leasehold improvements are expected to have a significant remaining value; historical lease durations; the importance of the underlying asset to the Group's operations; and the costs and business disruption required to replace the leased asset.

Most renewal periods and periods covered by termination options are included as part of the lease term for leases of land and buildings. The Group typically exercises its option to renew (or does not exercise its option to terminate) for these leases because there will be a significant negative effect on trading if a replacement property is not readily available.

The lease term is reassessed if a significant event or a significant change in circumstances occurs which affects the assessment of reasonable certainty – for example, if a store is identified to be closed as part of the UK store estate strategic programme.

Determining the incremental borrowing rate used to measure lease liabilities

The Group is required to determine its incremental borrowing rate (IBR) to measure lease liabilities. Judgement is applied in determining the components of the IBR used for each lease including risk-free rates, the Group's credit risk and any lease-specific adjustments.

IBRs are determined bi-annually and depend on the term, country and start date of the lease. The IBR is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; and a credit risk adjustment based on the average credit spread of entities with similar ratings to the Group.

1 ACCOUNTING POLICIES CONTINUED

Determining whether forecast purchases are highly probable

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing Clothing & Home products from Asia which are paid predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether the forecast purchases remain "highly probable", particularly in light of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures.

At the reporting date, a £2.9m gain has been recognised in the income statement as a result of US$76.6m notional forecast purchases no longer expected to occur in relation to the Clothing & Home Autumn and Winter season requirement. In making this assessment, the Group has considered the most recent budgets and plans, including the Covid-19 scenario. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time, as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of Clothing & Home inventory, as described in the basis of preparation, does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £29.3m (last year: £216.5m (restated)) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (see the basis of preparation section and the glossary for details on this Covid-19 scenario).
- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 15 for further detail.

Useful lives and residual values of property, plant and equipment and intangibles

Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (the Covid-19 scenario), focusing on the external impact of social-distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles, particularly where the store carrying value exceeds fair value less cost to sell. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

1 ACCOUNTING POLICIES CONTINUED

Inventory provisioning

The Group sells Clothing & Home merchandise that are subject to changing consumer demands and seasonal trends. As a direct result of the restrictions on "non-essential" trade imposed in response to the Covid-19 pandemic, our ability to sell through existing Clothing & Home stock has been significantly impacted. Accordingly, the Group has had to review its inventory levels in light of future expectations of sell-through, impacting the recoverability of the cost of inventories and the level of provisioning required. When calculating inventory provisions, management has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. See note 5 for further details on the assumptions and associated sensitivities.

Post-retirement benefits

The determination of pension net interest income and the 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 and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. Management has considered reasonably possible changes in these key sources of estimation uncertainty. A further change of 10% in private equity values would change asset values by £14.0m and a 0.5% change in secure income assets would change asset values by £3.0m. See note 11 for further details on the impact of changes in the key assumptions and estimates.

Fair value of consideration and contingent consideration

As part of the investment in Ocado Retail Limited (see note 30), contingent consideration with an estimated fair value of £202.4m has been recognised in the period. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is £187.5m plus interest of 4%.

The arrangement has a number of elements which only become payable on the achievement of specific performance targets. The most significant of these is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. If targets are not achieved, no contingent consideration will be payable.

2 SEGMENTAL INFORMATION

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

The chief operating decision-maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment.

During the year, the Group has completed a comprehensive review of the way in which costs are allocated between our businesses. As a result, a detailed and more accurate cost allocation methodology now exists which allows the Operating Committee to review performance by business down to Operating profit, with financial and management information presented in the way that best: reflects how we manage the business; allows management to take fully informed decisions; and therefore holds management appropriately to account. As a result, during 2019/20, the composition of the Group's operating segments has changed. The Group now recognises three operating segments, being UK Clothing & Home, UK Food, and International (previously UK and International), with reporting on all three segments down to Operating profit before adjusting items. These new reportable segments reflect key pillars of our transformation programme and the enhanced focus on managing each of the three core business areas.

The Group's reportable operating segments have therefore been identified as follows:

- UK Clothing & Home – comprises the retailing of womenswear, menswear, lingerie, kidswear and home products through UK retail stores and online.
- UK Food – includes the results of the UK retail food business and UK Food franchise operations, with the following five main categories: protein deli and dairy; produce; ambient and in-store bakery; meals, dessert and frozen; and hospitality and 'Food on the Move'.
- International – consists of Marks and Spencer-owned businesses in Europe and Asia and the international franchise operations.

Other business activities and operating segments, including M&S Bank, M&S Energy and the Group's share of profits or losses from the investment in Ocado Retail Limited, are combined and presented in "All other segments". M&S Bank and M&S Energy were previously reported within the old UK segment but are now presented within "All other segments" as the business activities are fundamentally different to the three core reportable segments. Finance income and costs are not allocated to segments as each is managed on a centralised basis.

As the Group's reportable segments have been changed, the comparative information for 2019 has been restated.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit before adjusting items. This measurement basis excludes the effects of adjusting items from the operating segments.

2 SEGMENTAL INFORMATION CONTINUED

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

	52 weeks ended 28 March 2020					52 weeks ended 30 March 2019 (Restated[1])				
	UK Clothing & Home £m	**UK Food £m**	**International £m**	**All other segments £m**	**Group £m**	UK Clothing & Home £m	UK Food £m	International[2,3] £m	All other segments £m	Group £m
Revenue	**3,209.1**	**6,028.2**	**944.6**	**–**	**10,181.9**	3,499.8	5,903.4	974.1	–	10,377.3
Operating profit before adjusting items[4]	**223.9**	**236.7**	**110.7**	**19.4**	**590.7**	355.2	212.9	130.5	27.0	725.6
Finance income					**44.0**					34.8
Finance costs					**(231.6)**					(248.7)
Profit before tax and adjusting items	**223.9**	**236.7**	**110.7**	**19.4**	**403.1**	355.2	212.9	130.5	27.0	511.7
Adjusting items					**(335.9)**					(427.5)
Profit before tax	**223.9**	**236.7**	**110.7**	**19.4**	**67.2**	355.2	212.9	130.5	27.0	84.2

1. Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 29).
2. The reporting of results from certain international M&S.com websites has been transferred from UK Clothing & Home (previously UK) to International to align reporting with the day-to-day management of these operations, resulting in revenue of £37.5m and operating profit of £2.9m being transferred.
3. International operating profit was previously reported as £127.0m and has been restated to £130.5m due to the adoption of IFRS 16 (increased by £13.2m), a reallocation of central costs between the Group's reportable segments (decreased by £12.6m) and the impact of footnote 2 (increased by £2.9m).
4. Operating profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Other segmental information

	52 weeks ended 28 March 2020					52 weeks ended 30 March 2019 (Restated[1])				
	UK Clothing & Home £m	**UK Food £m**	**International £m**	**All other segments £m**	**Group £m**	UK Clothing & Home £m	UK Food £m	International £m	All other segments £m	Group £m
Additions to property, plant & equipment and intangible assets (excluding goodwill and right-of-use assets)	**166.5**	**170.1**	**15.7**	**–**	**352.3**	140.6	142.5	13.9	–	297.0
Depreciation and amortisation[2]	**(350.6)**	**(283.4)**	**(34.6)**	**–**	**(668.6)**	(430.4)	(323.8)	(35.5)	–	(789.7)
Impairment and asset write-offs[2]	**(69.9)**	**(45.3)**	**(10.3)**	**–**	**(125.5)**	(104.3)	(139.8)	(0.5)	–	(244.6)

1. Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 29).
2. These costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Segment assets and liabilities, including investments in associates and joint ventures, are not disclosed because they are not reported to or reviewed by the Operating Committee.

3 EXPENSE ANALYSIS

	2020 Total £m	2019 (Restated) Total £m
Revenue	**10,181.9**	10,377.3
Cost of sales before adjusting items	**(6,589.5)**	(6,558.2)
Gross profit before adjusting items	**3,592.4**	3,819.1
Selling and administrative expenses before adjusting items	**(3,036.4)**	(3,134.9)
Other operating income before adjusting items	**32.1**	41.4
Share of results of Ocado Retail Limited before adjusting items	**2.6**	–
Operating profit before adjusting items	**590.7**	725.6
Adjusting operating expense items (see note 5)[2]	**(335.9)**	(427.5)
Operating profit	**254.8**	298.1

The selling and administrative expenses are further analysed below:

	2020 Total £m	2019 (Restated) Total £m
Employee costs[1]	**1,411.2**	1,450.0
Occupancy costs	**377.7**	387.4
Repairs, renewals and maintenance of property	**81.0**	87.6
Depreciation, amortisation and asset impairments and write-offs before adjusting items	**632.5**	702.6
Other costs	**534.0**	507.3
Selling and administrative expenses before adjusting items	**3,036.4**	3,134.9

1. There are an additional £53.1m (last year: £61.0m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. The £335.9m (last year: £427.5m) adjusting items charges for the year are further analysed against the categories of cost of sales (£157.0m; last year: £nil), selling and administrative expense (£188.8m; last year: £407.7m), other operating income (£26.7m; last year: cost £19.8m) and share of results of Ocado Retail Limited (£16.8m; last year: £nil) resulting in total cost of sales of £6,746.5m (last year: £6,558.2m), selling and administrative expenses of £3,225.2m (last year: £3,542.6m), total other operating income of £58.8m (last year: £21.6m) and total share of results of Ocado Retail Limited of a loss of £14.2m (last year: £nil). Adjusting items categorised as selling and administrative expenses are further analysed as employee costs £23.1m (last year: £64.9m); occupancy release £25.2m (last year: cost £2.7m (restated)); depreciation, amortisation and asset impairments and write-offs £139.9m (last year: £308.9m (restated)); and other costs £51.0m (last year: £31.2m).

4 PROFIT BEFORE TAXATION

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

	2020 £m	2019 (Restated) £m
Net foreign exchange gains	**(2.1)**	(2.9)
Cost of inventories recognised as an expense	**5,762.3**	5,765.4
Write-down of inventories recognised as an expense	**389.0**	214.1
Depreciation of property, plant and equipment		
– owned assets	**329.2**	441.6
– right-of-use assets	**174.6**	163.7
Amortisation of intangible assets	**164.8**	184.4
Impairments and write-offs of intangible assets and property, plant and equipment	**91.3**	151.4
Impairments of right-of-use assets	**34.2**	93.2

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

	2020 £m	2019 £m
Annual audit of the Company and the consolidated financial statements	**1.4**	1.3
Audit of subsidiary companies	**0.6**	0.6
Total audit fees	**2.0**	1.9
Audit-related assurance services	**0.2**	0.2
Transaction-related services	**0.5**	0.2
Total non-audit services fees	**0.7**	0.4
Total audit and non-audit services	**2.7**	2.3

Transaction-related services provided by the auditor relate to the investment in Ocado Retail Limited (see note 30).

5 ADJUSTING ITEMS

The total adjusting items reported for the 52-week period ended 28 March 2020 is a net charge of £335.9m (last year: £427.5m (restated)). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2020 £m	2019 (Restated) £m
Strategic programmes – UK store estate[1]	15, 22	**29.3**	216.5
Strategic programmes – Organisation	15, 22	**13.8**	4.9
Strategic programmes – Operational transformation		**11.6**	16.4
Strategic programmes – UK logistics	15, 22	**10.2**	14.3
Strategic programmes – Changes to pay and pensions	22	**2.9**	6.2
Strategic programmes – International store closures and impairments	22	**2.2**	5.3
Strategic programmes – IT restructure	22	**0.4**	15.6
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1]		**163.6**	–
Store impairments and other property charges[1]	15, 22	**78.5**	103.5
Goodwill impairment – per una[1]	14	**13.4**	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		**12.6**	20.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		**16.8**	–
Establishing the investment in Ocado Retail Limited		**1.2**	3.4
Remeasurement of contingent consideration including discount unwind		**2.9**	–
Other		**(23.5)**	–
GMP and other pension equalisation	11, 22	**–**	20.5
Adjustments to profit before tax[2]		**335.9**	427.5

1. Gains/expenses directly attributable to the Covid-19 pandemic in the current year are presented below; this includes the resulting incremental impairment charge disclosed within the strategic programmes above related to the UK store estate, UK store impairments, International store impairments and the impairment of per una goodwill.

UK store estate impairments	11.6
Store impairments	24.2
Goodwill impairment – per una	13.4
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	163.6
Total Covid-19 charges	**212.8**

2. All adjusting items are included within operating profit with the exception of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind which is included within finance costs and a gain of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur, within directly attributable (gains)/expenses resulting from the Covid-19 pandemic, which is included within finance income.

Strategic programmes – UK store estate (£29.3m)

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

The Group has recognised a charge of £29.3m (of which, £11.6m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) in the period in relation to those stores identified as part of its transformation plans to make the store estate fit for the future. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs, as well as revised cash flows to reflect the impact of Covid-19. The charge primarily relates to impairment of buildings and fixtures and fittings and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years, giving post-IFRS 16 total programme charges of up to £680m in line with previous disclosures.

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – Organisation (£13.8m)

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. As part of the wide-ranging strategic review, a further announcement was made in 2017/18 to reduce Group operating costs by £350m by the end of 2021. Prior to the onset of the Covid-19 pandemic, the Group had been on track to deliver the operating cost savings.

As part of our commitment to the transformation strategy and delivering the cost reduction programme, further reviews of our organisational structure have been performed in order to streamline structures and improve operational efficiency. This has resulted in a reduction of roles and a charge of £10.8m recognised in the period for redundancy costs associated with these changes.

In addition, a further £3.0m of costs have been recognised in the period, reflecting an updated view of costs associated with centralising the Group's London Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisation costs are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in quantum with £73.4m of costs (after restatement for IFRS 16) incurred to date, and are consistent with the disclosure of other similar charges in prior years.

Strategic programmes – Operational transformation (£11.6m)

The Group is undertaking a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group's UK Clothing & Home and UK Food end-to-end processes. A charge of £11.6m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across UK Clothing & Home and UK Food.

These costs are considered to be adjusting items as they relate to a strategic programme and the total costs are significant in quantum (£28.0m to date), and as a result not considered to be normal operating costs of the business. Further operational transformation initiatives are planned for 2020/21 which will result in additional related charges within adjusting items.

Strategic programmes – IT restructure (£0.4m)

In 2017/18, as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function. A charge of £0.4m has been recognised in the period relating primarily to transition costs associated with the implementation of a new technology operating model. 2019/20 is the final year of the IT restructure programme.

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group which over the prior two years has been significant in value and nature to the results of the Group (2018/19: £15.6m and 2017/18: £15.5m).

Strategic programmes – UK logistics (£10.2m)

In 2017/18, as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £10.2m has been recognised in the period for redundancy, accelerated depreciation and project costs.

