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Marks and Spencer Group Plc
Half Year Results For 26 Weeks Ended 26 September 2020
"ROBUST PERFORMANCE IN UNPRECEDENTED TIMES AS TRANSFORMATION ACCELERATES"

Robust performance in the face of Covid
- Food adjusted operating profit up 19% as the Group mitigated hospitality/franchise closures: Total LFL up 2.7%, ex. hospitality up 6.6%
- Ocado Retail revenue up 47.9% and growth in profitability. M&S H1 share of net profit £38.8m
- Improving C&H performance post spring lockdown: Revenue decline of 61.5% Q1; 21.3% Q2
- C&H online sales up 34.3% and market share grown, now #2 in the market
- Strong sell through of surplus stock. £8m raised for NHS Charities through 'Rainbow Sale'
- Adjusted operating profit of £61.8m and free cashflow of £77.6m
- Net debt reduced, substantial liquidity with £1.4bn of cash and available facilities
- Group revenue down 15.8%, adjusted loss before tax of £17.4m and statutory loss before tax of £87.6m

Never the Same Again actions to accelerate transformation
- Central leadership streamlined and strengthened; support centre costs reduced
- M&S on Ocado delivered: Overwhelmingly favourable customer response and synergies on track
- Store estate for the future: Streamlining of store costs and improved productivity, supported by market leading technology
- Sparks loyalty programme relaunched and grown to over 8m members, with over 1.5m app downloads
- Building on investment in data and digital with launch of a new division 'MS2' within C&H to step change online growth

26 weeks ended	26 Sep 20	28 Sep 19 Restated[2]	*Change %*
Group revenue	£4,090.9m	£4,860.9m	*-15.8*
Group operating profit before adjusting items	£61.8m	£269.9m	*-77.1*
(Loss)/profit before tax & adjusting items	£(17.4)m	£176.3m	-
Adjusting items	£(70.2)m	£(17.5)m	-
(Loss)/profit before tax	£(87.6)m	£158.8m	-
(Loss)/profit after tax	£(71.6)m	£122.4m	-
Basic (loss)/earnings per share	(3.5)p	6.4p	-
Adjusted basic (loss)/earnings per share	(0.4)p	7.1p	-
Free cash flow[1]	£77.6m	£23.3m	*233.0*
Net debt	£3.91bn	£4.14bn	*-5.6*
Net debt excluding lease liabilities	£1.40bn	£1.61bn	*-13.1*
Dividend per share	-	3.9p	-

Steve Rowe CEO: "In a year when it has become impossible to forecast with any degree of accuracy, our performance has been much more robust than at first seemed possible. This reflects the resilience of our business and the incredible efforts of my M&S colleagues who have been quite simply outstanding. But out of adversity comes opportunity and, through our Never the Same Again programme, we have brought forward three years change in one to become a leaner, faster and more digital business. From launching M&S Food online with Ocado to establishing an integrated online business division 'MS2' to step-change growth, we are taking the right actions to come through the crisis stronger and set up to win in the new world."

[1]*Free cash flow is cash generated from operating activities less capital expenditure, cash lease payments and interest paid*

[2]*The comparative figures for the half year ended 28 September 2019 have been restated to reflect the correction of an error that resulted from the transition to IFRS 16 Leases, resulting in an increase in profit for the period of £5.3m*

There are a number of non-GAAP measures and alternative profit measures "APM", discussed within this announcement and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

NEVER THE SAME AGAIN

In May we outlined our intention to bring forward elements of the transformation as a result of the crisis to accelerate change under the Never the Same Again ("NTSA") programme. NTSA has impacted the shape and ways of working across the whole family of businesses with a focus on delivering a faster more streamlined digital multichannel business now. Highlights in the period include:

- A strengthened central leadership team with the arrival of Eoin Tonge, CFO, Richard Price MD Clothing & Home and Katie Bickerstaffe, Chief Transformation and Strategy Director and multiple further appointments in each of the businesses
- The successful switchover to supply of M&S products to Ocado Retail from 1 September and the strong performance of M&S products on the platform since launch
- Substantial restructuring and store cost reduction introducing new more flexible working and shifting focus and time to front of house service, enabled by the roll-out of market leading store technology
- Sparks loyalty programme relaunched and grown to over 8 million members as a digital first loyalty scheme through the M&S App, building on recent investment in data science capabilities to drive greater loyalty and engagement
- A substantial acceleration in the reshaping of Clothing & Home reflecting both lower demand but also the need to move to more popular faster moving mainstream product
- The launch of 'MS2' our new integrated global digital, data and online business division to enable Clothing & Home to compete like a pure play and maximise the significant online opportunity

These changes, combined with the continued transformation of the underlying businesses leave M&S well positioned to exit from the crisis in a stronger, leaner and more focused position.

ROBUST PERFORMANCE IN THE FACE OF COVID

The business has performed better than expected during the first half with revenue down 15.8%, outperforming the Covid-19 planning scenario by 22.8%. As a result, the Group exited the period with reduced stock levels year on year and generated free cashflow. Group net debt reduced £118.5m and at the end of the period we had £1.4bn of cash and available facilities including the £1.1bn undrawn revolving credit facility.

Strong Food performance mitigating hospitality and franchise closures: LFL ex hospitality up 6.6%

The Food business has performed strongly despite substantial Covid headwinds during the six-month period achieving 2.7% LFL growth or 6.6% when excluding hospitality, which was largely closed during lockdown. It adapted rapidly to the change in shape of demand to deliver improving LFL growth across the period. This was despite headwinds which included the exposure to travel and office locations, high dependence on food-to-go and a presence in full line stores in impacted shopping centre locations.

The change in shape of trade is illustrated in the table below with the adversely affected areas collectively accounting for c.40% of prior year sales.

% change to LY (Q2)	
Simply Food	19
Retail Parks	13
Franchise fuel	9
M&S.com (flowers/hampers/wine)	119
Total	**18**

% change to LY (Q2)	
High Street	-14
Shopping centre	-13
City centre	-29
Franchise travel (rail/air/roadside)	-75
Total	**-26**

During this period as customers completed larger shops categories such as grocery & household and meat, fish and poultry performed well, offsetting the adverse impact on categories such as hospitality and food-on the-move which together accounted for around one quarter of prior year sales in total.

% change to LY (Q2)	
Meat, fish, poultry, deli	16
Produce & flowers	5
Beers, wines, spirits	22
Grocery & household	46
Frozen	41
Total	12

% change to LY (Q2)	
Food-on-the-move	-41
Hospitality	-65
Bakery, cakes & biscuits	-
Total	-27

Operating profit before adjusting items increased 19.0% driven by the strong underlying performance with product mix effects due to the reduced sales in food-on-the-move and hospitality more than offset by lower costs.

Transformation priorities

The Food transformation plan has an objective of protecting the magic of M&S Food while modernising its systems, processes and store base, broadening its appeal and moving to 'trusted value'

- Value perception continues to improve, supported by the further expansion of Remarksable lines and fewer promotions
- We are creating over 750 new lines including in organic, Remarksable value, grocery and homecare to broaden appeal both on Ocado and in store, where c.450 of these products are now also available
- The five renewal stores reopened last year performed well as customers responded to broader ranges and better display. Key elements of this format have been successfully implemented in new stores such as Notting Hill, Nottingham Giltbrook and Maidstone
- The Vangarde supply chain processes have been implemented across 159 stores, with early indications from the first phase of positive sales growth averaging 1.8% compared with similar stores
- In September, a new ambient Food depot opened in Milton Keynes providing capacity for further growth.

The business successfully executed on the critical strategic milestone of making the M&S range available online for the first time at Ocado.com. The customer response to switchover was overwhelmingly positive with demand for the new range driving both an increase in the number of products in customer baskets and strong forward demand. Suppliers have benefited from the additional volume opportunity from online growth through Ocado Retail and synergies are on track with an expected £15m in the current financial year.

Growth of 47.9% and strong initial return on investment from Ocado Retail

Last year's investment in 50% of Ocado Retail means M&S is well positioned to take advantage of the long-term opportunity created by the step change in online grocery shopping in the UK. Ocado Retail delivered 47.9% year on year revenue growth for the 26 weeks to 30 August 2020. This has been an exceptional period for Ocado Retail helped by Covid related increase in demand for online shopping. Higher than normal average basket size, combined with optimisation initiatives, drove efficiencies in customer fulfilment centres (CFCs) and lower delivery costs as a percent of sales. Including exceptional anticipated insurance receipts, Ocado Retail generated a first full half year contribution to M&S Group adjusted profit before tax of £38.8m.

Revenue growth at Ocado Retail is currently constrained by the capacity limits of its established CFC network, but investment is in place to drive substantial growth with 40% additional capacity coming on stream by Autumn 2021 and further growth thereafter.