In February 2020, the Group announced the next phase of the single tier programme with the closure of two further sites expected across 2020/21 and 2021/22. Further charges are expected in 2020/21 of c.£13m resulting in a total programme cost of c.£52m.

The Group considers these costs to be adjusting items as they are significant in quantum and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network.

Strategic programmes – Changes to pay and pensions (£2.9m)

In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK DB pension scheme to future accrual, effective from 1 April 2017. As part of these proposals, the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. 2019/20 represents the final year of these payments, with a charge in the period in relation to these transition payments to employees of £2.9m, taking the total programme cost to £178m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with disclosure of the same costs in 2018/19, 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

Strategic programmes – International store closures and impairments (£2.2m)

In 2016/17, the Group announced its intention to close its owned stores in 10 international markets. A net charge of £2.2m has been recognised in the year, reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred, taking the programme cost to date to £145m.

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

5 ADJUSTING ITEMS CONTINUED

Store impairments and other property charges (£78.5m)

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

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

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

M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision (£12.6m)

The Group has an economic interest in Marks and Spencer Financial Services plc, a wholly owned subsidiary of HSBC UK Bank plc, trading as M&S Bank, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In addition, further charges have been recognised by M&S Bank in relation to forward economic guidance provisions recognised as a result of Covid-19. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £12.6m.

The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group. While the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue into 2020/21 and beyond as the Group's share of the total charge since September 2013 of £327.6m exceeds the total offset against profit share of £242.7m to date. The Group therefore expects future adjusting items charges of c.£100m – predominantly related to PPI mis-selling claim liabilities – which will be offset against the share of M&S Bank profits in future years.

Establishing the investment in Ocado Retail Limited (£1.2m)

In the prior year, the Group recognised a charge of £3.4m in adjusting items relating to due diligence for the Ocado Retail transaction. As part of the preparation for the launch in September 2020, the Group has incurred £1.2m of one-off charges that will not be part of the day-to-day operational costs of our business with Ocado Retail.

An estimated further £1m–2m of "getting ready" costs are expected in H1 2020/21 prior to launch in September 2020. These "getting ready" costs, combined with the costs recognised in 2018/19 relating to setting up the investment in Ocado Retail, bring the total expected one-off charges relating to Ocado Retail up to in the range of £6m-7m.

These costs are adjusting items as they relate to a major transaction and but for the transaction the business would not have incurred these costs and as a result prior to the Ocado "go-live" in September 2020 are not considered to be normal operating costs of the business.

Amortisation of intangible assets and fair value adjustments on property, plant and equipment arising as part of the investment in Ocado Retail Limited (£11.7m) and related deferred tax adjustments (£5.1m)

The identifiable net assets of Ocado Retail Limited that were acquired included intangible assets (a brand and customer relationships) with a fair value of £366.0m, which is recognised as part of the cost of the investment in associate. In addition, fair value adjustments of £2.3m were made to property, plant and equipment on acquisition. A related deferred tax liability of £63.3m has also been recognised on acquisition as part of the cost of the investment in associate. The amortisation of these intangible assets and fair value adjustments and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. Identifying these items as adjusting allows greater comparability of underlying performance. These adjusting items will be recognised over their useful economic lives of 10-40 years.

Remeasurement of contingent consideration including discount unwind (£2.9m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. The change in fair value and the related unwind of discounting is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The charge for 2019/20 of £2.9m represents the unwind of discounting from acquisition to the year end. Discount unwind will be charged to adjusting items until the final contingent consideration payment is made in 2023/24.

5 ADJUSTING ITEMS CONTINUED

Directly attributable gains/(expenses) resulting from the Covid-19 pandemic

In March 2020, following the declaration by the World Health Organization of the Covid-19 global pandemic and subsequent UK government restrictions, while the Group has been able to continue to trade its Food business (albeit with social-distancing rules in place), Clothing & Home has been unable to trade from full-line stores, with any sales therefore predominantly coming from online sales and Click & Collect in stores. All M&S Outlets stores and a number of Food franchise stores have also closed. Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast-paced changes taking place across the retail sector, the Group expects to see significant volatility and business disruption, reducing the expected performance in 2020/21. As set out in the basis of preparation on page 116, the Board has approved a Covid-19 scenario budget and three-year plan, which assumes that the current government guidelines continue in place for a period of at least four months, and results in a significant decline in sales for the remainder of 2020/21.

As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, the Group has identified charges of £212.8m relating to directly attributable gains and expenses resulting from the Covid-19 pandemic. The charges relate to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

Write-down of inventories to net realisable value (£157.0m)

The Group has performed a detailed assessment of all retail inventory, including all items in our stores, warehouses and outlets, taking into consideration the period of trading disruption, current sales and sell through plans and considered the impact on the stock holding at year end. The review concluded that there was a need to provide for items from previous seasons which are unlikely to be saleable when stores reopen; that items in the summer sale are likely to be cleared below cost and the need to provide for hibernated stock (stock that will be stored within our warehouses) at reduced prices when we look to sell it in Spring/Summer 2021.

The Group has recognised an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m and International: £5.7m), reflecting management's best estimate of the impact on the Group of the Covid-19 pandemic. The total UK Clothing & Home inventory provisions represent 33% of UK Clothing & Home inventory. A 5% increase in the UK Clothing & Home inventory provision would result in a reduction in inventory held on the balance sheet of £26.0m and would result in a corresponding reduction to recognised profit before tax in 2019/20.

Impairments of intangible assets and property, plant and equipment (£49.2m)

As a direct result of the Covid-19 pandemic, all impairment assessments were reperformed using the cash flows resulting from the Board-approved Covid-19 scenario detailed above. Incremental impairment charges as a direct result of Covid-19 have been recognised for the following assets: Goodwill – per una (£13.4m); Strategic programme – UK store estate (£11.6m); and Store impairments (£24.2m).

Refer to notes 14 and 15 for further details on the impairment charges relating to per una goodwill and stores, as well as note C6 of the Company accounts.

Onerous contract provisions, cancellation charges and one-off costs (£6.6m)

The Group has incurred a total of £6.6m of one-off charges relating to onerous contract and other provisions, and cancellation charges incurred pre-year end as a result of the disruption caused by Covid-19 to normal operating activities. In addition, a number of projects have been cancelled, leading to the impairment and write-off of intangible assets in the course of construction recognised up to 28 March 2020.

The £212.8m directly attributable net charges from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period. Further charges are anticipated during 2020/21 to reflect actions that will be taken as a direct result of the length of time that the government restrictions are in place, and trade and consumer behaviour is impacted. Any future credits relating to these items will also be classified as adjusting.

Other (£23.5m credit)

In 2017/18, a provision was recorded to cover the potential costs of probable liabilities for certain employee-related matters. During the period, the Group paid £0.6m in settlement of the liability for these employee-related matters, resulting in a £23.5m release of the provision.

6 FINANCE INCOME/COSTS

	2020 £m	2019 (Restated) £m
Bank and other interest receivable	**8.6**	7.6
Other finance income	**5.9**	0.4
Pension net finance income (see note 11F)	**23.6**	25.8
Interest income of subleases	**5.9**	1.0
Finance income before adjusting items	**44.0**	34.8
Interest on bank borrowings	**–**	(0.6)
Interest payable on syndicated bank facility	**(2.3)**	(2.3)
Interest payable on Medium Term Notes	**(78.2)**	(77.4)
Interest payable on lease liabilities	**(139.3)**	(148.2)
Ineffectiveness on hedge accounting	**–**	(3.5)
Unwind of discount on provisions	**(4.9)**	(7.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(6.9)**	(8.8)
Finance costs before adjusting items	**(231.6)**	(248.7)
Net finance costs before adjusting items	**(187.6)**	(213.9)

Additional finance costs of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind and additional finance income of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur have been incurred and included within adjusting items as detailed in note 5.

7 INCOME TAX EXPENSE

A. Taxation charge

	2020 £m	2019 (Restated) £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	**42.8**	78.4
– adjustments in respect of prior years	**(4.1)**	(4.6)
UK current tax	**38.7**	73.8
Overseas current taxation		
– current year	**8.8**	8.9
– adjustments in respect of prior years	**(0.1)**	(0.8)
Total current taxation	**47.4**	81.9
Deferred tax		
– origination and reversal of temporary differences	**0.4**	(44.5)
– adjustments in respect of prior years	**(4.1)**	2.3
– changes in tax rate	**(3.9)**	(0.8)
Total deferred tax (see note 23)	**(7.6)**	(43.0)
Total income tax expense	**39.8**	38.9

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 59.3% (last year: 46.2%) and is explained below.

	2020 £m	2019 (Restated) £m
Profit before tax	**67.2**	84.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**12.8**	16.0
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**4.8**	1.1
Other income and expenses that are not taxable or allowable for tax purposes	**16.5**	15.1
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(6.6)**	(1.1)
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.8
Movement in unrecognised overseas deferred tax assets	**0.8**	(6.2)
Adjustments to the current and deferred tax charges in respect of prior periods	**(8.3)**	(3.1)
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**11.5**	10.6
– International store closures and impairments	**0.7**	0.8
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**5.0**	4.9
– Amortisation of intangible assets arising as a result of the investment in Ocado Retail Limited	**3.2**	–
Total income tax expense	**39.8**	38.9

The effective tax rate on profit before tax and adjusting items was 20.7% (last year: 20.7% (restated)).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.8m (last year: £12.6m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS purposes on 17 March 2020. Hence, the rate applicable from 1 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rate of 19%. The previously recognised deferred tax balances at 17% have now been recognised at 19% and this has resulted in the recognition of a deferred tax credit of £3.9m in the income statement and the recognition of a deferred tax charge of £20.6m in other comprehensive income.

7 INCOME TAX EXPENSE CONTINUED

C. Current tax reconciliation

The current tax reconciliation shows the tax effect of the main adjustments made to the Group's accounting profits in order to arrive at its taxable profits. The reconciling items differ from those in note 7B as the effects of deferred tax temporary differences are ignored below.

	2020 £m	2019 (Restated) £m
Profit before tax	**67.2**	84.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**12.8**	16.0
Disallowable accounting depreciation and other similar items	**52.5**	67.9
Deductible capital allowances	**(56.8)**	(59.4)
Adjustments in relation to employee share schemes	**2.3**	2.7
Adjustments in relation to employee pension schemes	**8.2**	10.7
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.8
Movement in unrecognised overseas deferred tax	**0.8**	(1.4)
Other income and expenses that are not taxable or allowable	**4.6**	4.6
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**21.0**	32.0
– International store closures and impairments	**0.5**	0.8
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**3.1**	12.6
– Amortisation of intangible assets arising as a result of the investment in Ocado Retail Limited	**3.2**	–
Current year current tax charge	**51.6**	87.3
Represented by:		
UK current year current tax	**42.8**	78.4
Overseas current year current tax	**8.8**	8.9
	51.6	87.3
UK adjustments in respect of prior years	**(4.1)**	(4.6)
Overseas adjustments in respect of prior years	**(0.1)**	(0.8)
Total current taxation (note 7A)	**47.4**	81.9

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 adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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

Basic and diluted earnings per share figures for the comparative periods have been restated and adjusted for the bonus factor of 1.04 to reflect the bonus element of the June 2019 rights issue, in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 30 March 2019 were 2.1p basic and diluted earnings per share and 25.4p basic and diluted underlying earnings per share.

8 EARNINGS PER SHARE CONTINUED

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

	2020 £m	2019 (Restated) £m
Profit attributable to equity shareholders of the Company	**23.7**	41.7
Add/(less) (net of tax):		
Strategic programmes – UK store estate	**30.5**	184.5
Strategic programmes – Organisation	**12.3**	(0.6)
Strategic programmes – Operational transformation	**9.9**	13.2
Strategic programmes – UK logistics	**8.4**	11.8
Strategic programmes – Changes to pay and pensions	**2.3**	5.1
Strategic programmes – International store closures and impairments	**2.2**	5.1
Strategic programmes – IT restructure	**0.3**	12.7
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	**132.8**	–
Store impairments and property charges	**68.8**	91.7
Goodwill impairment – per una	**13.4**	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	**10.2**	16.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	**16.8**	–
Establishing the investment in Ocado Retail Limited	**0.5**	3.4
Remeasurement of contingent consideration including discount unwind	**2.9**	–
Other	**(19.0)**	–
GMP and other pension equalisation	**–**	16.6
Profit before adjusting items attributable to equity shareholders of the Company	**316.0**	402.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,894.9**	1,698.1
Potentially dilutive share options under Group's share option schemes	**10.7**	3.8
Weighted average number of diluted ordinary shares	**1,905.6**	1,701.9

	Pence	Pence
Basic earnings per share	**1.3**	2.5
Diluted earnings per share	**1.2**	2.4
Adjusted basic earnings per share	**16.7**	23.7
Adjusted diluted earnings per share	**16.6**	23.6

9 DIVIDENDS

	2020 per share	2019 (Restated) per share	2020 £m	2019 (Restated) £m
Dividends on equity ordinary shares				
Paid final dividend	**6.8p**	11.4p	**115.1**	193.1
Paid interim dividend	**3.9p**	6.5p	**76.0**	110.4
	10.7p	17.9p	**191.1**	303.5

Dividend per share figures above have been restated to reflect the bonus element of the June 2019 rights issue.

As announced by the Group on 20 March 2020, the Board of Directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Board of Directors do not, at this stage, anticipate paying a dividend for 2020/21.

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including Operating Committee) were:

	2020 Total £m	2019 Total £m
Wages and salaries	**1,263.7**	1,293.2
Social security costs	**80.0**	85.0
Pension costs	**72.9**	77.4
Share-based payments (see note 13)	**18.5**	19.2
Employee welfare and other personnel costs	**51.8**	53.8
Capitalised staffing costs	**(22.5)**	(17.6)
Total aggregate remuneration[1]	**1,464.4**	1,511.0

1. Excludes amounts recognised within adjusting items of £23.1m (last year: £64.9m) which predominantly relate to wages and salaries (see notes 3 and 5).

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2020	2019
UK stores		
– management and supervisory categories	**5,278**	5,480
– other	**62,027**	63,957
UK head office		
– management and supervisory categories	**2,947**	2,968
– other	**764**	832
UK operations		
– management and supervisory categories	**115**	81
– other	**1,302**	1,066
Overseas	**5,598**	5,713
Total average number of employees	**78,031**	80,097

The average number of full-time equivalent employees is 53,988 (last year: 55,440).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a DB arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB pension scheme had no active members (last year: nil), 55,887 deferred members (last year: 58,079) and 52,165 pensioners (last year: 52,217).

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustees have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 12).

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 52,059 active members (last year: 53,536) and some 33,578 deferred members (last year: 26,709).

The Group also operates a small funded DB pension scheme in the Republic of Ireland. This scheme closed to future accrual on 31 October 2013. Other retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

The total Group retirement benefit cost was £49.2m (last year: £69.5m). Of this, income of £20.2m (last year: income of £4.5m) relates to the UK DB pension scheme, costs of £65.6m (last year: costs of £68.7m) to the UK DC plan and costs of £3.8m (last year: costs of £5.3m) to other retirement benefit schemes.

11 RETIREMENT BENEFITS CONTINUED

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

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

The Group is monitoring the impact of Covid-19 on the DB pension schemes. The DB pension schemes have not factored any impact of Covid-19 into the demographic assumptions. In the future, demographic assumptions may be updated for any material event (including, if relevant, Covid-19).

A. Pensions and other post-retirement liabilities

	2020 £m	2019 £m
Total market value of assets	**10,653.8**	10,224.7
Present value of scheme liabilities	**(8,743.3)**	(9,301.3)
Net funded pension plan asset	**1,910.5**	923.4
Unfunded retirement benefits	**(3.9)**	(3.5)
Post-retirement healthcare	**(4.0)**	(5.6)
Net retirement benefit surplus	**1,902.6**	914.3
Analysed in the statement of financial position as:		
Retirement benefit asset	**1,915.0**	931.5
Retirement benefit deficit	**(12.4)**	(17.2)
Net retirement benefit surplus	**1,902.6**	914.3

In the event of a plan wind-up, the pension scheme rules provide M&S with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up or change the benefits due to members of the scheme. As a result, any net surplus in the UK DB pension scheme is recognised in full.

B. Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 Employee Benefits in order to assess the liabilities of the schemes and are as follows:

	2020 %	2019 %
Rate of increase in pensions in payment for service	**1.9–2.7**	2.1–3.3
Discount rate	**2.40**	2.45
Inflation rate for RPI	**2.70**	3.25
Long-term healthcare cost increases	**6.70**	7.25

C. Demographic assumptions

The UK demographic assumptions are mainly in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2018. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2018. The specific mortality rates used are based on the VITA lite tables, with future projections based on up-to-date industry models, parameterised to reflect scheme data. The life expectancies underlying the valuation are as follows:

		2020	2019
Current pensioners (at age 65)	– male	**22.2**	22.0
	– female	**24.9**	24.9
Future pensioners – currently in deferred status (at age 65)	– male	**24.0**	23.8
	– female	**26.8**	26.7

11 RETIREMENT BENEFITS CONTINUED

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the UK DB pension scheme surplus:

	2020 £m	2019 £m
Increase/(decrease) in scheme surplus caused by a decrease in the discount rate of 0.25%	**50.0**	(70.0)
Increase in scheme surplus caused by a decrease in the discount rate of 0.50%	**100.0**	N/A
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(50.0)**	(25.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	**(100.0)**	N/A
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**240.0**	315.0

The discount rate sensitivity is comparable to the sensitivity quoted last year end. However, the sign has changed from a reduction in surplus to an increase in surplus, as the IAS19 over-hedge on gilt yields has increased materially over the year. Consequently, assets are now projected to grow by more than liabilities in this scenario, whereas last year assets were projected to grow by less than liabilities.

Given changes in inflation and discount rate assumptions over the past year, the range of reasonably possible outcomes has been updated to reflect this.

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 106% of interest rate movements and 106% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

By funding its DB pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed – for example, due to advances in healthcare. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities – for example, through early retirement or commutation of pension for cash.
- Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Group is exposed to additional risks through its obligation to the UK DB pension scheme via its interest in the Scottish Limited Partnership (see note 12). In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Group.

11 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets continued

The fair value of the total plan assets at the end of the reporting period for each category is as follows:

	2020			2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government bonds net of repurchase agreements[1]	**3,596.8**	**352.0**	**3,948.8**	4,373.9	367.2	4,741.1
– Corporate bonds	**6.2**	**728.3**	**734.5**	6.1	731.8	737.9
– Asset-backed securities and structured debt	**–**	**264.4**	**264.4**	–	296.6	296.6
Scottish Limited Partnership Interest (see note 12)	**–**	**211.2**	**211.2**	–	278.5	278.5
Equity investments						
– Developed markets	**338.7**	**56.6**	**395.3**	398.0	57.9	455.9
– Emerging markets	**90.3**	**–**	**90.3**	103.7	–	103.7
Growth asset funds						
– Global property	**5.8**	**291.4**	**297.2**	–	328.4	328.4
– Hedge and reinsurance	**32.6**	**385.1**	**417.7**	24.3	412.4	436.7
– Private equity and infrastructure	**–**	**175.4**	**175.4**	–	223.3	223.3
Derivatives						
– Interest and inflation rate swaps	**19.9**	**253.7**	**273.6**	15.9	148.4	164.3
– Foreign exchange contracts and other derivatives	**(0.4)**	**162.4**	**162.0**	0.1	127.5	127.6
Cash and cash equivalents	**108.1**	**181.8**	**289.9**	51.1	122.2	173.3
Other						
– Buy-in insurance	**–**	**2,430.0**	**2,430.0**	–	1,273.7	1,273.7
– Secure income asset funds	**–**	**934.6**	**934.6**	–	842.2	842.2
– Other	**28.8**	**0.1**	**28.9**	41.5	–	41.5
	4,226.8	**6,427.0**	**10,653.8**	5,014.6	5,210.1	10,224.7

1. Repurchase agreements were £820.5m (last year: £1,025.1m).

The fair values of the above equity and debt investments are based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. Property includes both quoted and unquoted investments. The fair value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the scheme to hedge a proportion of interest rate and inflation risk. The scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 63,527 (last year: 41,841) ordinary shares in the Company through its investment in UK Equity Index Funds.

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of defined benefit retirement plans are as follows:

	2020 £m	2019 £m
Current service cost	**0.2**	0.2
Administration costs	**4.5**	3.9
Past service costs	**–**	18.0
Net interest income	**(23.6)**	(25.8)
Total	**(18.9)**	(3.7)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**(477.3)**	(283.8)
Actuarial loss/(gain) – demographic assumptions	**10.0**	(90.2)
Actuarial (gain)/loss – experience	**(46.1)**	19.2
Actuarial (gain)/loss – financial assumptions	**(414.5)**	434.7
Components of defined benefit (income)/expense recognised in other comprehensive income	**(927.9)**	79.9

G. Scheme assets

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

	2020 £m	2019 £m
Fair value of scheme assets at start of year	**10,224.7**	9,989.3
Interest income based on discount rate	**245.4**	259.5
Actual return on scheme assets excluding amounts included in net interest income[1]	**477.3**	283.8
Employer contributions	**41.8**	42.0
Benefits paid	**(333.2)**	(346.2)
Administration costs	**(4.3)**	(3.7)
Exchange movement	**2.1**	–
Fair value of scheme assets at end of year	**10,653.8**	10,224.7

1. The actual return on scheme assets was a gain of £722.7m (last year: gain of £543.3m).

H. Pensions and other post-retirement liabilities

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

	2020 £m	2019 £m
Present value of obligation at start of year	**9,310.4**	9,041.1
Current service cost	**0.2**	0.2
Administration costs	**0.2**	0.2
Past service cost	**–**	18.0
Interest cost	**221.8**	233.7
Benefits paid	**(333.2)**	(346.2)
Actuarial (gain)/loss – experience	**(46.1)**	19.2
Actuarial loss/(gain) – demographic assumptions	**10.0**	(90.2)
Actuarial (gain)/loss – financial assumptions	**(414.5)**	434.7
Exchange movement	**2.4**	(0.3)
Present value of obligation at end of year	**8,751.2**	9,310.4
Analysed as:		
Present value of pension scheme liabilities	**8,743.3**	9,301.3
Unfunded pension plans	**3.9**	3.5
Post-retirement healthcare	**4.0**	5.6
Present value of obligation at end of year	**8,751.2**	9,310.4

The average duration of the defined benefit obligation at 28 March 2020 is 19 years (last year: 19 years).

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the "Partnership"). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and, as such, the Partnership is consolidated into the results of the Group.

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

The partnership liability in relation to the first interest of £207.4m (last year: £272.4m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Group's financial statements as it is a transferable financial instrument. During the year to 28 March 2020, an interest charge of £6.9m (last year: £8.8m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets, valued at £211.2m (last year: £278.5m).

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

13 SHARE-BASED PAYMENTS

This year, a charge of £18.5m was recognised for share-based payments (last year: charge of £19.2m). Of the total share-based payments charge, £7.6m (last year: £9.2m) relates to the Save As You Earn share option scheme and a charge of £4.9m (last year: £4.1m) relates to the Performance Share Plan. The remaining charge of £6.0m (last year: £5.9m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn scheme

The Save As You Earn (SAYE) scheme was approved by shareholders for a further 10 years at the 2017 Annual General Meeting (AGM). 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 Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC-approved schemes. 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.

	2020		2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**38,023,501**	**267.9p**	43,731,657	285.4p
Granted[1]	**34,087,655**	**237.6p**	10,337,468	247.0p
Exercised	**(49,610)**	**250.2p**	(241,813)	260.1p
Forfeited	**(15,727,568)**	**237.9p**	(10,455,905)	274.0p
Expired	**(3,194,037)**	**380.2p**	(5,347,906)	358.7p
Outstanding at end of year	**53,139,941**	**190.7p**	38,023,501	267.9p
Exercisable at end of year	**11,272,515**	**249.6p**	2,542,320	421.0p

1. The number of shares granted in the year ended 28 March 2020 includes 1,413,958 shares granted for the rights issue which completed in June 2019.

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 265.7p (last year: 290.8p).

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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:

	2020 Three-year plan	2019 Three-year plan
Grant date	**Dec 19**	Nov 18
Share price at grant date	**189p**	309p
Exercise price	**151p**	247p
Option life in years	**3 years**	3 years
Risk-free rate	**0.5%**	0.8%
Expected volatility	**27.6%**	27.9%
Expected dividend yield	**5.7%**	6.1%
Fair value of option	**33p**	54p

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: 10%) of options will lapse over the service period as employees leave the Group.

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	**2020**	2019	**2020**	2019	Option price[2]
January 2016	**3,720**	2,436,408	**–**	0.3	416p
January 2017	**11,344,003**	17,140,666	**0.3**	1.3	250p
January 2018	**5,557,053**	8,711,023	**1.3**	2.3	251p
January 2019	**4,910,783**	9,735,404	**2.3**	3.3	238p
February 2020	**31,324,382**	–	**3.3**	–	151p
	53,139,941	38,023,501	**2.4**	1.9	191p

1. For the purpose of the above table the option granted date is the contract start date.
2. The option price for the SAYE schemes for January 2016, January 2017, January 2018 and January 2019 have been adjusted downwards to reflect the impact of the rights issue which completed in June 2019.

*B. Performance Share Plan**

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 170 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2019/20 included earnings per share (EPS), return on capital employed (ROCE), and total shareholder return (TSR). The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Further details are set out in the Remuneration Report. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report.

During the year, 12,924,621 shares (last year: 8,006,094) were awarded under the plan. The weighted average fair value of the shares awarded was 161.0p (last year: 264.2p). As at 28 March 2020, 20,502,705 shares (last year: 17,296,405) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

*C. Deferred Share Bonus Plan**

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme. It is now operated for approximately 40 of the most senior managers within the Group. As part of the plan, 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 within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 28 March 2020, 1,359,166 shares (last year: 2,595,337) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

13 SHARE-BASED PAYMENTS CONTINUED

*D. Restricted Share Plan**

The Restricted Share Plan (RSP) 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 the senior management team. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, 3,645,421 shares (last year: 1,710,368) have been awarded under the plan. The weighted average fair value of the shares awarded was 150.0p (last year: 295.2p). As at 28 March 2020, 4,896,084 shares (last year: 2,364,783) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue which completed in June 2019.

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 10-year period, after approval by shareholders at the 2009 AGM and again at the 2019 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 to that allowed within the UK scheme. 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.

During the year, 327,689 options (last year: 169,422) were granted, at a fair value of 33.4p (last year: 53.6p). As at 28 March 2020, 790,977 options (last year: 672,203) were outstanding under the scheme. The number of options granted in January 2016, January 2017, January 2018 and January 2019 have been adjusted upwards to reflect the impact of the rights issue which completed in June 2019.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 1,557,996 (last year: 1,712,922) shares with a book value of £3.4m (last year: £5.1m) and a market value of £1.5m (last year: £4.8m). 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. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under the senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

ShareBuy, the Company's Share Incentive Plan, enables the participants to buy shares directly from their gross salary. This scheme does not attract an IFRS 2 charge.

* All awards both this year and last year were conditional shares. 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.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 31 March 2018					
Cost	136.4	112.3	1,400.0	65.6	1,714.3
Accumulated amortisation and impairments	(59.0)	(104.2)	(928.1)	(23.8)	(1,115.1)
Net book value	77.4	8.1	471.9	41.8	599.2
Year ended 30 March 2019					
Opening net book value	77.4	8.1	471.9	41.8	599.2
Additions	–	–	10.3	84.8	95.1
Transfers and reclassifications	–	–	81.0	(75.7)	5.3
Asset write-offs	–	–	(5.9)	(8.4)	(14.3)
Amortisation charge	–	(5.3)	(179.1)	–	(184.4)
Exchange difference	0.1	–	(1.1)	–	(1.0)
Closing net book value	77.5	2.8	377.1	42.5	499.9
At 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation, impairments and write-offs	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9
Year ended 28 March 2020					
Opening net book value	**77.5**	**2.8**	**377.1**	**42.5**	**499.9**
Additions	**–**	**–**	**1.1**	**76.5**	**77.6**
Transfers and reclassifications	**–**	**–**	**91.8**	**(91.4)**	**0.4**
Asset impairments	**(13.4)**	**–**	**–**	**–**	**(13.4)**
Asset write-offs	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Amortisation charge	**–**	**(2.8)**	**(162.0)**	**–**	**(164.8)**
Exchange difference	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Closing net book value	**64.0**	**–**	**307.5**	**27.6**	**399.1**
At 28 March 2020					
Cost	**136.4**	**112.3**	**1,495.1**	**59.7**	**1,803.5**
Accumulated amortisation and impairments and write-offs	**(72.4)**	**(112.3)**	**(1,187.6)**	**(32.1)**	**(1,404.4)**
Net book value	**64.0**	**–**	**307.5**	**27.6**	**399.1**

Goodwill related to the following assets and groups of Cash-Generating Units (CGUs):

	per una £m	India £m	Other £m	Total goodwill £m
Net book value at 30 March 2019	**69.5**	**7.3**	**0.7**	**77.5**
Asset impairments	**(13.4)**	**–**	**–**	**(13.4)**
Exchange difference	**–**	**(0.1)**	**–**	**(0.1)**
Net book value at 28 March 2020	**56.1**	**7.2**	**0.7**	**64.0**

14 INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations.

Goodwill for India is monitored by management at a country level, including the combined retail and wholesale businesses, and has been tested for impairment on that basis.