Improving C&H performance post lockdown with strong online sales growth and sell through of surplus seasonal stock

The Clothing & Home result was heavily impacted by the full Covid lockdown in the first quarter, ongoing social distancing and the priority to clear stock. As a result total revenue declined 40.8%, comprising a decline of 61.5% in quarter one and 21.3% in quarter two. Online revenue increased 34.3% driven by strong traffic, increased conversion and lower returns. Online growth was supported by previous investment in capacity at Castle Donington distribution centre which performed well during the period, although, this growth was insufficient to offset the decline in store sales. The business is emerging well ahead of the Covid-19 scenario both in sales and stock position and there are signs that new range structures can drive sales.

After stores reopened in the second quarter following the Spring lockdown, the business still had substantial headwinds to deal with in the form of a store estate generating two thirds of sales in high streets, shopping centres and town centres and a product mix in which formal, outerwear and event related categories accounted for around one quarter of sales last year.

The underperformance of destination stores in city centres and shopping centres is illustrated in the table below with retail parks, outlets and clothing lines sold within Simply Food stores outperforming the average.

% change to LY (Q2)	
Retail Parks	-25
Outlets	-26
C&H in Food stores	-30
Total	**-25**

% change to LY (Q2)	
High street	-39
Shopping centre	-46
City centre	-53
Total	**-45**

The strong category shift is illustrated in the table below with casual clothing, kids, lingerie and home strongly outperforming formal, holiday, shoes and outerwear, with the variance particularly marked online.

% change to LY (Q2)	Online	Stores
Casual	40	-37
Kids	83	-31
Lingerie & mens essentials	87	-37
Home & beauty	27	-33
Total	**54**	**-36**

% change to LY (Q2)	Online	Stores
Formal	-16	-54
Holiday	-34	-50
Shoes & accessories	-20	-55
Outerwear	-5	-46
Total	**-17**	**-54**

We expect some of the changes in mix to continue into the future as working life and the use of offices changes but post Covid, there will also be a recovery in demand for occasion and formalwear as events return.

C&H recorded an operating loss before adjusting items of £107.5m reflecting the lower sales and the successful clearance of surplus seasonal ranges, partly offset by a reduction in operating costs.

Transformation priorities

Central to the transformation programme is a far-reaching re-engineering of the Clothing & Home range and these changes have been accelerated and made even more urgent as a result of Covid. With the arrival of Richard Price as MD of Clothing & Home we are bringing forward implementation of the strategy:

- Turbo-charging online growth through the launch of 'MS2', creating an integrated global digital, data and online business division within Clothing & Home with operating flexibility to compete with pure play competition and develop our growing portfolio of guest brands
- Further reducing option count and the long tail of slow-moving SKUs to reshape the range to volume buys of faster moving lines and concentrating supply into fewer, high quality suppliers delivering better quality and cost price. For Autumn Winter, option count has been reduced by a further 20% resulting in an estimated 30% reduction versus 2018
- Moving to 'trusted value' and maintaining quality while reducing the proportion of sales sold at discount including store wide blanket sale events and materially reducing the quantum of product ending up in clearance. Already 'Friends & Family' promotions have been removed.
- Reducing costs and improving stock flow by re-engineering the end to end supply chain under an integrated supply and sourcing team led by Paul Babbs our new Supply Chain director. Already we

are planning a substantial shift away from the highly labour-intensive singles picking network which was designed to manage the old, wide, slow-moving range under the previous 'single tier' project
- Using the new instore technology base, more concentrated ranges and supply chain improvements to restructure store operating costs whilst moving resource from administration and stock shifting to front of house service.

Launching a fully integrated online, digital and data division 'MS2' to maximise the online opportunity

Over the past three years the group has made significant investment in its online capabilities including transitioning its web platform to the cloud, building a comprehensive customer data engine for over 20m customers, and improving and relaunching the Sparks loyalty programme. This has been supported by expansion of capacity and improvements to operations at the Castle Donington distribution centre, which has enabled a c.50% increase in singles despatch in the first half of the year and recent growth in market share such that it is now the second largest Clothing online business in the UK.

However, to date M&S.com has been structured as the online channel of a stores retail business moving in lockstep with the rhythm of physical store-based trading rather than competing head to head with pure play competitors. Building on the investments we have made in recent years and embedding the pure play mentality and ways of working we began to adopt during lockdown, we are launching a new division within the Clothing & Home business MS2 to maximise online growth. MS2 inverts the model to create a single integrated online, digital and data team within Clothing & Home supported by our stores and a refocused product supply engine.

MS2 will bring together online, data and digital trading capabilities under a single team trading at a faster pace with range and availability adapted to the online model. The group will be led jointly by Richard Price and Katie Bickerstaffe with a mandate to compete as a 'pure play'. It will include:

- A step change in online product, presentation, pricing and social marketing including recognition that the online business will need a focused range
- A mandate to ensure we move towards more rapid fulfilment, investing in and expanding Castle Donington capacity
- Maximum usage of one of the best customer databases in the UK to drive digital customer engagement and build loyalty following the Sparks relaunch which has built to over 8m members
- A reinvented M&S App at the centre of online growth initiatives, building on the 1.5m downloads since the relaunch of Sparks and completely repositioning M&S financial and other services
- Creating a seamless "order online-order in store" approach by bringing a new click and collect and digital sales experience into five test and learn stores
- A commitment to drive growth in our International business through online propositions more aggressively at pace. Our International eCommerce operations will be brought into MS2 so they are managed alongside the UK business instead of being operated as separate channels
- Growing a curated portfolio of brand partnerships following the launch of Nobody's Child.
- All of this will be supported by the work being done on our end-to-end supply chain so that we're set up to deliver as a true omnichannel business.

Over three years our ambition is to achieve an online sales mix of at least 40%.

International Franchise and online contribution offset Covid pressures

Total International revenue declined 25.5% in the period reflecting the impact of lockdowns in multiple geographies in quarter one, peaking with the closure of 84% of all international stores and progressive reopening in quarter two. These impacts were partly offset by an International online sales increase of 75.4%.

Operating profit before adjusting items of £19.7m reflected the impact of lockdown in key owned markets such as India, where the closures were prolonged, and in Ireland. This was offset by resilient profit from franchise operations and a rapidly growing income stream online.

Transformation priorities

Through the crisis the capital light franchise and partner driven International model continues to work well. Our priority is to focus on developing online and partner sales globally. In the period, this included the launch of 6 dedicated flagship websites and the launch of M&S product on third party sites such as Zalando. In addition we are supporting partner growth with an increasingly localised proposition and fulfilment.

Shifting gears on store estate for the future

During the crisis, the business has demonstrated that it can use technology to communicate effectively and work more flexibly and productively. This has enabled colleagues multi-tasking and transitioning between Food and Clothing & Home and focusing on front line customer service. In August, the group announced a programme to streamline its store operations, regional management structures and support centres, which is now complete generating annualised cost savings of at least £115m helping us emerge from the crisis with a more productive business.

Covid has also underlined the imperative to continue to drive the modernisation of the store estate as many of the modern retail park stores with good parking outperformed but the business has been held back by the legacy estate: We now have a long term programme to catch up on the task of rotating the estate and releasing cash from the group's freehold and leasehold asset base to manage liability and reduce cost. During the period (three) new full line stores were successfully launched, five Simply Food stores were opened and 10 stores were closed. (11) leases were re-geared with an average (34%) rent reduction.

Plan A

As the world emerges from the crisis, we believe customers will look to brands they can trust and have confidence in to offer quality and value through trading ethically. During the first half of the year, our Plan A programme focused on managing the impact of Covid on the most vulnerable and healthcare workers. Highlights of the programme in the period included:

- Raising over £8m for NHS staff, volunteers and patients through the Rainbow sale in Clothing & Home, which helped trade through the surplus seasonal stock
- Redesigning packaging to remove unnecessary plastic such as carton lids, light weighting to use less plastic and making packaging easier to recycle with new bakery bags and sandwich packs that are recyclable
- Enhancing our climate change commitments from carbon neutral operations today to net zero emissions by 2035
- Replacing soya feed in M&S RSPCA Assured milk avoiding 4,000 tonnes being used each year. We also highlighted the sustainability credentials of over 4,000 products on M&S.com
- Working with our longstanding partner, Neighbourly, we have helped to put more than 6 million meals on the table for those who need it most by working with 1,500 local community groups

Net debt reduced with substantial available liquidity of £1.4bn, providing resistance against further disruption

At the start of the year the group outlined a Covid-19 scenario for liquidity planning purposes which anticipated peak drawings on its credit facilities in excess of £650m at half year reducing to £300-350m at year end. A combination of stronger trading than the scenario, concerted action on cash management and reduced costs has resulted in substantial outperformance of the liquidity scenario with cash generation and a reduction in debt at the half. The group has substantial liquidity comprising £286m of cash at the half year and £1.1bn of committed facilities which are undrawn, positioning it well for the remainder of the year and for the medium term.