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m, and is held at a net book value of £nil (last year: £2.8m). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. The Board-approved Budget and Three-Year Plan reflect a more conservative view of the short-term future performance of the per una assets and the Board-approved Covid-19 scenario further significantly reduces sales and profits in 2020/21. A proportion of UK Clothing & Home operating costs are allocated to per una based on the sales mix.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 0.7%, which is a reduction from the overall Group long term growth rate of 2%, reflecting the risk associated with the early stage of the relaunch of the per una brand and the potential impact of the Covid-19 pandemic. This is lower than the long-term growth rate used in the prior year (2.3%). The Group's current view of achievable long-term growth for India is 5.9%.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 9.7% for per una (last year: 9.1%) which reflects the additional risk of Covid-19 as at 28 March 2020 and 14.3% for India (last year: 17.3%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions, both individually and in combination. Management has considered reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for each asset.

For India, there is no reasonably possible change in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

per una

The future cash flows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years; however, adjustments have been made to reflect the impact of Covid-19 on the Clothing & Home business and the proximity of the brand relaunch to the disruption caused by Covid-19. The plan assumes a sales decrease of 46.4% in 2020/21 (reflecting the Covid-19 scenario of 70% decline in Clothing & Home sales compared with budget in the four months to July 2020, followed by a slow recovery back to budget by February 2021), followed by a significant increase in sales in 2021/22 of 82.6% (returning to the original levels planned for the year) and a 0.7% increase in 2022/23. The success of these plans will determine the strategic role of the brand within the Group.

The outcome of the value in use calculation is an impairment of £13.4m.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Neither a 50 basis point increase in the WACC rate nor a reduction in the perpetuity growth rate to 0% would cause a significant increase in the impairment charge. A 20% reduction in operating profit over the whole three-year plan period would cause an £11.2m increase in impairment and in combination, these reasonably possible changes in the key assumptions would cause an increase of £17.0m in the impairment charge.

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £5,494.2m (last year: £5,662.3m) consists of owned assets of £3,863.9m (last year: £3,986.9m) and right-of-use assets of £1,630.3m (last year: £1,675.4m).

PROPERTY, PLANT AND EQUIPMENT – OWNED

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2018				
Cost	2,932.5	7,003.4	96.8	10,032.7
Accumulated depreciation, impairments and write-offs	(532.2)	(5,102.2)	(18.0)	(5,652.4)
Net book value	2,400.3	1,901.2	78.8	4,380.3
Year ended 30 March 2019				
Opening net book value	2,400.3	1,901.2	78.8	4,380.3
Additions	0.9	30.9	170.1	201.9
Transfers and reclassifications	(7.8)	166.7	(168.8)	(9.9)
Disposals	(2.5)	(0.4)	–	(2.9)
Asset impairments	(18.6)	(74.6)	–	(93.2)
Asset write-offs	(35.3)	(8.6)	–	(43.9)
Depreciation charge	(85.5)	(356.1)	–	(441.6)
Exchange difference	(2.7)	(1.1)	–	(3.8)
Closing net book value	2,248.8	1,658.0	80.1	3,986.9
At 30 March 2019				
Cost	2,885.9	5,673.6	98.1	8,657.6
Accumulated depreciation, impairments and write-offs	(637.1)	(4,015.6)	(18.0)	(4,670.7)
Net book value	2,248.8	1,658.0	80.1	3,986.9
Year ended 28 March 2020				
Opening net book value	**2,248.8**	**1,658.0**	**80.1**	**3,986.9**
Additions	**2.1**	**27.7**	**244.9**	**274.7**
Transfers and reclassifications	**22.2**	**183.6**	**(205.0)**	**0.8**
Asset impairments	**(48.2)**	**(20.3)**	**–**	**(68.5)**
Asset write-offs	**(1.8)**	**(7.1)**	**–**	**(8.9)**
Depreciation charge	**(62.0)**	**(267.2)**	**–**	**(329.2)**
Exchange difference	**6.3**	**1.8**	**–**	**8.1**
Closing net book value	**2,167.4**	**1,576.5**	**120.0**	**3,863.9**
At 28 March 2020				
Cost	**2,887.5**	**5,457.1**	**138.0**	**8,482.6**
Accumulated depreciation, impairments and write-offs	**(720.1)**	**(3,880.6)**	**(18.0)**	**(4,618.7)**
Net book value	**2,167.4**	**1,576.5**	**120.0**	**3,863.9**

Asset write-offs in the year include assets with gross book value of £680.5m (last year: £1,467.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

Right-of-use assets

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 29 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 31 March 2018	1,762.5	46.8	1,809.3
Additions	187.1	1.3	188.4
Transfers and reclassifications	4.6	–	4.6
Disposals	(68.6)	–	(68.6)
Right-of-use asset impairments	(93.2)	–	(93.2)
Depreciation charge	(153.2)	(10.5)	(163.7)
Exchange difference	(1.4)	–	(1.4)
As at 30 March 2019	**1,637.8**	**37.6**	**1,675.4**
Additions	**140.3**	**40.4**	**180.7**
Transfers and reclassifications	**0.2**	**(0.2)**	**–**
Disposals	**(18.9)**	**–**	**(18.9)**
Right-of-use asset impairments	**(34.2)**	**–**	**(34.2)**
Depreciation charge	**(155.9)**	**(18.7)**	**(174.6)**
Exchange difference	**1.8**	**0.1**	**1.9**
As at 28 March 2020	**1,571.1**	**59.2**	**1,630.3**

Impairment of property, plant and equipment and right-of-use assets

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of Outlets stores, which are considered together as one CGU. Click & Collect sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 12% to 17% (last year: 9% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their 'value in use' recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2%. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £72.7m and a 20 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.1m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their 'value in use' recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £36.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £22.9m. Neither a 50 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year, the Group has recognised an impairment charge of £9.0m in Ireland and £0.2m in the Czech Republic as a result of store impairment testing (last year: £nil).

For Irish and Czech Republic stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 14.1% (last year: 10.4%) and for Czech Republic stores is 12.4% (last year: 10.7%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

For Irish stores, a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £6.5m. Reasonably possible changes in other key assumptions, including a 20 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a significant increase to the impairment charge. Reasonably possible changes in key assumptions for Czech Republic stores do not lead to a significant increase in the impairment charge.

16 OTHER FINANCIAL ASSETS

	2020 £m	2019 £m
Non-current		
Unlisted investments	**9.7**	9.9
Current		
Short-term investments[1]	**11.7**	141.8

1. Includes £5.8m (last year: £5.0m) of money market deposits held by the Marks and Spencer plc in an escrow account.

Upon transition to IFRS 9, non-current unlisted investments were irrevocably designated as fair value through other comprehensive income. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 (Restated) £m
Non-current		
Trade receivables	**0.2**	0.1
Lease receivables – net	**69.2**	72.3
Other receivables	**2.2**	2.0
Prepayments	**191.0**	198.6
	262.6	273.0
Current		
Trade receivables	**150.8**	121.8
Less: provision for impairment of receivables	**(4.0)**	(3.2)
Trade receivables – net	**146.8**	118.6
Lease receivables – net	**0.1**	0.2
Other receivables	**41.0**	30.5
Prepayments	**84.8**	89.6
Accrued income	**25.3**	28.3
	298.0	267.2

The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit loss (see note 21). Included in accrued income is £17.4m (last year: £21.9m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

The maturity analysis of the Group's lease receivables is as follows:

	2020 £m	2019 £m
Timing of cash flows		
Within one year	**7.1**	1.2
Between one and two years	**4.7**	3.5
Between two and three years	**4.7**	4.8
Between three and four years	**4.7**	4.8
Between four and five years	**4.7**	4.8
More than five years	**135.0**	144.5
Total undiscounted cash flows	**160.9**	163.6
Effect of discounting	**(86.9)**	(91.1)
Present value of lease payments receivable	**74.0**	72.5
Less: provision for impairment of receivables	**(4.7)**	–
Net investment in the lease	**69.3**	72.5

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £248.4m (last year: £285.4m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.42% (last year: 0.74%). These deposits have an average maturity of 3 days (last year: 9 days).

19 TRADE AND OTHER PAYABLES

	2020 £m	2019 (Restated) £m
Current		
Trade and other payables	**943.2**	904.2
Social security and other taxes	**64.4**	43.7
Accruals	**379.3**	442.4
Deferred income	**39.5**	34.1
	1,426.4	1,424.4
Non-current		
Other payables	**206.6**	3.0
Deferred income	**16.0**	12.6
	222.6	15.6

Included within non-current other payables is £202.4m (last year: £nil) of contingent consideration relating to the investment in Ocado Retail Limited. See note 30 for further details.

A contract liability arises in respect of gift cards and voucher schemes as payment has been received for a performance obligation which will be performed at a later point in time. Included within trade and other payables are gift card/voucher scheme liabilities:

	2020 £m	2019 £m
Opening balance	**186.9**	199.4
Issues	**423.8**	413.6
Released to the income statement	**(429.9)**	(426.1)
Closing balance	**180.8**	186.9

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. This is a form of reverse factoring which has the objective of serving the Group's suppliers by giving them early access to funding. The Group settles these amounts in accordance with each supplier's agreed payment terms.

The Group's trade payables balance includes £215.6m (last year: £200.0m) relating to payments due to M&S suppliers under these arrangements. The substance of the contractual terms of the arrangements do not differ to those under the original contract and therefore the Group considers the amounts owed to the finance provider are akin to amounts owed to the supplier. During the year ended 28 March 2020, the arrangements were used by 157 suppliers (last year: 183 suppliers), with a maximum facility available of £299.0m (last year: £381.0m).

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2020 £m	2019 (Restated) £m
Current		
Bank loans and overdrafts	**84.3**	72.3
Lease liabilities	**197.2**	181.6
6.125% £400m Medium Term Notes 2019[1]	**–**	399.8
Interest accrued on Medium Term Notes	**35.1**	37.0
Revaluation of Medium Term Notes[6]	**–**	3.7
	316.6	694.4
Non-current		
6.125% £300m Medium Term Notes 2021[1]	**299.2**	298.7
3.00% £300m Medium Term Notes 2023[1]	**298.0**	297.4
4.75% £400m Medium Term Notes 2025[1,5]	**399.4**	399.3
3.25% £250m Medium Term Notes 2027[1,4]	**247.6**	–
7.125% US$300m Medium Term Notes 2037[2,3]	**192.1**	192.1
Revaluation of Medium Term Notes[6]	**64.8**	45.8
Lease liabilities	**2,364.8**	2,395.2
	3,865.9	3,628.5
Total	**4,182.5**	4,322.9

1. These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.
2. Interest on these bonds is payable semi-annually.
3. US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
4. In July 2019, a £250m 3.25% Medium Term Note was issued which matures in July 2027.
5. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £175m (last year: £375m) was swapped from fixed to floating rate.
6. Revaluation consists of fair value hedge adjustment of £13.6m (last year: £13.8m) and foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £50.8m (last year: £35.6m).

Leases

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 29 for the accounting policy and restatements respectively. The lease liabilities recognised on adoption of the new leasing standard are reflected in borrowings.

The Group also has certain leases with lease terms of 12 months or less and leases of assets with low values. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

Set out below are the carrying amounts of lease liabilities and the movements during the period.

	2020 £m	2019 (Restated) £m
Opening lease liabilities	**2,576.8**	2,589.9
Additions	**204.1**	150.4
Interest expense relating to lease liabilities	**141.3**	148.2
Payments	**(335.7)**	(312.7)
Disposals	**(25.7)**	–
Exchange difference	**1.2**	1.0
	2,562.0	2,576.8
Current	**197.2**	181.6
Non-current	**2,364.8**	2,395.2

The maturity analysis of lease liabilities are disclosed in note 21 (a).

The following amounts were recognised in profit or loss:

	2020 £m	2019 (Restated) £m
Expenses relating to short-term leases	**1.0**	0.2
Expenses relating to low-value assets	**2.4**	4.1
Expenses relating to variable consideration	**6.0**	4.6

FINANCIAL STATEMENTS

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 swaps, cross-currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign 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.

Financial risk management

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

(a) Liquidity and funding risk

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

- The Group's funding strategy ensures a mix of funding sources offering sufficient headroom, maturity and flexibility, and cost-effectiveness to match the requirements of the Group.
- Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, Medium Term Notes and committed syndicated bank facilities.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. The facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually. The Group was not in breach of this covenant at the reporting date.

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax or remove the covenant conditions for the tests arising in September 2020, March 2021, and September 2021.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £50m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (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 £1.3bn (last year: £1.4bn) was in issuance as at the balance sheet date.

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited.

21 FINANCIAL INSTRUMENTS CONTINUED

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables of £1,529.1m (last year: £1,349.6m) (see note 19) and derivatives is as follows:

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities (Restated) £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities (Restated) £m	Cash inflow on derivatives[1] £m	Cash outflow on derivatives[1] £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(72.3)	(487.2)	(312.2)	(71.9)	(943.6)	1,591.0	(1,564.6)	26.4
Between one and two years	–	(62.7)	(320.4)	(71.9)	(455.0)	228.6	(217.0)	11.6
Between two and five years	–	(751.3)	(846.4)	(143.6)	(1,741.3)	282.4	(241.4)	41.0
More than five years	–	(895.5)	(3,814.7)	–	(4,710.2)	230.8	(191.5)	39.3
	(72.3)	(2,196.7)	(5,293.7)	(287.4)	(7,850.1)	2,332.8	(2,214.5)	118.3
Effect of discounting	–	572.4	2,716.9	15.0	3,304.3			
At 30 March 2019	(72.3)	(1,624.3)	(2,576.8)	(272.4)	(4,545.8)			
Timing of cash flows								
Within one year	**(84.3)**	**(71.9)**	**(340.2)**	**(71.9)**	**(568.3)**	**1,972.0**	**(1,898.0)**	**74.0**
Between one and two years	**–**	**(371.9)**	**(329.4)**	**(71.9)**	**(773.2)**	**183.5**	**(167.2)**	**16.3**
Between two and five years	**–**	**(451.6)**	**(834.2)**	**(71.9)**	**(1,357.7)**	**296.8**	**(238.4)**	**58.4**
More than five years	**–**	**(1,164.0)**	**(3,674.2)**	**–**	**(4,838.2)**	**235.3**	**(188.3)**	**47.0**
Total undiscounted cash flows	**(84.3)**	**(2,059.4)**	**(5,178.0)**	**(215.7)**	**(7,537.4)**	**2,687.6**	**(2,491.9)**	**195.7**
Effect of discounting	**–**	**523.2**	**2,616.0**	**8.3**	**3,147.5**			
At 28 March 2020	**(84.3)**	**(1,536.2)**	**(2,562.0)**	**(207.4)**	**(4,389.9)**			

1. Derivative cash flows are disclosed on a gross basis and comparative amounts have been adjusted to reflect this.

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through the default or non-performance of the counterparties with whom it transacts.

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (S&P)/Moody's A-/A3 (BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different from the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower agency rating will prevail. 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.

The below credit ratings are at the reporting date. Senior management performs a daily review of all counterparty positions and as of May 2020 there have been no breaches to any counterparty limits.

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								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	–	–	–	16.4	168.3	83.9	–	0.7	269.3
Net derivative assets[2]	–	–	–	16.9	21.0	11.8	–	0.3	50.0
At 30 March 2019	–	–	–	33.3	189.3	95.7	–	1.0	319.3
	AAA £m	**AA+ £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Short term investments[1]	**–**	**–**	**–**	**42.4**	**59.4**	**15.7**	**–**	**3.6**	**121.1**
Net derivative assets[2]	**–**	**–**	**–**	**79.2**	**66.2**	**26.8**	**–**	**–**	**172.2**
At 28 March 2020	**–**	**–**	**–**	**121.6**	**125.6**	**42.5**	**–**	**3.6**	**293.3**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit £139.0m (last year: £157.9m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £150.8m (last year: £121.8m), lease receivables £69.3m (last year: £72.5m), other receivables £43.2m (last year: £32.5m), cash and cash equivalents £248.4m (last year: £285.4m) and derivatives £172.2m (last year: £50.0m).

Impairment of financial assets

The credit risk management practices of the Group include internal review and reporting of the ageing of trade and other receivables by days past due by a centralised accounts receivable function, and grouped by respective contractual revenue stream, along with liaison with the debtors by the credit control function.

The Group applies the IFRS 9 simplified approach in measuring expected credit losses which use a lifetime expected credit loss allowance for all trade receivables and lease receivables.

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry, as well as by geographical location and days past due. In addition to the expected credit losses calculated using a provision matrix, the Group may provide additional provision for the receivables of particular customers if the deterioration of financial position was observed.

The expected loss rates are determined based on the average write-offs as a proportion of average debt over a period of 36 months prior to the reporting date. The historical loss rates are adjusted for current and forward-looking information where significant. The Group considers GDP growth, unemployment, sales growth and bankruptcy rates of the countries in which goods are sold to be the most relevant factors and, where the impact of these is significant, adjusts the historical loss rates based on expected changes in these factors.

The forward-looking macro-economic data incorporated into the UK and International calculations represented the best available relevant information at the reporting date. This resulted in increased provisions for the financial year by £0.9m to reflect a lower expected recovery of trade receivables.

Historical experience has indicated that debts aged 180 days or over are generally not recoverable. The Group has incorporated this into the expected loss model through a uniform loss rate for ageing buckets below 180 days dependent on the revenue stream and country and providing for 100% of debt aged over 180 days past due. Where the Group specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include the failure of the debtor to engage in a payment plan, and failure to make contractual payments within 180 days past due.

21 FINANCIAL INSTRUMENTS CONTINUED

Impairment losses on trade receivables are presented as net impairment losses within operating profit and subsequent recoveries are credited to the same line item.

As at 30 March 2019	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount – trade receivables	111.9	3.9	0.8	1.6	1.7	1.9	121.8
Expected loss rate	0.51%	2.69%	6.49%	11.34%	20.41%	100.0%	2.62%
Lifetime expected credit loss	0.5	0.1	0.1	0.2	0.4	1.9	3.2
Net carrying amount	111.4	3.8	0.7	1.4	1.3	–	118.6

As at 28 March 2020	**Current £m**	**Up to 30 days past due £m**	**31-60 days past due £m**	**61-90 days past due £m**	**91-180 days past due £m**	**181 days or more past due £m**	**Total £m**
Gross carrying amount – trade receivables	**127.7**	**19.6**	**1.7**	**0.4**	**0.5**	**0.9**	**150.8**
Expected loss rate	**1.59%**	**2.63%**	**24.60%**	**3.75%**	**29.22%**	**100.0%**	**2.67%**
Lifetime expected credit loss	**2.0**	**0.5**	**0.4**	**–**	**0.2**	**0.9**	**4.0**
Net carrying amount	**125.7**	**19.1**	**1.3**	**0.4**	**0.3**	**–**	**146.8**

The closing loss allowances for trade receivables reconciles to the opening loss allowances as follows:

Trade receivables expected loss provision	**2020 £m**	2019 £m
Opening loss allowance as at 31 March 2019	**3.2**	1.0
Increase in loss allowance recognised in profit and loss during the year	**0.9**	2.4
Receivables written off during the year as uncollectable	**(0.1)**	(0.2)
Closing loss allowance as at 28 March 2020	**4.0**	3.2

The closing loss allowances for lease receivables reconciles to the opening loss allowances as follows:

Lease receivables expected loss provision	**2020 £m**	2019 £m
Opening loss allowance as at 31 March 2019	**–**	–
Increase in loss allowance recognised in profit and loss during the year	**4.7**	–
Receivables written off during the year as uncollectable	**–**	–
Closing loss allowance as at 28 March 2020	**4.7**	–

The provision for other receivables is highly immaterial (it can be quantified) and therefore no disclosure is provided.

(c) Foreign currency risk

Transactional foreign currency exposure arises primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar, incurred in the sourcing of Clothing & Home products from Asia.

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 15 months ahead of the start of the season, with between 80% and 100% of the risk hedged nine months before the start of the season.

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,872.9m (last year: £1,755.6m) with a weighted average maturity date of 11 months (last year: seven months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 28 March 2020 will be reclassified to the income statement at various dates over the following 18 months (last year: 17 months) from the balance sheet date.

21 FINANCIAL INSTRUMENTS CONTINUED

The foreign exchange forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is deferred in equity and subsequently either reclassified to profit or loss or removed from equity and included in the initial cost of inventory as part of the "basis adjustment". This will be realised in the income statement once the hedged item is sold.

As a result of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures, the Group has reviewed the FX hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the income statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group's treasury policy, hedges are entered into by business line and by season. At the time of reporting, management had identified over-hedging in Clothing & Home stock purchases resulting in a gain of £2.9m in profit and loss this financial year.

The foreign exchange forwards are recognised at fair value. The Group has considered and elected not to apply credit/debit valuation adjustments, owing to their relatively short dated nature. The risks at the reporting date are representative of the financial year.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges. The change in the fair value of the hedging instrument, to the degree effective, is retained in other comprehensive income, segregated by cost and effect of hedging. Under IFRS 9, the currency basis on the cross-currency swaps are excluded from the hedge designation and recognised in other comprehensive income – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result. In order to more closely align the hedging instrument with the original hypothetical the Group successfully renegotiated the cross-currency swaps portfolio during the year, receiving £7.7m cash settlement from the counterparty banks, and increasing the average pay fixed GBP leg from 7.3% to 7.5%.

The cross-currency swaps are recognised at fair value. The inclusion of credit risk on cross-currency swaps will cause ineffectiveness of the hedge relationship. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature.

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 fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £3.4m gain (last year: £3.9m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £157.0m (last year: £129.0m).

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, is set out below:

	2020			2019		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	(restated) Total £m
Currency						
Sterling	**3,672.2**	**274.4**	**3,946.6**	3,646.4	447.2	4,093.6
Euro	**109.8**	**–**	**109.8**	110.9	–	110.9
Other	**126.1**	**–**	**126.1**	118.4	–	118.4
	3,908.1	**274.4**	**4,182.5**	3,875.7	447.2	4,322.9

The floating rate sterling borrowings are linked to interest rates related to LIBOR, mainly for periods of six months.

As at the balance sheet date and excluding lease liabilities, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 4.8% (last year: 4.8%) and the weighted average time for which the rate is fixed is six years (last year: five years).

There were no significant changes in hedge accounting when compared with the prior year.

21 FINANCIAL INSTRUMENTS CONTINUED

(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 £3,908.1m (last year: £3,875.7m) representing the public bond issues and lease liabilities, amounting to 93% (last year: 90%) of the Group's gross borrowings.

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

	2020 %	2019 %
Committed and uncommitted borrowings	**N/A**	N/A
Medium Term Notes	**4.6%**	4.8%
Leases	**5.5%**	5.6%

The interest rate swaps are recognised at fair value. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six-monthly compared with 12-monthly on the receive fixed legs and related debt. This will cause ineffectiveness of the hedging relationship.

The Group is exposed to GBP LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has identified where LIBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The Group aims to have its transition and fallback plans in place by the end of 2020.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks with the aim of implementing this language into its ISDA agreements.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	**Instrument type**	**Maturing in**	**Nominal**	**Hedged item**
Fair value hedge	Pay six-month GBP LIBOR, receive sterling fixed interest rate swaps	2025	£175m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

The below table illustrates the effects of hedge accounting on the consolidated statement of financial position and consolidated income statement through detailing separately by risk category and each type of hedge the details of the associated hedging instrument and hedged item.

	30 March 2019					
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,423.6	129.0	200.0	193.5	203.0	175.0
Carrying amount assets/(liabilities)	27.4	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%	100%	100%	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[1]	95.9	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness	(95.9)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3%	GBP/EUR 1.12, GBP/USD 1.32	3.2%
Amounts recognised within finance costs in profit and loss	–	3.9	–	(3.5)	–	0.1
Balance on cash flow hedge reserve at 30 March 2019	(12.8)	N/A	N/A	(8.4)	1.7	N/A
Balance on cost of hedging reserve at 30 March 2019	–	N/A	N/A	(14.6)	–	N/A

	28 March 2020					
	Current			**Non-current**		
	Forward foreign exchange contracts £m	**Forward foreign exchange contracts £m**	**Interest rate swaps £m**	**Cross-currency swaps £m**	**Forward foreign exchange contracts £m**	**Interest rate swaps £m**
Hedging risk strategy	**Cash flow hedges**	**Held for trading**	**Fair value hedges**	**Cash flow hedges**	**Cash flow hedges**	**Fair value hedges**
Notional/currency legs	**1,699.3**	**157.0**	**–**	**193.5**	**173.6**	**175.0**
Carrying amount assets/(liabilities)	**60.8**	**(0.3)**	**–**	**83.8**	**9.5**	**18.4**
Maturity date	**to Feb 2021**	**to Oct 2020**	**–**	**Dec 2037**	**to Aug 2021**	**Jun 2025**
Hedge ratio	**100%**	**100%**	**–**	**100%**	**100%**	**100%**
Description of hedged item	**Highly probable transactional FX exposures**	**Inter-company loans/ deposits**	**GBP fixed rate borrowing**	**USD fixed rate borrowing**	**Highly probably transactional FX exposures**	**GBP fixed rate borrowing**
Change in fair value of hedging instrument[1]	**33.4**	**(0.6)**	**–**	**79.7**	**11.1**	**3.8**
Change in fair value of hedged item used to determine hedge effectiveness[1]	**(30.5)**	**4.0**	**–**	**(79.7)**	**(11.1)**	**(3.8)**
Weighted average hedge rate for the year	**GBP/USD 1.3, GBP/EUR 1.15**	**N/A**	**–**	**7.5%**	**GBP/USD 1.32, GBP/EUR 1.15**	**3.3%**
Amounts recognised within finance costs in profit and loss	**2.9**	**3.4**	**–**	**5.9[2]**	**–**	**–**
Balance on cash flow hedge reserve at 28 March 2020	**(37.3)**	**N/A**	**N/A**	**(40.1)**	**(9.8)**	**N/A**
Balance on cost of hedging reserve at 28 March 2020	**–**	**N/A**	**N/A**	**(7.1)**	**–**	**N/A**

1. The £(0.6)m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge for certain intercompany loans/deposits which are represented in the £4.0m as the net foreign exchange gains and losses under this strategy.
2. The £5.9m gain represents previously recognised hedge ineffectiveness that reversed out during the financial year.

21 FINANCIAL INSTRUMENTS CONTINUED

		28 March 2020				30 March 2019			
		Notional value		Fair value		Notional value		Fair value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current									
Forward foreign exchange contracts	– cash flow hedges	**1,385.0**	**314.3**	**71.0**	**(10.2)**	1,073.8	349.8	34.3	(6.9)
	– held for trading	**61.9**	**95.1**	**2.5**	**(2.8)**	53.9	75.1	0.7	(0.4)
Interest rate swaps	– fair value hedges	**–**	**–**	**–**	**–**	200.0	–	5.3	–
		1,446.9	**409.4**	**73.5**	**(13.0)**	1,327.7	424.9	40.3	(7.3)
Non-current									
Cross currency swaps	– cash flow hedges	**193.5**	**–**	**83.8**	**–**	–	193.5	4.7	(0.7)
Forward foreign exchange contracts	– cash flow hedges	**153.1**	**20.5**	**10.2**	**(0.7)**	84.8	118.2	0.5	(2.1)
Interest rate swaps	– fair value hedges	**175.0**	**–**	**18.4**	**–**	175.0	–	14.6	–
		521.6	**20.5**	**112.4**	**(0.7)**	259.8	311.7	19.8	(2.8)

The Group's hedging reserves disclosed in the consolidated statement of changes in equity, relate to the following hedging instruments:

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	**Total cost of hedging reserve £m**	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	**Total hedge reserve £m**
Opening balance 1 April 2018	0.8	(13.9)	2.4	**(10.7)**	57.5	35.9	0.4	(17.8)	**76.0**
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	**–**	(111.3)	(19.2)	–	–	**(130.5)**
Add: Costs of hedging deferred and recognised in OCI[2]	(0.8)	(0.7)	–	**(1.5)**	–	–	–	–	**–**
Less: Reclassified to the cost of inventory	–	–	–	**–**	42.7	–	–	–	**42.7**
Less: Reclassified from OCI to profit or loss	–	–	–	**–**	–	15.8	–	–	**15.8**
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	**–**	–	0.4	(0.2)	10.4	**10.6**
Less: Deferred tax	–	–	0.5	**0.5**	–	–	–	–	**–**
Closing balance 30 March 2019	**–**	**(14.6)**	**2.9**	**(11.7)**	**(11.1)**	**32.9**	**0.2**	**(7.4)**	**14.6**
Opening balance 31 March 2019	–	(14.6)	2.9	**(11.7)**	(11.1)	32.9	0.2	(7.4)	**14.6**
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	**–**	(59.2)	(88.6)	–	–	**(147.8)**
Add: Costs of hedging deferred and recognised in OCI	–	7.5	–	**7.5**	–	–	–	–	**–**
Less: Reclassified to the cost of inventory	–	–	–	**–**	21.8	–	–	–	**21.8**
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	**–**	2.9	15.6	(0.1)	–	**18.4**
Less: Deferred tax	–	–	(1.5)	**(1.5)**	–	–	–	24.4	**24.4**
Closing balance 28 March 2020	**–**	**(7.1)**	**1.4**	**(5.7)**	**(45.6)**	**(40.1)**	**0.1**	**17.0**	**(68.6)**

1. Cross-currency interest rate swaps.
2. Other comprehensive income.

21 FINANCIAL INSTRUMENTS CONTINUED

In incorporating the effects of the Covid-19 pandemic on the Group forecast hedged transactions, management has identified some resulting over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases no longer expected to occur amounts to a £2.9m gain (last year: £nil). The applicable cash flow hedges have been discontinued prospectively; derivatives with the notional value of US$76.6m will be subsequently accounted for at fair value through profit and loss.