Preparedness for Brexit

Our plans for the transition period ending 31 December 2020 are well advanced. Preparations have covered both the changes required for the transition, and further activity and mitigation in the event no Free Trade Agreement deal is signed with the EU.

A key focus in Food has been managing the administrative changes to import from the EU and moving goods from Great Britain to Northern Ireland and our European markets. We have invested in technology that will support us in tracking goods and providing the information required for the new customs and certification requirements. For goods inbound to the UK from the EU we are working with suppliers on import compliance to ensure continuity of supply. We have also created a single export centre in Motherwell to manage goods movements from Great Britain to the island of Ireland.

The increased administration will result in additional costs for both our Food and International businesses. If no Free Trade Agreement is signed with the EU there will be further costs for all food retailers in the UK which will likely affect retail pricing. There would also be a potential further reduction in the profitability of our International businesses. In particular this could have a material impact on our businesses in the Republic of Ireland and the Czech Republic and on our franchise food stores business in France.

The impact on the Clothing & Home business is much less than on Food. We have taken steps to mitigate any tariffs on inbound supply by establishing a customs warehouse and on ensuring business continuity in Northern Ireland and the Republic of Ireland by ensuring product labelling meets UK and EU requirements.

Outlook

There remains significant uncertainty regarding the near-term outlook in relation to both Covid and Brexit. Trading in the first four weeks of the second half has continued at similar rates to the end of Q2, with Food revenue up 3.0%, C&H revenue down 21.5% and International revenue up 7.4% due to the timing of shipments.

Although trading strongly, the business is entering a period of new Covid-related restrictions including the proposed circuit breaker lockdown. This will impact C&H profit as store sales are significantly reduced, albeit offset by increased online sales and reduced costs supported by furlough income. Prior to this impact our planning assumption for the balance of H2 in Clothing & Home was for similar sales trends to the first few weeks of H2. We enter this period with C&H stock levels down by more than £100m on last year and with less stock hibernated to next Spring than previously envisaged.

The group has made substantial plans to ensure customers can shop with confidence this Christmas, including the expansion of the teams to serve online orders by 30% in Castle Donington and an increase in-store picking capacity and the introduction of the book and shop app to help eliminate the requirement to queue over peak. We have also invested behind product lines which will provide flexible options for smaller gatherings.

Throughout this uncertain period and as we start to emerge from the crisis, our financial priority is to fund the transformation while focusing on generating cash and strengthening the balance sheet. Our objective is to ensure the business emerges from these uncertainties in a stronger, leaner and more focused position and with balance sheet metrics consistent with investment grade in the medium term.

We expect to report a third quarter trading update on 8 January 2021.

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Investor & Analyst presentation and Q&A:

A pre-recorded investor and analyst presentation will be available on the Marks and Spencer Group plc website from 8.00am on 4 November 2020.

Steve Rowe and Eoin Tonge will host a Q&A session at 9.30am on 4 November 2020:

Dial in number: +44 33 0606 1122 Room Number: 016384 Pin: 7140

Fixed Income Investor Conference Call:

This will be hosted by Eoin Tonge, Chief Finance Officer, at 2pm on 4 November 2020:

Dial in number: +44 33 0606 1122 Room Number: 753824 Pin: 7026

International Access Numbers

US: +1 646 813 7960

ITFS: International Access Numbers

A recording of this call will be available until 5pm on 11th November 2020:

Dial in number: +44 33 0606 1122 Access code: 186855

HALF YEAR FINANCIAL REVIEW

Financial Summary

26 weeks ended	26 Sep 20 £m	28 Sep 19 Restated £m	*Change* *%*	28 Mar 20 £m
Group revenue before adjusting items	**4,102.1**	**4,860.9**	***-15.6***	**10,181.9**
UK Food	2,838.6	2,845.8	*-0.3*	6,028.2
UK Clothing & Home	917.2	1,550.4	*-40.8*	3,209.1
International	346.3	464.7	*-25.5*	944.6
Group operating profit before adjusting items	**61.8**	**269.9**	***-77.1***	**590.7**
UK Food	109.7	92.2	*19.0*	236.7
UK Clothing & Home	(107.5)	109.6	-	223.9
International	19.7	55.8	*-64.7*	110.7
M&S Bank and services	1.1	12.9	*-91.5*	16.8
Share of result in associates and joint ventures	38.8	(0.6)	-	2.6
Interest on leases	(62.2)	(68.3)	*8.9*	(133.4)
Net financial Interest	(17.0)	(25.3)	*32.8*	(54.2)
(Loss)/profit before tax & adjusting items	**(17.4)**	**176.3**	**-**	**403.1**
Adjusting items	(70.2)	(17.5)	-	(335.9)
(Loss)/profit before tax	**(87.6)**	**158.8**	**-**	**67.2**
(Loss)/profit after tax	**(71.6)**	122.4	-	27.4
Basic (loss)/earnings per share	(3.5)p	6.4p	-	1.3p
Adjusted basic (loss)/earnings per share	(0.4)p	7.1p	-	16.7p
Dividend per share	-	3.9p	-	3.9p
Net debt	**£3.91bn**	**£4.14bn**	***-5.6***	**£4.03bn**

Notes:
There are a number of non-GAAP measures and alternative profit measures "APM", discussed within this announcement and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

Group results

Group revenue decreased 15.6%. UK revenue declined 14.6% driven by Clothing & Home and International revenue declined 25.5%. As a result the group generated an adjusted loss before tax of £17.4m and a statutory loss before tax of £87.6m.

Statutory loss before tax includes total charges for adjusting items of £70.2m including charges of £92.1m related to organisation restructure and a £49.4m stock related credit representing the partial release of the provision established at FY19/20 as directly attributable to Covid following better than expected trading results. For full details on adjusting items and the group's related policy see notes 1 and 3 to the financial information.

The following items related to the Covid pandemic contributed a total of £10m to the adjusted loss before tax.

Items relating to Covid within adjusted loss before tax	Group £m	C&H £m	Food £m	International £m
Salary costs for colleagues on furlough	(149.9)	(109.9)	(32.6)	(7.4)
Government grants – furlough income	97.6	72.6	21.6	3.4
Bonuses for non-furloughed colleagues	(26.7)	(5.6)	(21.0)	(0.1)
Estimated lower colleague holiday hours	19.4	7.3	12.1	-
Business rates relief	83.7	49.2	34.5	-
Operational costs related to Covid	(34.1)	(7.7)	(26.4)	-
Total adjusted loss impact	**(10.0)**	**5.9**	**(11.8)**	**(4.1)**

Reporting of accountable businesses

In FY 2019/20, the Group completed a comprehensive review of the way operating costs are allocated, allowing management to review the operating profit of each business. As a result, the Group now recognises three operating segments, being UK Clothing & Home, UK Food and International (previously UK and International). This allows the financial information to align to the way the business is managed and holds leadership appropriately to account.

The review has resulted in for the half year ended 28 September 2019 a reallocation of £6.8m of central costs from the previous UK segment to International (£5.8m) and M&S Bank (£1.0m). In addition, certain M&S.com flagship websites, which last year generated £19.1m of revenue and £1.7m of operating profit before adjusting items have been reclassified from UK Clothing & Home to International.

UK: Food

UK Food revenue decreased 0.3% with the decline attributable to the initial effects of lockdown in April which was followed by an improving trend in performance from quarter one to quarter two. Revenue was adversely impacted by the closure of franchise stores in travel locations and hospitality and café areas within stores. Like for like revenue grew in both quarters.

% change to LY	Q1	Q2	H1
Food	-2.1	1.6	**-0.3**
Food LFL	2.0	3.4	**2.7**
Food LFL ex hospitality	6.7	6.5	**6.6**

Operating profit before adjusting items increased 19.0%, largely due to reduced costs which more than offset an adverse mix impact on gross margin.

26 weeks ended	26 Sep 20 £m	28 Sep 19 Restated £m	Change %
Revenue	2,838.6	2,845.8	*-0.3*
Operating profit before adjusting items	**109.7**	**92.2**	***19.0***
Operating margin	*3.9%*	*3.2%*	*70bps*

The table below sets out the drivers of the movement in operating profit before adjusting items.

	£m
19/20 operating profit	92.2
Gross profit	(25.5)
Store staffing	8.8
Other store costs	32.7
Distribution and warehousing	(16.9)
Central costs	18.4
20/21 operating profit	109.7

- Gross profit decreased £25.5m or c.80bps. This was driven by an adverse mix impact of an estimated 140bps as a result of the shift in sales from hospitality and food on the move and into categories such as milk, fish and poultry, grocery and produce, which was partly offset by cost saving programmes including initial synergies from Ocado supply
- The reduction in gross profit was more than offset by operating cost savings. Overall we incurred £67.9m of costs relating to Covid which were offset by £56.1m of government support measures
- The reduction in Store staffing costs was driven by in store operational efficiencies including increased flexibility and permanent changes to ways of working partly helped through the prior investment in front-line tech enabled communication. We incurred £68.1m of costs relating to furloughed colleagues, staff bonuses for working through lockdown and the costs of additional door hosts which was partly offset by furlough support and the benefit of lower holiday hours in the period
- The movement in other store costs largely relates to business rates relief of £34.5m
- Distribution costs increase driven by delivery costs of strong online orders of flowers and wine and additional costs related to cleaning and social distancing in depots
- The reduction in central costs was largely driven by lower marketing activity.