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges (see note 20 for details of fair value adjustment). The ineffective portion recognised in profit or loss that arises from fair value hedges amounts to a £nil gain or loss (last year: £0.1m gain) as the gain on the hedged items was £3.8m (last year: £4.6m gain) and the movement on the hedging instruments was £3.8m loss (last year: £4.5m loss).

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net loss in fair value of interest rate swap	**(3.8)**	(4.5)
Net gain on hedged items	**3.8**	4.6
Ineffectiveness	**–**	0.1

The Group holds a number of cross-currency interest rate swaps to designate its USD to GBP fixed debt. These are reported as cash flow hedges. Nil ineffectiveness (last year: £3.5m loss) was recognised in the profit and loss arising from the cash flow hedge amounts as the loss on the hedged items was £79.7m (last year: £4.4m gain) and the movement on the hedging instruments was £79.7m gain (last year: £7.9m loss). A gain of £5.9m was recognised in the profit and loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	**79.7**	(7.9)
Net (loss)/gain on hedged items	**(79.7)**	4.4
Ineffectiveness	**–**	(3.5)

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 and a 20% +/- (last year: 20%) movement in sterling against the relevant currency represents a reasonably possible change. However, this analysis is for illustrative purposes only. The Group believes that these illustrative assumed movements continue to provide sufficient guidance.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such a 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.

Interest rates 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.

Foreign exchange The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivatives. This value is expected to be materially offset by the re-translation of the related transactional exposures.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 30 March 2019				
Impact on income statement: gain/(loss)	5.4	(4.0)	–	–
Impact on other comprehensive income: (loss)/gain	(4.3)	2.5	226.8	(226.8)
At 28 March 2020				
Impact on income statement: gain/(loss)	**3.1**	**(1.7)**	**–**	**–**
Impact on other comprehensive income: gain/(loss)	**26.8**	**(19.7)**	**212.7**	**(212.7)**

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the balance sheet but which could be offset under certain circumstances are also set out. To reconcile the amount shown in the tables below to the Statement of Financial Position, items which are not subject to offsetting should be included.

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	–	3.2
Derivative financial assets	60.1	–	60.1	(10.1)	50.0
Cash and cash equivalents	34.8	(34.8)	–	–	–
	119.8	(56.5)	63.3	(10.1)	53.2
Trade and other payables	(264.6)	21.7	(242.9)	–	(242.9)
Derivative financial liabilities	(10.1)	–	(10.1)	10.1	–
Bank loans and overdrafts	(107.1)	34.8	(72.3)	–	(72.3)
	(381.8)	56.5	(325.3)	10.1	(315.2)

	Gross financial assets/ (liabilities) £m	**Gross financial (liabilities)/ assets set off £m**	**Net financial assets/ (liabilities) per statement of financial position £m**	**Related amounts not set off in the statement of financial position £m**	**Net £m**
At 28 March 2020					
Trade and other receivables	**18.6**	**(14.3)**	**4.3**	**–**	**4.3**
Derivative financial assets	**185.9**	**–**	**185.9**	**(13.7)**	**172.2**
Cash and cash equivalents	**13.2**	**(13.2)**	**–**	**–**	**–**
	217.7	**(27.5)**	**190.2**	**(13.7)**	**176.5**
Trade and other payables	**(272.8)**	**14.3**	**(258.5)**	**–**	**(258.5)**
Derivative financial liabilities	**(13.7)**	**–**	**(13.7)**	**13.7**	**–**
Bank loans and overdrafts	**(97.5)**	**13.2**	**(84.3)**	**–**	**(84.3)**
	(384.0)	**27.5**	**(356.5)**	**13.7**	**(342.8)**

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

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 include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

21 FINANCIAL INSTRUMENTS CONTINUED

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

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	**–**	**2.5**	**–**	**2.5**	–	0.7	–	0.7
Derivatives used for hedging	**–**	**183.4**	**–**	**183.4**	–	59.5	–	59.5
Short-term investments	**–**	**11.7**	**–**	**11.7**	–	141.8	–	141.8
Unlisted investments[1]	**–**	**–**	**9.7**	**9.7**	–	–	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	**–**	**(2.8)**	**–**	**(2.8)**	–	(0.4)	–	(0.4)
– contingent consideration (see note 30)[2]	**–**	**–**	**(202.4)**	**(202.4)**	–	–	–	–
Derivatives used for hedging	**–**	**(10.9)**	**–**	**(10.9)**	–	(9.7)	–	(9.7)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m) (see note 16) which is a Level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.
2. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance targets are binary and, based on the latest five-year plan of Ocado Retail Limited, are expected to be met and therefore the full (discounted) amount has been recognised. The discount rates used ranged from 1.7% to 2.2% and a 0.5% change in the discount rates would result in a change in fair value of £4.5m.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,653.8m (last year: £10,224.7m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £6,328.7m (last year: £7,008.6m). Additionally, the scheme assets include £4,325.1m (last year: £3,216.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

The following table represents the changes in Level 3 instruments held by the pension schemes:

	2020 £m	2019 £m
Opening balance	**3,216.1**	2,836.9
Fair value (loss)/gain recognised in other comprehensive income	**(130.1)**	136.3
Additional investment	**1,239.1**	242.9
Closing balance	**4,325.1**	3,216.1

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 12), 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 Medium Term Notes (Level 1 equivalent) was £1,536.2m (last year: £1,673.8m), the fair value of this debt was £1,531.4m (last year: £1,724.0m).

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) 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 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 six years (last year: five years). As one of several actions taken by rating agencies in response to the Covid-19 pandemic, the Group credit rating was reduced to Ba1 (negative watch) with Moody's and BB+ (negative watch) with Standard & Poor's.

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

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2020 £m	2019 (Restated) £m
At 30 March 2019	**120.5**	**21.5**	**31.4**	**173.4**	148.0
Provided in the year	**32.7**	**10.9**	**0.7**	**44.3**	98.5
Released in the year	**(65.7)**	**(2.5)**	**(25.0)**	**(93.2)**	(33.4)
Utilised during the year	**(15.5)**	**(17.9)**	**(1.7)**	**(35.1)**	(67.1)
Exchange differences	**–**	**0.6**	**–**	**0.6**	(0.3)
Discount rate unwind	**4.9**	**–**	**–**	**4.9**	7.9
Reclassification to trade and other payables	**(16.9)**	**–**	**–**	**(16.9)**	19.8
At 28 March 2020	**60.0**	**12.6**	**5.4**	**78.0**	173.4
Analysed as:					
Current				**21.5**	100.7
Non-current				**56.5**	72.7

Property provisions relate to dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one building. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

Restructuring provisions relate to the estimated costs associated with the International exit strategy and the strategic programme to transition to a single-tier UK distribution network. These provisions are expected to be utilised within the next year and over the period of closure of sites.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The release during the year relates to the finalisation of charges for certain employee-related matters provided for during 2018.

See note 5 for further information on these provisions.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% as applicable (last year: 19% and 17%) 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 the offsetting of balances within the same jurisdiction as permitted by IAS 12 Income Taxes) during the year are shown below.

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 1 April 2018	(33.9)	(29.3)	(208.0)	109.8	(161.4)	(3.7)	(165.1)
Credited/(charged) to income statement	3.8	23.2	(1.6)	12.3	37.7	5.3	43.0
Credited/(charged) to equity/ other comprehensive income	–	–	14.4	(11.7)	2.7	(0.2)	2.5
At 30 March 2019	(30.1)	(6.1)	(195.2)	110.4	(121.0)	1.4	(119.6)
At 31 March 2019	**(30.1)**	**(6.1)**	**(195.2)**	**110.4**	**(121.0)**	**1.4**	**(119.6)**
Credited/(charged) to income statement	**1.8**	**5.9**	**(7.1)**	**9.2**	**9.8**	**(2.2)**	**7.6**
Credited/(charged) to equity/ other comprehensive income			**(196.5)**	**(24.4)**	**(220.9)**	**0.5**	**(220.4)**
At 28 March 2020	**(28.3)**	**(0.2)**	**(398.8)**	**95.2**	**(332.1)**	**(0.3)**	**(332.4)**

Other short-term temporary differences relate mainly to employee share options, financial instruments and IFRS 16.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £335.7m (last year: £321.7m) and a tax value of £63.8m (last year: £61.1m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m p.a. were extended to include capital losses. It is considered that the full benefit of the losses will continue to be recoverable due to the quantum of the gains and the group's ability to exercise a level of control over when gains are crystallised. Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £9.5m (last year: £70.5m) and a tax value of £2.6m (last year: £14.5m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £27.0m (last year: £44.5m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.6m (last year: £2.7m) however this has not been recognised on the basis that the distribution can be controlled by the Group.

24 ORDINARY SHARE CAPITAL

	Shares	2020 £m	Shares	2019 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,625,000,230**	**406.3**	1,624,757,346	406.2
Shares issued on rights issue	**325,009,968**	**81.3**	–	–
Shares issued on exercise of share options	**49,610**	**–**	242,884	0.1
At end of year	**1,950,059,808**	**487.6**	1,625,000,230	406.3

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.3m. Transaction costs of £26.6m were incurred resulting in £493.4m being recognised in share premium.

49,610 (last year: 242,884) ordinary shares having a nominal value of £0.0m (last year: £0.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £0.1m (last year: £0.6m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2020 £m	2019 £m
Commitments in respect of properties in the course of construction	**78.7**	90.1
Software capital commitments	**8.6**	6.8
	87.3	96.9

B. Other material contracts

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

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

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2020 £m	2019 (Restated) £m
Profit on ordinary activities after taxation	**27.4**	45.3
Income tax expense	**39.8**	38.9
Finance costs	**234.5**	248.7
Finance income	**(46.9)**	(34.8)
Operating profit	**254.8**	298.1
Share of results of Ocado Retail Limited	**(2.6)**	–
(Increase)/decrease in inventories	**(29.3)**	73.8
(Increase) in receivables	**(9.2)**	(81.7)
(Decrease)/increase in payables	**(10.0)**	69.0
Adjusting items net cash outflows[1,2]	**(75.4)**	(99.3)
Depreciation, amortisation and write-offs	**632.5**	702.6
Non-cash share-based payment expense	**18.5**	19.2
Defined benefit pension funding	**(37.9)**	(37.9)
Adjusting items M&S Bank[3]	**(12.6)**	(20.9)
Adjusting operating profit items	**335.9**	427.5
Cash generated from operations	**1,064.7**	1,350.4

1. Excludes £11.3m (last year: £nil) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.
2. Adjusting items net cash outflows relate to the utilisation of the provisions for International store closures and impairments, strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, store impairments and property charges, GMP and other pension equalisation, and establishing the investment in Ocado Retail Limited.
3. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 1 April 2018 (Restated) £m	Cash flow (Restated) £m	Exchange and other non-cash movements (Restated) £m	At 30 March 2019 (Restated) £m
Net cash/(debt)				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(88.4)	11.1	5.0	(72.3)
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	–
	(36.7)	(35.6)	–	(72.3)
Cash and cash equivalents (see note 18)	207.7	77.9	(0.2)	285.4
Net cash per statement of cash flows	171.0	42.3	(0.2)	213.1
Current financial assets (see note 16)	13.7	128.1	–	141.8
Liabilities from financing activities				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	–
Medium Term Notes (see note 20)	(1,622.9)	(1.4)	(12.5)	(1,636.8)
Lease liabilities (see note 20)	(2,589.9)	170.1	(157.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(327.8)	61.6	–	(266.2)
Derivatives held to hedge Medium Term Notes	–	–	23.9	23.9
Liabilities from financing activities	(4,592.3)	277.0	(140.6)	(4,455.9)
Less: Derivative instruments and cash flows related to interest	38.2	–	(12.6)	25.6
Net debt	(4,369.4)	447.4	(153.4)	(4,075.4)

	At 31 March 2019 (Restated) £m	Cash flow £m	Exchange and other non-cash movements £m	**At 28 March 2020 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(72.3)	(12.0)	–	**(84.3)**
	(72.3)	(12.0)	–	**(84.3)**
Cash and cash equivalents (see note 18)	285.4	(37.5)	0.5	**248.4**
Net cash per statement of cash flows	213.1	(49.5)	0.5	**164.1**
Current financial assets (see note 16)	141.8	(130.1)	–	**11.7**
Liabilities from financing activities				
Medium Term Notes (see note 20)	(1,636.8)	150.0	(14.3)	**(1,501.1)**
Lease liabilities (see note 20)	(2,576.8)	201.4	(186.6)	**(2,562.0)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(266.2)	63.5	–	**(202.7)**
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	**102.2**
Liabilities from financing activities	(4,455.9)	407.2	(114.9)	**(4,163.6)**
Less: Derivative instruments and cash flows related to interest	25.6	7.7	(70.7)	**(37.4)**
Net debt	(4,075.4)	235.3	(185.1)	**(4,025.2)**

B. Reconciliation of net debt to statement of financial position

	2020 £m	2019 (Restated) £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**248.4**	285.4
Current financial assets (see note 16)	**11.7**	141.8
Bank loans and overdrafts (see note 20)	**(84.3)**	(72.3)
Medium Term Notes – net of hedging derivatives	**(1,471.4)**	(1,624.3)
Lease liabilities (see note 20)	**(2,562.0)**	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	**(207.4)**	(272.4)
	(4,065.0)	(4,118.6)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**39.8**	43.2
Total net debt	**(4,025.2)**	(4,075.4)

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. Joint ventures and associates

A shareholder loan facility with Ocado Retail Limited has been established in the year, with Ocado Retail Limited having the ability to draw down up to £30m from each shareholder. At year end, Ocado Retail Limited has not utilised this facility.

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited. The revolving credit facility was undrawn at 28 March 2020.

C. Marks & Spencer UK Pension Scheme

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

D. Key management compensation

The Group has determined that the key management personnel constitute the Board and the members of the Operating Committee.

	2020 £m	2019 £m
Salaries and short-term benefits	**5.9**	8.0
Share-based payments	**1.7**	1.1
Total	**7.6**	9.1

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

The Group applied IFRS 16 Leases for the first time. The Group applied the standard using the fully retrospective method, with the date of initial application of 31 March 2019, and has restated its results for comparative periods as if the Group had always applied the new standard.