UK: Clothing & Home

Clothing & Home revenue decreased 40.8% as a result of the impact of lockdown on store sales in quarter one, with improved performance following reopening in quarter two. Following initial disruption in April, online sales remained strong throughout the period supported by lower returns rates. There was a substantial shift from office dressing and formalwear, into casual adult clothing, while kids, home and beauty also performed well online.

% change to LY	Q1	Q2	H1
Clothing & Home	-61.5	-21.3	**-40.8**
Clothing & Home stores	-83.8	-39.5	**-61.1**
Clothing & Home online	21.5	46.4	**34.3**
Clothing & Home LFL	-59.3	-21.2	**-39.3**

Full price sales decreased 43.4% with discounted sales outperforming total sales as the Group's 'Rainbow sale' helped clear surplus stock, particularly in store and generated an £8m charitable donation to NHS charities.

The business generated an operating loss before adjusting items of £107.5m. While online growth resulted in a substantial improvement in online contribution margin, this was more than offset by the decline in stores.

26 weeks ended	**26 Sep 20 £m**	**28 Sep 19 restated £m**	**Change %**
Revenue	917.2	1,550.4	*-40.8*
Operating (loss)/profit before adjusting items	**(107.5)**	**109.6**	**-**
Operating margin	*-11.7%*	*7.1%*	-

The table below sets out the drivers of the movement in Clothing & Home operating (loss)/profit before adjusting items.

	C&H £m
19/20 operating profit	**109.6**
Gross Profit	(389.1)
Store staffing	80.0
Other store costs	54.7
Distribution and warehousing	(5.7)
Central costs	43.0
20/21 operating (loss)	**(107.5)**

- Gross profit decreased £389.1m or 310bps. While buying margin increased 20bps driven by reduced input costs, the margin decline was largely a result of the closure of stores in quarter one and the resulting increased weight of discounted sales as surplus stock sold through at better than expected rates post lockdown
- The decrease in gross profit was partially offset by actions to lower costs. Overall, we incurred £115.9m of costs relating to Covid which were offset by £121.8m of government support measures
- Store staffing costs reduced driven by in store operational efficiencies including permanent changes to ways of working partly helped through the prior investment in front-line tech enabled communication. We incurred £108.6m of costs relating to furloughed colleagues, staff bonuses for working through lockdown and the costs of additional door hosts which was partly offset by furlough support and the benefit of lower holiday hours in the period
- Other store costs reduced due to business rates relief of £49.2m as well as utility savings in Clothing & Home space closed off during lockdown
- Distribution and warehousing increased by £5.7m with higher costs to serve online demand both from the Castle Donington warehouse and in-store partially offset by volume savings from reduced deliveries to store. The overall increase in distribution and warehousing costs was offset by delivery income within revenue
- The decline in central costs was largely driven by lower marketing activity and a reduction in depreciation of technology assets as we move to cloud-based solutions.

International

International revenue decreased 24.7% at constant currency with stores in both owned and franchise markets adversely impacted by Covid restrictions in quarter one, followed by a subsequent improvement following reopening in quarter two. Online sales remained strong throughout, particularly in markets in which the group has a store presence and through partner websites.

% change to LY	Q1 CC	Q2 CC	H1 Reported	H1 CC
International	-40.7	-9.2	-25.5	-24.7
International online	91.9	61.8	75.4	76.6

26 weeks ended Revenue	26 Sep 20 £m	28 Sep 19 Restated £m	*Change* *%*	*Change* *CC %*
Franchise	144.2	191.6	*-24.7*	*-24.4*
Owned	202.1	273.1	-26.0	-24.9
Total	**346.3**	**464.7**	***-25.5***	***-24.7***
Operating profit before adjusting items				
Franchise	23.0	32.3	*-28.8*	
Owned	2.3	29.3	*-92.2*	
Corporate costs	(5.6)	(5.8)	*3.4*	
Total	**19.7**	**55.8**	***-64.7***	

Within the owned business, India was heavily impacted by strict lockdown measures and the weighting of the business towards Clothing & Home. In European markets the Republic of Ireland and Czech Republic benefited from their more resilient Food offering and strong online growth. Franchise profits reflect the decline in shipments as partners managed stock positions in the face of restricted trading.

Operating profit before adjusting items decreased 64.7%, with resilient franchise profitability and online contribution helping to partly mitigate the impact of lower sales in owned markets. Covid related costs of £7.5m largely relating to colleagues on International staff support schemes were partially offset by government support of £3.4m. In addition, in owned markets the result benefited from £4.6m of both government and landlord rent relief.

Ocado Retail Limited

The Group holds a 50% interest in Ocado Retail Ltd ("Ocado"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Half year results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 31 May 2020 and 30 August 2020.

Group share of consolidated results of Ocado Retail Limited

	26 weeks to 30 August 20 £m
Revenue	1,167.7
EBITDA before exceptional items	89.1
Exceptional items	28.5
Operating profit	100.5
Profit after tax	77.6
M&S 50% share of profit	**38.8**

Ocado Retail Limited is reported as an associate of M&S as certain rights are conferred on Ocado Group plc for an initial period of at least five years from acquisition. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts

Retail revenue grew 47.9% as the channel shift to online grocery in the UK continues. While order size began to normalise from Covid related peaks, it remained above pre pandemic levels, with orders per week increasing to 345,000 in the second quarter as a result of a combination of strong demand, a phased re-opening of the website to new customers, and a normalisation of shopping patterns.

Ocado Retail EBITDA before exceptional items was £89.1m, driven by strong revenue growth and cost performance reflecting a period of sustained high demand. Units per hour throughput (UPH) increased in customer fulfilment centres (CFCs), driven mainly by improvements at Erith CFC. Trunking and delivery costs as a percent of sales were lower despite frontline worker bonuses and reduced deliveries per van, as a result of higher items per basket. Finally, the business had reduced marketing activity as a result of increased demand caused by Covid.

In addition Ocado Retail has recognised £28.5m of exceptional income before tax related to anticipated insurance receipts for business interruption for the period up to 30 August 2020 arising from the Andover fire in 2019, the value of which increased as a result of Covid.

As a result of strong EBITDA growth and insurance receipts, Group share of Ocado Retail profit after tax for the period was £38.8m. After a charge of £7.1m in adjusting items relating to the amortisation of the intangibles on the investment, Ocado Retail contributed £31.7m to Group profit after tax.

This continuing strong performance was reflected in the increased full year guidance by Ocado Group plc in its trading update on 2 November 2020.

M&S Bank and services

M&S Bank and services income before adjusting items was down £11.8m to £1.1m. This was the result of the increase in bad debt forward economic guidance provisions recognised due to the Covid impact on unemployment forecasts as well as a significant decrease in income from credit card income and travel money sales. M&S Bank and services income after adjusting items relating to PPI decreased £2.5m to £(0.3)m.

Net finance cost

	26 weeks ended			52 weeks ended
	26 Sep 20 £m	28 Sep 19 Restated £m	Change £m	28 Mar 20 £m
Interest payable	(38.0)	(42.6)	4.6	(80.5)
Interest income	1.3	6.0	(4.7)	8.6
Net interest payable	**(36.7)**	**(36.6)**	**(0.1)**	**(71.9)**
Pension net finance income	22.8	11.3	11.5	23.6
Unwind of discount on Scottish Limited Partnership liability	(2.4)	(3.4)	1.0	(6.9)
Unwind of discount on provisions	(1.3)	(2.5)	1.2	(4.9)
Ineffectiveness on financial instruments	0.6	5.9	(5.3)	5.9
Net financial interest	**(17.0)**	**(25.3)**	**8.3**	**(54.2)**
Net interest payable on lease liabilities	**(62.2)**	**(68.3)**	**6.1**	**(133.4)**
Net finance costs	**(79.2)**	**(93.6)**	**14.4**	**(187.6)**

Net finance costs decreased £14.4m to £79.2m. This was primarily due to higher pension income due to the increased IAS19 pension surplus at last year end of £1,902.6m. In addition, there was a decrease in the interest payable on lease liabilities and lower interest payable on debt due to the refinancing of the 2019 bond.

Group loss before tax

Group loss before tax was £87.6m, down £246.4m on last year. This includes adjusting items of £70.2m (last half year £17.5m).

Group loss before tax & adjusting items

Group loss before tax and adjusting items was £17.4m, down £193.7m on last year. The profit decrease was due to the decline in Clothing & Home and International operating profits reflecting the impact of Covid related social distancing measures and reduced footfall.

Adjustments to loss before tax

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

	26 weeks ended			52 weeks ended
	26 Sep 20 £m	28 Sep 19 Restated £m	Change £m	28 Mar 20 £m
Strategic programmes - Organisation	(92.1)	(11.3)	(80.8)	(13.8)
Directly attributable to Covid-19	49.4	-	49.4	(163.6)
Sparks loyalty programme transition	(15.3)	-	(15.3)	-
Amortisation and fair value adjustments arising from the investment in Ocado Retail Limited	(7.1)	-	(7.1)	(16.8)
Strategic programmes - UK store estate	(2.9)	(9.9)	7.0	(29.3)
Remeasurement of contingent consideration including discount unwind	1.0	-	1.0	(2.9)
Establishing the investment in Ocado Retail Limited	(1.7)	-	(1.7)	(1.2)
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	(1.4)	(10.7)	9.3	(12.6)
Strategic programmes – Other	(0.1)	(9.1)	9.0	(27.3)
Store impairments and other property charges	-	-	-	(78.5)
Goodwill impairment – per una	-	-	-	(13.4)
Other	-	23.5	(23.5)	23.5
Adjusting items	**(70.2)**	**(17.5)**	(52.7)	**(335.9)**

A charge of £92.1m has been recognised in relation to the Group's plan to integrate more flexible management structures into store operations as well as streamline the business at store and management level as part of the 'Never the Same Again' programme which resulted in a reduction of c.7,950 roles across central support centres, regional management, and our UK stores.

A gain of £49.4m has been recognised as being directly attributable to the Covid pandemic relating to the release of a portion of the inventory provision offset by further costs relating to cancellations and storage. The sell through of Clothing & Home stock has been much stronger than anticipated assisted by the Rainbow sale for NHS Charities resulting in a write back of inventory provisions and to align with our latest estimates of net realisable value based on current sales performance.

Charges of £15.3m have been incurred in relation to the one-off transition costs associated with the closure of the old Sparks loyalty programme following the launch of the new programme in July 2020.

A charge of £7.1m has been recognised relating to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail.

A charge of £2.9m has been recognised in relation to store closures identified as part of transformation plans reflecting an updated view of latest store closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses with total future charges of up to c.£120m estimated within the next seven financial years.

A charge of £1.7m relating to establishing the investment in Ocado Retail Limited has been incurred. These charges related to preparations for the launch of M&S products being sold on the Ocado platform from 1 September 2020.

Charges of £1.4m have been incurred relating to M&S Bank, primarily relating to the insurance mis-selling provision. The Group's share of the total insurance mis-selling provisions of £358.7m exceeds the total offset against profit share of £244.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Taxation

The effective tax rate on profit before adjusting items was 27.0% (last half year 23.1%). Given the lower anticipated level of profits, the effect of the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure has increased compared with previous years. The effective tax rate on statutory profit before tax was 18.3% (last half year 22.9%) due to the impact of disallowable adjusting items.

Loss/Earnings per share

Basic loss per share was (3.5)p (last half year earnings of 6.4p), due to the decrease in profit year-on-year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,951.7m (last half year 1,840.2m).

Adjusted basic loss per share was (0.4)p (last half year earnings of 7.1p) due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

Capital expenditure

26 weeks ended	28 Sep 20 £m	28 Sep 19 £m	Change £m
UK store remodelling	3.6	22.8	(19.2)
New UK stores	9.0	15.6	(6.6)
International	2.3	4.2	(1.9)
Supply chain	10.4	18.6	(8.2)
IT & M&S.com	23.9	32.3	(8.4)
Property asset replacement	5.1	28.2	(23.1)
Capital expenditure before disposals	**54.3**	**121.7**	**(67.4)**
Property acquisitions and disposals	1.1	(1.5)	2.6
Capital expenditure	**55.4**	**120.2**	**(64.8)**

Group capital expenditure before disposals decreased £67.5m to £54.3m as a result of a decision to halt all non-essential spending during the pandemic.

The higher UK store remodelling spend last year largely reflected the investment in three trial renewal stores. Spend on UK store space was down due to the timing of store openings year on year.

Supply chain expenditure reflects investment in Food equipment to support anticipated volume growth and spend on improvements to Castle Donington capabilities to ensure readiness for peak trading during Covid.

IT and M&S.com spend related to the licence for the Food ordering and allocation system and investment in digital capability. Property asset replacement decreased £23.1m due to the prior year asset replacement programme in stores.

Cash flow & net debt

	26 weeks ended			52 weeks ended
	26 Sep 20	28 Sep 19 Restated	Change	28 Mar 20
	£m	£m	£m	£m
Adjusted operating profit	**61.8**	**269.9**	**(208.1)**	**590.7**
Depreciation and amortisation before adjusting items	306.1	315.9	(9.8)	632.5
Cash lease payments	(129.1)	(159.2)	30.1	(335.7)
Working capital	75.0	(67.7)	142.7	(48.5)
Defined benefit scheme pension funding	(36.2)	(36.5)	0.3	(37.9)
Capex and disposals	(132.6)	(149.1)	16.5	(325.9)
Financial interest and taxation	(38.4)	(86.4)	48.0	(171.1)
Investment in associate Ocado Retail Limited	11.5	(577.6)	589.1	(577.8)
Investment in Joint Venture	(2.5)	(2.9)	0.4	(2.5)
Employee related share transactions	6.9	1.8	5.1	9.7
Proceeds from rights issue net of costs	-	583.2	(583.2)	574.4
Share of (profit)/loss from associate	(38.8)	0.5	(39.3)	(2.6)
Cash received from settlement of derivatives	12.7	-	12.7	7.7
Adjusting items outflow	(18.8)	(68.6)	49.8	(88.0)
Free cash flow	**77.6**	**23.3**	**54.3**	**225.0**
Dividends paid	-	(115.1)	115.1	(191.1)
Free cash flow after shareholder returns	**77.6**	**(91.8)**	**169.4**	**33.9**
Exchange and other non-cash movements	(13.1)	4.4	(17.5)	0.8
Change in net financial debt	**64.5**	**(87.4)**	**151.9**	**34.7**
Decrease in lease obligations	77.5	90.2	(12.7)	201.4
New lease commitments	(11.5)	(55.8)	44.3	(204.1)
Exchange and other non-cash movements on leases	(12.0)	(10.0)	(2.0)	18.2
Opening net debt	**(4,025.2)**	**(4,075.4)**	**50.2**	**(4,075.4)**
Closing net debt	**(3,906.7)**	**(4,138.4)**	**231.7**	**(4,025.2)**

The business generated free cash flow of £77.6m largely driven by lower working capital, reduced lease payments due to timing, lower tax payments and lower adjusting items offset by a lower adjusted operating profit.

The working capital inflow since year end 2019/20 was driven by the extension of payment terms for Clothing and Home suppliers and a reduction in Food franchise receivables as a result of travel store closures.

Lower capital expenditure reflects the decision to halt non-essential spend during the Covid pandemic. Cash capital expenditure includes £77.2m relating to prior year capital accruals.

The decrease in financial interest and tax payments of £48.0m is due to the fact that no UK corporation tax has been paid reflecting the half year taxable loss position.

Defined benefit scheme pension funding of £36.2m reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items cash outflow was £18.8m. This included £5.6m in relation to the transition to the new Sparks loyalty programme, £4.7m in relation to the store closure programme, £2.9m relating to Head office restructure, £1.7m relating to costs associated with the launch of M&S product on the Ocado Retail platform, £1.4m for M&S Bank and £1.1m paid for deep storage during the Covid pandemic.

Net financial debt decreased £64.5m from the start of the year. The group currently has £1,386m of total cash and committed credit facilities which are undrawn.

There was a further reduction in the value of discounted lease obligations outstanding. New lease obligations capitalised in the period of £11.5m is largely as a result of the new ambient Food depot. This was more than offset by £77.5m of lease repayments.

Of the outstanding discounted lease commitment at period end approximately 41% related to Full line stores and 30% to Simply Food stores with the balance largely relating to warehousing and offices.

Dividend

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

Pension

At 26 September 2020, the IAS 19 net retirement benefit surplus was £890.0m (£1,902.6m at 28 March 2020). The surplus at last year end had increased significantly due to unusually high credit spreads due to the impact of Covid. During the half year period, credit spreads have reverted to more normalised levels giving rise to the decrease in the surplus.

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

Statement of financial position

Net assets were £2,712.5m at the half year end, a decrease of 26.9% since the start of the year largely due to the decrease in the net retirement benefit surplus.

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect Marks & Spencer's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any forward-looking statements are subject to various risks and uncertainties, including, but not limited to, failure by Marks & Spencer to predict accurately customer preferences; decline in the demand for products offered by Marks & Spencer; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of Marks & Spencer's brand awareness and marketing programmes; general economic conditions including, but not limited to, those related to the Covid-19 pandemic or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2020 Annual Report (pages 33-42).