The Group recognises a right-of-use asset and corresponding liability at the date at which a leased asset is made available for use by the Group, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. Previously, rental costs under operating leases were charged to the consolidated income statement in equal annual amounts over the lease term.

The impact of adopting IFRS 16 on the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows is presented in the following tables.

CONSOLIDATED INCOME STATEMENT

	52 weeks ended 30 March 2019 (Restated)								
	Profit before adjusting items			Adjusting items			Total		
	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	Restated £m
Revenue	**10,377.3**	**–**	**10,377.3**	**–**	**–**	**–**	**10,377.3**	**–**	**10,377.3**
Operating profit	**601.0**	**124.6**	**725.6**	**(438.6)**	**11.1**	**(427.5)**	**162.4**	**135.7**	**298.1**
Finance income	33.8	1.0	34.8	–	–	–	33.8	1.0	34.8
Finance costs	(111.6)	(137.1)	(248.7)	–	–	–	(111.6)	(137.1)	(248.7)
Profit before tax	**523.2**	**(11.5)**	**511.7**	**(438.6)**	**11.1**	**(427.5)**	**84.6**	**(0.4)**	**84.2**
Income tax expense	(106.0)	–	(106.0)	58.7	8.4	67.1	(47.3)	8.4	(38.9)
Profit for the year	**417.2**	**(11.5)**	**405.7**	**(379.9)**	**19.5**	**(360.4)**	**37.3**	**8.0**	**45.3**
Attributable to:									
Owners of the parent	**413.4**	**(11.3)**	**402.1**	**(379.9)**	**19.5**	**(360.4)**	**33.5**	**8.2**	**41.7**
Non-controlling interest	**3.8**	**(0.2)**	**3.6**	**–**	**–**	**–**	**3.8**	**(0.2)**	**3.6**
	417.2	**(11.5)**	**405.7**	**(379.9)**	**19.5**	**(360.4)**	**37.3**	**8.0**	**45.3**
Basic earnings per share	**25.4p**	**(1.7p)**	**23.7p**	**(23.3p)**	**2.1p**	**(21.2p)**	**2.1p**	**0.4p**	**2.5p**
Diluted earnings per share	**25.4p**	**(1.8p)**	**23.6p**	**(23.3p)**	**2.1p**	**(21.2p)**	**2.1p**	**0.3p**	**2.4p**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	52 weeks ended 30 March 2019		
	As reported £m	Impact of IFRS 16 £m	**Restated £m**
Profit for the year	37.3	8.0	**45.3**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	(79.9)	–	**(79.9)**
Tax credit on items that will not be reclassified	14.0	–	**14.0**
	(65.9)	–	**(65.9)**
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income	(15.4)	0.8	**(14.6)**
Cash flow hedges			
– fair value movements in other comprehensive income	132.0	–	**132.0**
– reclassified and reported in profit or loss	(16.0)	–	**(16.0)**
Tax charge on cash flow hedges	(19.0)	–	**(19.0)**
	81.6	0.8	**82.4**
Other comprehensive income for the year, net of tax	15.7	0.8	**16.5**
Total comprehensive income for the year	53.0	8.8	**61.8**
Attributable to:			
Owners of the parent	49.2	9.0	**58.2**
Non-controlling interests	3.8	(0.2)	**3.6**
	53.0	8.8	**61.8**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 March 2019			As at 1 April 2018		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Assets						
Non-current assets						
Property, plant and equipment	4,028.5	1,633.8	**5,662.3**	4,393.9	1,795.7	**6,189.6**
Trade and other receivables	200.7	72.3	**273.0**	209.0	0.5	**209.5**
Other non-current assets	1,480.6	–	**1,480.6**	1,629.4	–	**1,629.4**
	5,709.8	1,706.1	**7,415.9**	6,232.3	1,796.2	**8,028.5**
Current assets						
Trade and other receivables	322.5	(55.3)	**267.2**	308.4	(56.0)	**252.4**
Other current assets	1,167.9	–	**1,167.9**	1,009.5	–	**1,009.5**
	1,490.4	(55.3)	**1,435.1**	1,317.9	(56.0)	**1,261.9**
Total assets	7,200.2	1,650.8	**8,851.0**	7,550.2	1,740.2	**9,290.4**
Liabilities						
Current liabilities						
Trade and other payables	1,461.3	(36.9)	**1,424.4**	1,405.9	(28.8)	**1,377.1**
Borrowings and other financial liabilities	513.1	181.3	**694.4**	125.6	158.1	**283.7**
Provisions	148.6	(47.9)	**100.7**	98.8	(42.6)	**56.2**
Current tax liabilities	26.2	–	**26.2**	50.0	–	**50.0**
Other current liabilities	79.2	–	**79.2**	145.7	–	**145.7**
	2,228.4	96.5	**2,324.9**	1,826.0	86.7	**1,912.7**
Non-current liabilities						
Trade and other payables	322.4	(306.8)	**15.6**	333.8	(317.5)	**16.3**
Borrowings and other financial liabilities	1,279.5	2,349.0	**3,628.5**	1,670.6	2,383.9	**4,054.5**
Provisions	250.1	(177.4)	**72.7**	193.1	(101.3)	**91.8**
Deferred tax liabilities	218.4	(98.8)	**119.6**	255.7	(90.6)	**165.1**
Other non-current liabilities	220.5	–	**220.5**	316.8	–	**316.8**
	2,290.9	1,766.0	**4,056.9**	2,770.0	1,874.5	**4,644.5**
Total liabilities	4,519.3	1,862.5	**6,381.8**	4,596.0	1,961.2	**6,557.2**
Net assets	2,680.9	(211.7)	**2,469.2**	2,954.2	(221.0)	**2,733.2**
Equity						
Issued share capital	406.3	–	**406.3**	406.2	–	**406.2**
Share premium account	416.9	–	**416.9**	416.4	–	**416.4**
Capital redemption reserve	2,210.5	–	**2,210.5**	2,210.5	–	**2,210.5**
Hedging reserve	(14.6)	–	**(14.6)**	(76.0)	–	**(76.0)**
Cost of hedging reserve	11.7	–	**11.7**	10.7	–	**10.7**
Other reserve	(6,542.2)	–	**(6,542.2)**	(6,542.2)	–	**(6,542.2)**
Foreign exchange reserve	(44.7)	0.8	**(43.9)**	(29.3)	–	**(29.3)**
Retained earnings	6,237.1	(212.3)	**6,024.8**	6,560.4	(221.0)	**6,339.4**
Total shareholders' equity	2,681.0	(211.5)	**2,469.5**	2,956.7	(221.0)	**2,735.7**
Non-controlling interests in equity	(0.1)	(0.2)	**(0.3)**	(2.5)	–	**(2.5)**
Total equity	2,680.9	(211.7)	**2,469.2**	2,954.2	(221.0)	**2,733.2**

CONSOLIDATED STATEMENT OF CASH FLOWS

	52 weeks ended 30 March 2019		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Cash flows from operating activities			
Cash generated from operations	1,041.0	309.4	**1,350.4**
Income tax paid	(105.7)	–	**(105.7)**
Net cash inflow from operating activities	935.3	309.4	**1,244.7**
Net cash used in investing activities	(388.0)	–	**(388.0)**
Cash flows from financing activities			
Interest paid	(86.4)	(142.6)	**(229.0)**
Decrease in obligations under leases	(3.3)	(166.8)	**(170.1)**
Other financing activities	(415.3)	–	**(415.3)**
Net cash used in financing activities	(505.0)	(309.4)	**(814.4)**
Net cash inflow from activities	42.3	–	**42.3**
Effects of exchange rate changes	(0.2)	–	**(0.2)**
Opening net cash	171.0	–	**171.0**
Closing net cash	213.1	–	**213.1**

(i) Income statement

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on a straight-line basis over the term of the lease. The Group recognised these costs within operating costs. On adoption of IFRS 16, these costs have been removed and replaced with costs calculated on an IFRS 16 basis. Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset within operating costs.

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to operating costs. The net impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was £135.7m.

The impact on adjusting items as a result of IFRS 16 is due to additional accelerated depreciation and impairments following the recognition of the right-of-use assets and the removal of rental elements of onerous lease and onerous contract provisions. The net impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was a reduction in the charge of £11.1m.

Under IFRS 16, finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the income statement for the 52 weeks ended 30 March 2019 was £137.1m.

Also, under IFRS 16, interest income is recognised on subleases reclassified as finance leases. This is recognised within finance income. The impact of this adjustment in the income statement for the 52 weeks ended 30 March 2019 was £1.0m.

The net impact of the above adjustments to profit after tax for the 52 weeks ended 30 March 2019 was an increase of £8.0m.

(ii) Right-of-use asset

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Group's contractual right to access an identified asset under the terms of the lease contract.

(iii) Lease liability

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Group's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) Working capital

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the statement of financial position as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) Taxation

A deferred tax asset has been recognised on the transition to IFRS 16 representing the temporary difference on the amounts taken to reserves.

(vi) Cash flow statement

Adopting IFRS 16 has resulted in reclassifying lease payments from operating activities to financing activities.

30 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

On 5 August 2019, the Group acquired a 50% interest in Ocado Retail Limited, a company incorporated in the UK which is one of the world's largest dedicated online grocery retailers. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited operates Ocado.com, supported by the Ocado Smart Platform technology and will bring together the strength of M&S's brand and its leading food quality and product development, with Ocado's proprietary technology and award-winning service.

Ocado Retail Limited is considered an associate of the M&S Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as M&S Group will have an option to obtain more power over the company if certain conditions are met. If M&S is deemed to have obtained control, Ocado Retail Limited will then be consolidated as a subsidiary of the Group. Through Board representation and shareholder voting rights, the Group is currently considered to have significant influence, therefore the investment in Ocado Retail Limited is treated as an associate and applies the equity method of accounting.

Ocado Retail Limited has a year-end date of 1 December 2019, aligning with its parent company, Ocado Group Plc. Ocado Retail Limited has prepared financial information for M&S Group purposes to the nearest quarter-end date of Ocado Retail Limited's year end. The results of Ocado Retail Limited are incorporated in these financial statements from the date of acquisition to 1 March 2020. There were no significant events or transactions in the period from 2 March 2020 to 28 March 2020.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

	As at 5 Aug 2019 £m
Ocado Retail Limited	
Current assets	**161.2**
Non-current assets	**934.1**
Current liabilities	**(149.2)**
Non-current liabilities	**(317.7)**
Total identifiable net assets	**628.4**
Group's share of total identifiable net assets	**314.2**
Goodwill	**449.1**
Total consideration	**763.3**
Satisfied by:	
Cash	**560.9**
Contingent consideration	**202.4**
Total consideration	**763.3**

The investment in associate is recognised at a cost of £769.0m. This incorporates initial consideration of £560.9m paid in cash on acquisition, contingent consideration of £202.4m and transaction costs of £5.7m.

Summarised financial information in respect of Ocado Retail Limited (the Group's only material associate) is set out below and represents amounts in the Ocado Retail Limited financial statements prepared in accordance with IFRS, adjusted by the Group for equity accounting purposes.

	As at 1 Mar 2020 £m
Ocado Retail Limited	
Current assets	**484.9**
Non-current assets	**206.6**
Current liabilities	**(489.7)**
Non-current liabilities	**(178.2)**
Net assets	**23.6**

	5 August 2019 to 1 March 2020 £m
Revenue	**979.7**
Profit for the period	**5.1**
Other comprehensive income	**–**
Total comprehensive income	**5.1**

30 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ocado Retail Limited recognised in the consolidated financial statements:

	As at 28 Mar 2020 £m
Ocado Retail Limited	
Net assets	**23.6**
Proportion of the Group's ownership interest	**11.8**
Goodwill	**449.1**
Brand	**255.7**
Customer relationships	**98.9**
Other adjustments to align accounting policies	**(66.4)**
Acquisition costs	**5.7**
Carrying amount of the Group's interest in Ocado Retail Limited	**754.8**

The contingent consideration arrangement requires Ocado Retail Limited to achieve a target level of earnings in the financial year ending in November 2023, for specified capacity levels to be achieved and utilised within a specific customer fulfilment centre (CFC) by November 2023 and to begin providing service to customers from a new CFC. The potential undiscounted amount of all future payments that the Group could be required to pay under the contingent consideration arrangement is up to £187.5m plus 4% interest. The fair value of the contingent consideration arrangement of £202.4m was estimated by applying an appropriate discount rate to the expected future payments which are based on the current five-year plan for Ocado Retail Limited.

In addition, the Group holds immaterial investments in joint ventures totalling £5.6m (last year: £4.0m). The Group's share of losses totalled £0.9m (last year: £0.5m loss).

31 SUBSEQUENT EVENTS

The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 34 as well as set out within note 1 and the basis of preparation on page 116 which summarises the Covid-19 scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions). No adjustments to the key estimates and judgements that impact the balance sheet as at 28 March 2020 have been identified. Where any material changes in key estimates and judgements have been identified updates have been made to the financial statements as adjusting post balance sheet events.

The following non-adjusting events have occurred since 28 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme to furlough c.27,000 colleagues across our Clothing & Home business and Support centres, which should generate cash savings of c.£50m up to 30 June 2020.
- On 28 April, the Group announced that formal agreement had been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m.
- In addition, the Group implemented extended payment terms for suppliers in Clothing & Home.

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note 11 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 28 March 2020 £m	As at 30 March 2019 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**8,763.2**	9,269.5
Total assets		**8,763.2**	9,269.5
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,543.4**	2,548.5
Total liabilities		**2,543.4**	2,548.5
Net assets		**6,219.8**	6,721.0
Equity			
Ordinary share capital	C7	**487.6**	406.3
Share premium account	C7	**910.4**	416.9
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve	C7	**311.0**	1,397.3
Retained earnings		**2,300.3**	2,290.0
Total equity		**6,219.8**	6,721.0

The Company's loss for the year was £892.5m (last year: profit of £305.0m).

The financial statements were approved by the Board and authorised for issue on 26 May 2020. The financial statements also comprise the notes C1 to C7.

Steve Rowe, Chief Executive Officer

David Surdeau, Interim Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2018	406.2	416.4	2,210.5	1,397.3	2,279.3	6,709.7
Profit for the year	–	–	–	–	305.0	305.0
Dividends	–	–	–	–	(303.5)	(303.5)
Capital contribution for share-based payments	–	–	–	–	9.2	9.2
Shares issued on exercise of employee share options	0.1	0.5	–	–	–	0.6
At 30 March 2019	**406.3**	**416.9**	**2,210.5**	**1,397.3**	**2,290.0**	**6,721.0**
At 31 March 2019	**406.3**	**416.9**	**2,210.5**	**1,397.3**	**2,290.0**	**6,721.0**
Loss for the year	**–**	**–**	**–**	**–**	**(892.5)**	**(892.5)**
Dividends	**–**	**–**	**–**	**–**	**(191.1)**	**(191.1)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**7.6**	**7.6**
Shares issued on rights issue	**81.3**	**493.4**	**–**	**–**	**–**	**574.7**
Shares issued on exercise of employee share options	**–**	**0.1**	**–**	**–**	**–**	**0.1**
Realisation of merger reserve	**–**	**–**	**–**	**(1,086.3)**	**1,086.3**	**–**
At 28 March 2020	**487.6**	**910.4**	**2,210.5**	**311.0**	**2,300.3**	**6,219.8**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 £m
Cash flow from investing activities		
Dividends received	**193.8**	305.0
Additional investment in subsidiary	**(572.4)**	–
Net cash (used in)/generated from investing activities	**(378.6)**	305.0
Cash flows from financing activities		
Shares issued on exercise of employee share options	**0.1**	0.6
Repayment of intercompany loan	**(5.1)**	(2.1)
Proceeds from rights issue net of costs	**574.7**	–
Equity dividends paid	**(191.1)**	(303.5)
Net cash generated from/(used in) financing activities	**378.6**	(305.0)
Net cash inflow	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The principal activity of the Company and the nature of the Company's operations is as a holding entity.

These financial statements are presented in sterling, which is the Company's functional currency, and are rounded to the nearest hundred thousand.

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.

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

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use which requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flows over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (see the basis of preparation in note 1 of the Group financial statements and the glossary for details on this Covid-19 scenario), focusing on the external impact of social distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business. See note C6 for further details on the assumptions and associated sensitivities.

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.

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 £1,081,875 (last year: £1,028,666). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

Auditor's 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

	2020 per share	2019 (Restated) per share	**2020 £m**	2019 £m
Dividends on equity ordinary shares				
Paid final dividend	**6.8p**	11.4p	**115.1**	193.1
Paid interim dividend	**3.9p**	6.5p	**76.0**	110.4
	10.7p	17.9p	**191.1**	303.5

Dividend per share figures above have been restated to reflect the bonus element of the June 2019 rights issue.

As announced by the Group on 20 March 2020, the Board of Directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Board of Directors do not, at this stage, anticipate paying a dividend for 2020/21.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £193.8m (last year: £305.0m) and decreased its loan from Marks and Spencer plc by £5.1m (last year: £2.1m). The outstanding balance was £2,543.4m (last year: £2,548.5m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2020 £m	2019 £m
Beginning of the year	**9,269.5**	9,260.3
Contributions to subsidiary undertakings relating to share-based payments	**7.6**	9.2
Additions	**572.4**	–
Impairment loss	**(1,086.3)**	–
End of year	**8,763.2**	9,269.5

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

During the year, the Company purchased additional shares in Marks and Spencer Holdings Limited (£572.4m) to fund the investment in Ocado Retail Limited.

Impairment of investments in subsidiary undertakings

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 28 March 2020, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc, indicating a potential impairment. In addition, the ongoing Covid-19 pandemic and subsequent lockdown has resulted in significant market and business disruption; alongside the underlying economic uncertainty surrounding the Brexit transition, these have led to significant uncertainties regarding trading and the longer-term impact on the business.

The recoverable amount of the investment in Marks and Spencer plc of £8,190.8m has been determined based on a value in use calculation using cash flow projections from the Group's latest budget and forecast cash flows covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The projected cash flows have been updated to include the Covid-19 scenario reflecting the Group's best estimate of what could have been reasonably known about the expected impact of the Covid-19 pandemic as at 28 March 2020. The cash flows include ongoing capital expenditure required to maintain the store network but exclude any growth capital initiatives not committed.

The key assumptions for the value in use calculation are those regarding the discount rate, growth rates and expected trading performance.

Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the Group. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital (WACC), which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate. The rate used to discount the forecast cash flows is 8.6% (last year: 9.1%).

Cash flows beyond the three-year period are extrapolated using an estimated average long-term growth rate of 2.0%, which is based on inflation forecasts by recognised bodies.

The value in use calculation also includes the intercompany payable due from the Company to the subsidiary of £2,543.4m.

As a result of this analysis, the Company has recognised an impairment charge of £1,086.3m.

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. An amount equal to the impairment charge of £1,086.3m has been transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17.

Sensitivity analysis

As disclosed in the accounting policies note C1, the cash flows used within the impairment model, the long-term growth rate and the discount rate are sources of estimation uncertainty and small movements in these assumptions could lead to further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions:

- A 20 basis point decrease in the long-term growth rate would result in an additional impairment charge of £267.7m.
- A 5% reduction in cash flows from the three-year plan would result in an additional impairment charge of £503.9m.
- A 50 basis point increase in the discount rate would result in an additional impairment charge of £704.1m.

In the event that all three were to occur simultaneously, an additional impairment charge of £1,391.4m would be recorded.

C6 INVESTMENTS CONTINUED

B. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 28 March 2020 is disclosed below.

Subsidiary and other related undertakings registered in the UK[i]

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 ordinary	–	100
Founders Factory Retail Limited Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 ordinary	–	0.004
	£0.0001 preferred	–	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 ordinary B	–	50
M&S Limited	£1 ordinary	–	100
Manford (Textiles) Limited	£1 ordinary	–	100
Marks and Spencer Company Archive (CIC)[ii]	N/A	–	–
Marks and Sparks Limited	£1 ordinary	–	100
Marks and Spencer (Northern Ireland) Limited Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR	£1 ordinary	–	100
Marks and Spencer France Limited	€1.14 ordinary	–	100
Marks and Spencer Guernsey Investments LLP	Partnership interest	–	100
Marks and Spencer Holdings Limited	£1 ordinary	100	–
Marks and Spencer Pension Trust Limited[iii]	£1 ordinary A	100	–
	£1 ordinary B	–	–
	£1 ordinary C	–	–
Marks and Spencer plc	£0.25 ordinary	100	–
Marks and Spencer Property Developments Limited	£1 ordinary	–	100
Marks and Spencer Scottish Limited Partnership[iv] Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	–	100
Ocado Retail Limited Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX	£0.01 ordinary	–	50
St. Michael (Textiles) Limited	£1 ordinary	–	100
St. Michael Finance plc	£1 ordinary	–	100

UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 28 March 2020. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Amethyst Leasing (Properties) Limited	–	100	4246934
Busyexport Limited	–	100	4411320
Marks & Spencer Outlet Limited	–	100	4039568
Marks & Spencer Simply Foods Limited	–	100	4739922
Marks and Spencer (Bradford) Limited	–	100	10011863
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	–	SC315365
Marks and Spencer (Property Investments) Limited	–	100	5502582
Marks and Spencer (Property Ventures) Limited	–	100	5502513
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	5502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	5502519
Marks and Spencer 2005 (Chester Store) Limited	–	100	5502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	5502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	5502546
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	5502538
Marks and Spencer 2005 (Kensington Store) Limited	–	100	5502478
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	5502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	5502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	5502588
Marks and Spencer 2005 (Pudsey Store) Limited	–	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	5502502
Marks and Spencer Chester Limited	–	100	5174129
Marks and Spencer Hungary Limited	–	100	8540784
Marks and Spencer International Holdings Limited	–	100	2615081
Marks and Spencer Investments	–	100	4903061
Marks and Spencer Property Holdings Limited	–	100	2100781
Minterton Services Limited	–	100	4763836
Ruby Properties (Cumbernauld) Limited	–	100	4922798
Ruby Properties (Hardwick) Limited	–	100	4716018
Ruby Properties (Long Eaton) Limited	–	100	4716031
Properties (Thorncliffe) Limited	–	100	4716110
Ruby Properties (Tunbridge) Limited	–	100	4716032
Simply Food (Property Investments)	–	100	5502543
Simply Food (Property Ventures) Limited	–	100	2239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £32.5m in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.
(ii) No share capital, as the company is limited by guarantee. Marks and Spencer plc is the sole member.
(iii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C ordinary shares are both directors of that company.
(iv) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

International subsidiary undertakings(i)

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100
Marks and Spencer Commercial (Shanghai) Ltd	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	100
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	Registered Capital	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney, Guernsey	Guernsey	£1 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership Interest	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100
Marks and Spencer (Hungary) Kft (in liquidation)	1103 Budapest, Kőér utca 2/A C. ép	Hungary	HUF280,500,000 Quota	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51
			INR 10 Class B	100
			INR 5 Class C(ii)	–
Aprell Limited	24/29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Israel) Limited	31 Ahad Haam Street., Tel Aviv 65202, Israel	Israel	NIS Ordinary	100
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
UAB MSF Lithuania	A. Goštauto g. 40B,Viliniaus m., Lithuania	Lithuania	LTL 100 Ordinary	100
M & S Mode International B.V.	Prins Bernhardplein 200, 1097JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	No Par Value Ordinary	100
M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer Clothing Textile Trading J.S.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy Istanbul Turkey	Turkey	TRL 25.00 Ordinary	100
Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.
(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).
(ii) INR 5 Class C shares 100% owned by JV partner.

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.3m. Transaction costs of £26.6m were incurred resulting in £493.4m being recognised in share premium.

49,610 (last year: 242,884) ordinary shares having a nominal value of £0.0m (last year: £0.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13 of the Group financial statements. The aggregate consideration received was £0.1m (last year: £0.6m).

Merger reserve

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. An amount equal to the impairment charge of £1,086.3m has been transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2020 52 weeks £m	2019 (Restated[2]) 52 weeks £m	2018 52 weeks £m	2017 52 weeks £m	2016 53 weeks £m
Income statement					
Revenue[1]					
UK Clothing & Home	**3,209.1**	3,499.8			
UK Food	**6,028.2**	5,903.4			
Total UK	**9,237.3**	9,403.2	9,611.0	9,441.7	9,470.8
International	**944.6**	974.1	1,087.2	1,180.3	1,084.6
	10,181.9	10,377.3	10,698.2	10,622.0	10,555.4
Operating profit before adjusting items[1]					
UK Clothing & Home	**223.9**	355.2			
UK Food	**236.7**	212.9			
Other	**19.4**	27.0			
Total UK	**480.0**	595.1	535.4	626.2	726.7
International	**110.7**	130.5	135.2	64.4	58.2
Total operating profit before adjusting items	**590.7**	725.6	670.6	690.6	784.9
Net interest payable	**(211.2)**	(239.7)	(107.4)	(106.1)	(110.6)
Pension finance income	**23.6**	25.8	17.7	29.3	15.3
Profit on ordinary activities before taxation and adjusting items	**403.1**	511.7	580.9	613.8	689.6
Adjustments to reported profit	**(335.9)**	(427.5)	(514.1)	(437.4)	(200.8)
Income tax expense	**(39.8)**	(38.9)	(37.7)	(60.7)	(84.4)
Profit after taxation	**27.4**	45.3	29.1	115.7	404.4

		2020 52 weeks	2019 52 weeks	2018 52 weeks	2017 52 weeks	2016 53 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**1.3p**	2.5p	1.6p	7.2p	24.9p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**16.7p**	23.7p	27.8p	30.4p	35.0p
Dividend per share declared in respect of the year		**3.9p**	13.3p	18.7p	18.7p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	**4.3x**	1.8x	1.5x	1.6x	1.9x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	**3.4x**	3.6x	3.8x	3.4x	3.7x
Statement of financial position						
Net assets (£m)		**3,708.5**	2,469.2	2,954.2	3,150.4	3,443.4
Net debt[3] (£m)		**4,025.2**	4,075.4	1,827.5	1,934.7	2,138.3
Capital expenditure (£m)		**332.0**	294.5	300.5	331.2	525.1
Stores and space						
UK stores		**1,038**	1,043	1,035	979	914
UK selling space (m sq ft)		**16.8**	17.2	17.6	17.4	17.0
International stores		**481**	445	429	455	469
International selling space (m sq ft)		**5.0**	4.9	5.2	5.9	6.1
Staffing (full-time equivalent)						
UK		**49,094**	50,578	53,273	53,562	52,388
International		**4,894**	4,862	5,655	6,202	6,507

The above results are prepared under IFRS for each reporting period on a consistent basis, with the exception of the adoption of IFRS 9 and IFRS 15 in 2019 for which comparative periods have not been restated and the adoption of IFRS 16 in 2020 for which the comparative period of 2019 has been restated.

1. Based on continuing operations.
2. Following the change in reportable segments, as disclosed in note 2, the comparative period of 2019 has been restated to reflect the new reportable segments; however, previous periods have not been restated.
3. Excludes accrued interest.

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
Like-for-like revenue growth	Movement in revenue per the income statement	Sales from non like-for-like stores	The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.

	52 weeks ending 28 March 2020 £m	30 March 2019 £m
UK Food		
Like-for-like	5,872.1	5,760.7
Net new space	156.1	142.7
Total UK Food revenue	**6,028.2**	**5,903.4**
UK Clothing & Home		
Like-for-like	3.196.9	3,407.0
Net new space	12.2	92.8
Total UK Clothing & Home revenue	**3,209.1**	**3,499.8**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
M&S.com revenue/ Online revenue	None	Not applicable	Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Revenue growth at constant currency	None	Not applicable	The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.

	2019/20 £m	2018/19 £m	%
International revenue			
At constant currency	944.6	969.1	(2.5)
Impact of FX retranslation	–	5.0	
At reported currency	944.6	974.1	(3.0)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Operating Committee.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
EBIT before adjusting items	EBIT[1]	Adjusting items (see note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT[1]	Not applicable	Calculated as Ocado Retail Limited earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items.
Operating profit before adjusting items	Profit before tax	Adjusting items (See note 5)	Operating profit before the impact of adjusting items, financing income/costs and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
Profit before tax and adjusting items	Profit before tax	Adjusting items (see note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted earnings per share	Earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (see note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed.
Cash flow measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Other measures</td></tr>
<tr><td>Covid-19 scenario</td><td>None</td><td>Not applicable</td><td>As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan.
As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario.
The downside scenario assumes the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation.
This downside scenario was approved by the Directors and is defined as the Covid-19 scenario.</td></tr>
<tr><td>Capital expenditure</td><td>None</td><td>Not applicable</td><td>Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.</td></tr>
<tr><td>Return on capital employed</td><td>None</td><td>Not applicable</td><td>Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:
<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th></tr>
<tr><td>EBIT before adjusting items</td><td>590.7</td><td>725.6</td></tr>
<tr><td>Average capital employed</td><td>5,887.5</td><td>6,140.2</td></tr>
</table>
This measure is used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>Dividend per share</td><td>None</td><td>Not applicable</td><td>The total declared dividends per share in respect of a financial year.</td></tr>
</table>

1. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.