The forward-looking statements contained in this document speak only as of the date of this announcement, and Marks & Spencer does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

- Ends -

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance and additional information on the impact of Covid-19 on the Group's risk profile were set out on pages 33-42 of the Group's 2020 Annual Report and Financial Statements, along with mitigating activities relevant to each risk. Information on financial risk management was also set out on pages 152-162. A copy of the 2020 Annual Report and Financial Statements is available on the Group's website www.marksandspencer.com. An update on this disclosure is set out below.

Covid-19

The Annual Report identified specific changes to our risk profile as a consequence of the Covid-19 pandemic. In summary, it explained how a failure to effectively respond to the trading, operational, legal and financial consequences of the Covid-19 pandemic in the short term or during the course of a prolonged outbreak would adversely impact business performance.

The Covid-19 specific risks relating to Protection of customers & colleagues, Store portfolio management and Post-crisis recovery have not changed since the publication of the Annual Report and Financial Statements.

The Covid-19 specific risks which have evolved since publication of the Annual Report relate to Liquidity, Clothing & Home Inventory Management and Strategic realignment.

Liquidity: At the start of the year the group outlined a scenario for liquidity planning purposes which anticipated peak drawings on its credit facilities in excess of £650m at half year with a £300-350m increase at year end. However, a combination of stronger trading, concerted action on cash management and reduced costs has resulted in substantial outperformance of the scenario. This has resulted in net cash generation and a reduction in debt at the half year, with committed facilities undrawn. While these activities have had a positive impact, the risk of significantly reduced trading over an extended and currently undetermined timeframe remains and could impact the business's ability to operate within committed credit facilities.

Clothing & Home Inventory Management: The Annual Report noted 'A failure to effectively manage the implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management would adversely impact customer experience, trading performance, liquidity, operational efficiency and third-party relationships for an extended period'. Actions taken by our sourcing teams to manage orders, better than anticipated performance to clear stock lines and implementation of deep storage plans have improved the risk position since the year end. However, the continued uncertainty around the future impact of Covid-19 on customer behaviours and trading conditions means that while reduced, unpredictability of the impact on inventory valuation remains.

Strategic realignment: The Annual Report noted 'An inability to define and successfully implement a revised strategy to rapidly respond to a post-Covid world and the associated changes in customer behaviours and operational requirements would significantly undermine the transformational imperatives of the business'. Significant progress has been made in the period since to align the strategic priorities through the Never The Same Again programme particularly around the focus of online activities. While significant strategic and planning progress has been made since year end, this remains a risk factor as we transition to implementation.

The Covid-19 pandemic may continue to have a significant impact on the business and amplify the existing principal risks and uncertainties as set out below. This now includes the potential consequences of a second period of lockdown in the UK or in our international markets.

Principal risks and uncertainties

The directors do not consider the following principal risks and uncertainties to have changed since the publication of the Annual Report for the year ended 28 March 2020:

- Trading performance recovery
- Business transformation
- Liquidity & funding
- Food safety and integrity
- Corporate compliance and responsibility
- Information security
- Business continuity and resilience
- Third-party management
- Talent, culture and capability
- Technology capability
- Brand, loyalty and customer experience

The following principal risks and uncertainties have changed since the publication of the Annual Report:

Brexit

The Annual Report included a principal risk linked to the UK's exit from the European Union, specifically 'An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.' While this remains applicable, the continued delay in agreeing the terms of the UK's departure from the European Union has elevated the risk of a 'no deal' exit and, consequently, increased the likelihood of more severe operational and economic challenges for both our UK and international business activities following the end of the transitional period than would have occurred under an orderly exit. The potential implications for the business include:

- Deterioration in customer sentiment
- Operational complexity and cost due to restrictions on the movement of goods and stricter border controls (including the movement of goods between Great Britain and Northern Ireland)
- Costs passed through from our suppliers
- Continuity of supply and supplier viability
- The imposition of import and export duties
- Additional regulatory responsibilities and costs
- Increased complexity and cost in our international operations, particularly in the Republic of Ireland, the Czech Republic and our franchise activities in France.

The mitigating activities remain consistent with those disclosed in the Annual Report.

Ocado Retail Investment

The Annual Report and accounts included a risk related to the launch of M&S food products on-line through the investment in Ocado Retail Limited. Specifically, the risk had identified that 'A failure to effectively execute the launch of M&S products for Ocado Retail would significantly impact the achievement of our strategy to take our food online in a profitable, scalable and sustainable way'. Having successfully launched our food range online in September 2020, this risk is no longer applicable.

The directors have concluded however that it should be replaced with a new risk linked to our investment in Ocado Retail Limited and that 'A failure to effectively manage the strategic and operational relationship with Ocado Retail, or a significant deterioration in the trading performance of the business, would significantly impact the achievement of our multi-channel food strategy and the ability to deliver shareholder value' has been added to the principal risks and uncertainties. Mitigating activities include representation on the Ocado Retail Limited Board and Audit Committee, a dedicated M&S project team, and agreed operating processes and ways of working.

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.4R, DTR 4.2.7R and DTR 4.2.8R, namely:

- the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, cash flows and profit or loss of the issuer, or undertakings included in the consolidation;
- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

There have been no changes to the directors of Marks and Spencer Group plc to those listed in the Group's 2020 Annual Report and Financial Statements. A list of current directors is maintained on the Group's website: www.marksandspencer.com.

By order of the Board

Steve Rowe
Chief Executive

Condensed consolidated income statement

		26 weeks ended		52 weeks ended
		26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 March 2020 (Audited)
	Notes	Total £m	Total £m	Total £m
Revenue	2, 3	**4,090.9**	4,860.9	10,181.9
Share of result in associate - Ocado Retail Limited	3, 8	**31.7**	(0.5)	(14.2)
Operating (loss)/profit	2, 3	**(9.4)**	252.4	254.8
Finance income	4	**28.3**	26.4	46.9
Finance costs	4	**(106.5)**	(120.0)	(234.5)
(Loss)/profit before tax	2, 3	**(87.6)**	158.8	67.2
Income tax credit/(expense)	5	**16.0**	(36.4)	(39.8)
(Loss)/profit for the period		**(71.6)**	122.4	27.4
Attributable to:				
Owners of the parent		**(67.4)**	118.1	23.7
Non-controlling interests		**(4.2)**	4.3	3.7
		(71.6)	122.4	27.4
Earnings per share				
Basic	6	**(3.5p)**	6.4p	1.3p
Diluted	6	**(3.5p)**	6.4p	1.2p
Reconciliation of adjusted (loss)/profit before tax:				
(Loss)/profit before tax		**(87.6)**	158.8	67.2
Adjusting items	3	**70.2**	17.5	335.9
Adjusted (loss)/profit before tax & adjusting items – non-GAAP measure		**(17.4)**	176.3	403.1
Adjusted earnings per share – non-GAAP measure				
Basic	6	**(0.4p)**	7.1p	16.7p
Diluted	6	**(0.4p)**	7.1p	16.6p

Condensed consolidated statement of comprehensive income

	Notes	26 weeks ended 26 Sep 2020 (Unaudited) £m	26 weeks ended 28 Sep 2019 (Unaudited) (Restated) £m	52 weeks ended 28 March 2020 (Audited) £m
(Loss)/profit for the period		**(71.6)**	**122.4**	**27.4**
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of retirement benefit schemes	9	(1,069.3)	29.2	927.9
Tax credit/(charge) on retirement benefit schemes		203.7	(5.8)	(196.7)
		(865.6)	23.4	731.2
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences				
- movement recognised in other comprehensive income		(4.2)	11.9	5.1
- reclassified and reported in profit or loss		-	-	2.9
Cash flow hedges				
- fair value movements in other comprehensive income		(80.3)	75.4	140.3
- reclassified and reported in profit or loss		8.8	(15.3)	(18.4)
Tax credit/(charge) on cash flow hedges		13.6	(13.7)	(27.0)
		(62.1)	58.3	102.9
Other comprehensive (expense)/income for the period, net of tax		(927.7)	81.7	834.1
Total comprehensive (expense)/income for the period		**(999.3)**	**204.1**	**861.5**
Attributable to:				
Owners of the parent		(995.1)	199.8	857.8
Non-controlling interests		(4.2)	4.3	3.7
		(999.3)	**204.1**	**861.5**

Condensed consolidated statement of financial position

	Notes	As at 26 Sep 2020 (Unaudited) £m	As at 28 Sep 2019 (Unaudited) (Restated) £m	As at 28 March 2020 (Audited) £m
Assets				
Non-current assets				
Intangible assets		351.6	445.6	399.1
Property, plant and equipment		5,293.5	5,563.9	5,494.2
Investment property		15.5	15.5	15.5
Investment in joint ventures and associates	8	793.9	754.8	760.4
Other financial assets	11	9.7	9.9	9.7
Retirement benefit asset	9	902.3	1,026.2	1,915.0
Trade and other receivables		262.6	261.8	262.6
Derivative financial instruments	11	51.7	61.4	112.4
Deferred tax assets		-	-	-
		7,680.8	8,139.1	8,968.9
Current assets				
Inventories	3	663.4	820.9	564.1
Other financial assets	11	13.2	144.0	11.7
Trade and other receivables		255.4	266.3	298.0
Derivative financial instruments	11	34.5	80.8	73.5
Current tax assets		25.2	-	19.3
Cash and cash equivalents		285.9	351.4	248.4
		1,277.6	1,663.4	1,215.0
Total assets		8,958.4	9,802.5	10,183.9
Liabilities				
Current liabilities				
Trade and other payables		1,431.3	1,461.8	1,426.4
Partnership liability to the Marks & Spencer UK Pension Scheme	10	124.9	71.9	71.9
Borrowings and other financial liabilities		350.2	672.3	316.6
Derivative financial instruments	11	31.0	4.0	13.0
Provisions		122.8	33.2	21.5
Current tax liabilities		-	6.8	-
		2,060.2	2,250.0	1,849.4
Non-current liabilities				
Retirement benefit deficit	9	12.3	35.0	12.4
Trade and other payables		218.1	185.8	222.6
Partnership liability to the Marks & Spencer UK Pension Scheme	10	66.0	132.1	135.5
Borrowings and other financial liabilities		3,752.3	3,858.1	3,865.9
Derivative financial instruments	11	1.7	0.3	0.7
Provisions		37.2	76.4	56.5
Deferred tax liabilities		98.1	138.3	332.4
		4,185.7	4,426.0	4,626.0
Total liabilities		6,245.9	6,676.0	6,475.4
Net assets		2,712.5	3,126.5	3,708.5
Equity				
Issued share capital		488.4	487.6	487.6
Share premium account		910.4	910.7	910.4
Capital redemption reserve		2,210.5	2,210.5	2,210.5
Hedging reserve		8.5	25.6	68.6
Cost of hedging reserve		3.5	10.1	5.7
Other reserve		(6,542.2)	(6,542.2)	(6,542.2)
Foreign exchange reserve		(40.1)	(32.7)	(35.9)
Retained earnings		5,671.7	6,052.9	6,597.8
Equity attributable to owners of the parent		2,710.7	3,122.5	3,702.5
Non-controlling interests		1.8	4.0	6.0
Total equity		2,712.5	3,126.5	3,708.5

The notes on pages 27 to 42 form an integral part of the condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

26 weeks ended 26 Sep 2020 (Unaudited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 29 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**
(Loss) for the period	-	-	-	-	-	-	-	(67.4)	(67.4)	(4.2)	(71.6)
Other comprehensive income/(expense):											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	-	-	-	(4.2)	-	(4.2)	-	(4.2)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(1,069.3)	(1,069.3)	-	(1,069.3)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	203.7	203.7	-	203.7
Cash flow hedges											
- fair value movements in other comprehensive income	-	-	-	(77.6)	(2.7)	-	-	-	(80.3)	-	(80.3)
- reclassified and reported in profit or loss	-	-	-	8.8	-	-	-	-	8.8	-	8.8
Tax on cash flow hedges	-	-	-	13.1	0.5	-	-	-	13.6	-	13.6
Other comprehensive income/(expense)	**-**	**-**	**-**	**(55.7)**	**(2.2)**	**-**	**(4.2)**	**(865.6)**	**(927.7)**	**-**	**(927.7)**
Total comprehensive income/(expense)	**-**	**-**	**-**	**(55.7)**	**(2.2)**	**-**	**(4.2)**	**(933.0)**	**(995.1)**	**(4.2)**	**(999.3)**
Cash flow hedges recognised in inventories	-	-	-	(5.4)	-	-	-	-	(5.4)	-	(5.4)
Tax on cash flow hedges recognised in inventories	-	-	-	1.0	-	-	-	-	1.0	-	1.0
Transactions with owners:											
Shares issued on exercise of employee share options	0.8	-	-	-	-	-	-	-	0.8	-	0.8
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Credit for share-based payments	-	-	-	-	-	-	-	7.7	7.7	-	7.7
As at 26 Sep 2020	**488.4**	**910.4**	**2,210.5**	**8.5**	**3.5**	**(6,542.2)**	**(40.1)**	**5,671.7**	**2,710.7**	**1.8**	**2,712.5**

26 weeks ended 28 Sep 2019 (Unaudited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 31 March 2019	**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 period (Restated)	-	-	-	-	-	-	-	118.1	118.1	4.3	122.4
Other comprehensive income/(expense):											
Foreign currency translation											
- movement recognised in other comprehensive income	-	-	-	0.7	-	-	11.2	-	11.9	-	11.9
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	29.2	29.2	-	29.2
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(5.8)	(5.8)	-	(5.8)
Cash flow hedges											
- fair value movements in other comprehensive income	-	-	-	77.9	(2.5)	-	-	-	75.4	-	75.4
- reclassified and reported in profit or loss	-	-	-	(15.3)	-	-	-	-	(15.3)	-	(15.3)
Tax on cash flow hedges	-	-	-	(14.6)	0.9	-	-	-	(13.7)	-	(13.7)
Other comprehensive income/(expense)	**-**	**-**	**-**	**48.7**	**(1.6)**	**-**	**11.2**	**23.4**	**81.7**	**-**	**81.7**
Total comprehensive income/(expense)	**-**	**-**	**-**	**48.7**	**(1.6)**	**-**	**11.2**	**141.5**	**199.8**	**4.3**	**204.1**
Cash flow hedges recognised in inventories	-	-	-	(10.5)	-	-	-	-	(10.5)	-	(10.5)
Tax on cash flow hedges recognised in inventories	-	-	-	2.0	-	-	-	-	2.0	-	2.0
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(115.1)	(115.1)	-	(115.1)
Shares issued on exercise of employee share options	-	0.1	-	-	-	-	-	-	0.1	-	0.1
Shares issued on rights issue[3]	81.3	493.7	-	-	-	-	-	-	575.0	-	575.0
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(8.4)	(8.4)	-	(8.4)
Credit for share-based payments	-	-	-	-	-	-	-	10.1	10.1	-	10.1
As at 28 Sep 2019 (Restated)	**487.6**	**910.7**	**2,210.5**	**25.6**	**10.1**	**(6,542.2)**	**(32.7)**	**6,052.9**	**3,122.5**	**4.0**	**3,126.5**

52 weeks ended 28 March 2020 (Audited)	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total equity £m
As at 31 March 2019	**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											
- movement recognised in other comprehensive income	-	-	-	-	-	-	5.1	-	5.1	-	5.1
- reclassified and reported in profit and 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[4]	81.3	493.4	-	-	-	-	-	-	574.7	-	574.7
Purchase of 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 £493.7m is net of £26.3m in relation to transaction costs associated with the rights issue.

[4] The share premium amount of £493.4m is net of £26.6m in relation to transaction costs associated with the rights issue.

Condensed consolidated statement of cash flows

	Notes	26 weeks ended 26 Sep 2020 (Unaudited) £m	26 weeks ended 28 Sep 2019 (Unaudited) £m	52 weeks ended 28 March 2020 (Audited) £m
Cash flows from operating activities				
Cash generated from operations	13	356.8	423.6	1,064.7
Income tax paid		(6.0)	(54.4)	(91.6)
Net cash inflow from operating activities		**350.8**	**369.2**	**973.1**
Cash flows from investing activities				
Proceeds on property disposals		2.1	1.5	2.7
Purchase of property, plant and equipment		(110.6)	(118.3)	(251.0)
Purchase of intangible assets		(24.1)	(32.3)	(77.6)
Purchase of current financial assets		(1.7)	(2.2)	130.1
Purchase of investments in associates and joint ventures[1]		9.0	(580.5)	(580.3)
Interest received		5.0	4.4	10.4
Net cash used in investing activities		**(120.3)**	**(727.4)**	**(765.7)**
Cash flows from financing activities				
Interest paid[2]		(89.0)	(105.4)	(224.2)
Issuance of medium term notes		-	250.0	250.0
Redemption of medium term notes		-	-	(400.0)
Repayment of lease liabilities		(77.5)	(90.2)	(201.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		(17.2)	(63.5)	(63.5)
Equity dividends paid	7	-	(115.1)	(191.1)
Shares issued on exercise of employee share options		-	0.1	0.1
Proceeds from rights issue net of costs		-	583.2	574.4
Purchase of own shares by employee trust		(0.8)	(8.4)	(8.9)
Cash received from settlement of derivatives		12.7	-	7.7
Net cash (used)/generated in financing activities		**(171.8)**	**450.7**	**(256.9)**
Net cash inflow/(outflow) from activities		**58.7**	**92.5**	**(49.5)**
Effects of exchange rate changes		(0.3)	2.0	0.5
Opening net cash		164.1	213.1	213.1
Closing net cash		**222.5**	**307.6**	**164.1**

[1]Includes receipt from Ocado Group plc Limited of £(11.5)m on finalisation of completion statement (last half year: £577.8m; last full year: £577.6m) and investment in Founders Factory Retail Limited of £2.5m (last half year: £2.5m; last full year: £2.5m).

[2]Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £6.3m (last half year: £8.4m; last full year: £8.4m) and interest paid on lease liabilities of £51.6m (last half year: £69.0m; last full year: £134.3m).

Notes to the financial statements (Unaudited)

1 General information and basis of preparation

General information

This condensed consolidated interim information for the period does not constitute statutory financial statements within the meaning of s434 of the Companies Act 2006.

The summary of results for the year ended 28 March 2020 is an extract from the published Annual Report and Financial Statements which were approved by the board of Directors on 26 May 2020, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report on the Annual Report and Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under s498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The condensed financial statements for the 26 weeks ended 26 September 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The comparative figures for the financial year ended 28 March 2020 are consistent with the Group's annual financial statements. The comparative figures for the half year ended 28 September 2019 have been restated to reflect the correction of an error that resulted from the transition to IFRS 16 Leases and had been identified and corrected before the 2020 Annual Report and Financial Statements were issued. The correction has resulted in an increase to net assets of £9.2m and an increase in profit for the period of £5.3m.

Going concern basis

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 1 to 8 and the principal risks and uncertainties as set out on pages 20 to 21, giving particular consideration to the ongoing uncertainty regarding the future impact of the Covid-19 pandemic on the trading performance of the Group.

The Group's 2020 Annual Report and Financial Statements set out the revised budget and three-year plan that was modelled in response to the pandemic, known as the Covid-19 scenario.

The Group continues to monitor and track performance against the Covid-19 scenario and, in line with the announcement in August 2020, has performed ahead of the Covid-19 scenario through-out the period. The forecast cashflows for the next 18 month period to March 2022 used to support the assessment of going concern are based on the Covid-19 scenario, having been updated for actual cashflows, and any material new information, additional actions taken, changes in trading trends and updates to assumptions, the most significant of which includes:

- Reflecting the on-going government restrictions (including the national lockdown announced on 31 October 2020) and the likelihood of a recession on Clothing & Home sales, and the change in mix between online and retail sales witnessed in the first six months of the year. This has also been factored into Clothing & Home sales in FY21/22 vs the original Covid-19 scenario.
- The cash flows arising from the redundancies announced in July and August, with an annualised cash flow benefit from November onwards.

At 26 September 2020 the Group had cash and cash equivalents of £285.9m which represents a c.£750m improvement in the cash position vs the Covid-19 scenario. The Group also had a further £1.15bn of available facilities which included an undrawn committed syndicated bank revolving credit facility of £1.1bn, set to mature in April 2023, and a number of undrawn uncommitted facilities amounting to £50m. As announced in April 2020, the Group has also secured access to the Covid Corporate Financing Facility ("CCFF") and has established a commercial paper programme to enable drawings of up to £300m at any time until March 2021, subject to ongoing Bank of England requirements. At 26 September 2020, this facility was also undrawn.

Based on the updated Covid-19 scenario forecast cashflows, throughout the next 18 month period to March 2022, the Group does not anticipate needing to draw on its available facilities and has adequate headroom at the point at which the covenant is reinstated in September 2021.

As a result, despite the continued uncertainty relating to market conditions and the duration of any further measures to control the pandemic, including further local and national lockdowns, 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 interim financial statements.

Accounting policies

The results for the first half of the financial year have been reviewed, not audited and are prepared on the basis of the accounting policies set out in the Group's 2020 Annual Report and Financial Statements, except as described below. Accounting policies which have been amended during the half year ended 26 September 2020 can be seen in the sub-section "Amended accounting policies" below.

The Group has applied the following new standards and interpretations for the first time for the reporting period commencing 29 March 2020:

- 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.
- Amendments to IFRS 16: Covid-19-Related Rent Concessions.

Except for the adoption of the amendments to IFRS 16, the above standards and interpretations have not led to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

New and amended accounting policies

Amendments to IFRS 16: Covid-19-Related Rent Concessions

The Group early adopted the Amendment to IFRS 16: Covid-19 Related Rent Concessions with effect from 29 March 2020 and, as a result, has treated rent concessions occurring as a direct consequence of Covid-19 meeting the following conditions as variable lease payments rather than as lease modifications:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
c) There is no substantive change to other terms and conditions of the lease.

Application of this practical expedient has resulted in:

- Recognition of a reduction in lease payments as a negative variable lease payment in profit or loss in the period of £4.8m.
- Derecognition of £4.8m of lease liabilities that have been extinguished by the forgiveness of lease payments.

The Group has applied the practical expedient to all rent concessions that have met the above criteria.

Government grants

The Group has received government assistance income in the period as a result of the Covid-19 pandemic. Government grants are recognised where there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attached to them.

Government grants that compensate the Group for expenses incurred are recognised in profit or loss, as a deduction against the related expense, over the periods necessary to match them with the related costs.

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. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive 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 (loss)/profit before adjusting items; (loss)/profit before tax and adjusting items; adjusted basic earnings per share; net debt and free cash flow. 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 (loss)/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. The Group's definition of adjusting items is consistent with prior periods. Previously these were presented in the condensed consolidated income statement in a columnar format; the Group now presents a reconciliation of adjusted (loss)/profit before tax to (loss)/profit before tax. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year or period-on-period trading performance of the Group. On this basis, the following items were included within adjusting items for the 26-week period ended 26 September 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.
- 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.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- Transition costs associated with the Sparks loyalty programme.

Adjusting items in the current year include the charges associated with the transition of the Sparks loyalty programme. Whilst the Group provides vouchers to customers as part of its ongoing operations, vouchers of this nature and quantum have never been provided before in relation to a one-off event (refer to note 3 for further details). The Group has reviewed how it applies its policy and has concluded to include these charges in adjusting items.

Refer to note 3 for a summary of the adjusting items.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. The critical accounting judgements and key sources of estimation uncertainty remain consistent with those presented in note 1 of the Group’s 2020 Annual Report and Financial Statements.

The Group does not consider that Covid-19 has resulted in any additional significant estimates or judgments that could materially affect the amounts included in the Group’s results for the period.

The Group has considered the impact of Covid-19 on the existing judgements and estimates and, given the increased uncertainty over the future economic outlook in the countries and markets that the Group operates, has provided additional information on the following judgements and estimates:

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate. 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. Significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. The significant assumptions adopted are detailed in the Group’s 2020 Annual Report and Financial Statements, with those most likely to have a material impact being closure dates and changes to future sales.

The charge recognised at 28 March 2020 reflected cash flow projections from the Covid-19 scenario, which is described in the Glossary and in Note 1 to the Group's 2020 Annual Report and Financial Statements. As this continues to be the most recent Board-approved budget, and trading performance in the period is ahead of the Covid-19 scenario, no changes have been made to the cash flow projections. Similarly, most other assumptions have remained consistent with those used at 28 March 2020, with only small adjustments made to reflect any known changes to closure dates. Given only minor updates have been made, the sensitivities disclosed in Note 15 to the Group's 2020 Annual Report and Financial Statements remain relevant. See note 3 for further details.

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. At 28 March 2020, the Group identified the trade restrictions implemented by the UK government as a result of the Covid-19 pandemic as an impairment trigger and all stores were tested for impairment. The cash flow projections used in those impairment tests incorporated the Covid-19 scenario.

Given that trading performance and the related cash flows for the period are ahead of the Covid-19 scenario, the Group has determined that no impairment trigger has occurred either at a Group or individual CGU level in the period and, as a result, a detailed impairment test has not been performed in the period. Consequently, the sensitivities disclosed in Note 15 to the Group's 2020 Annual Report and Financial Statements remain relevant.

Inventory provisioning

At 28 March 2020, the Group assessed the recoverability of inventories, applying assumptions around when trade restrictions might be eased leading to resumption of sales and expectations of the future saleability of items, which resulted in a write-down of £157.0m. Following better than expected sell-through of inventory driven by the actions taken by the Group and an earlier than anticipated reopening of stores, a net release of £49.4m of this provision has been recognised in the period. See note 3 for further details.

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 Executive Committee. The Executive Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment.

The Group's reportable operating segments are:

- 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 diary; produce; ambient and in-store bakery; meals, desert and frozen; hospitality and 'Food on the Move'; and direct sales to Ocado Retail Limited.
- International – consists of Marks and Spencer-owned businesses in Europe and Asia and the international franchise operations.

Other business activities and operating segments, including the Group's share of profits or losses from the investment in Ocado Retail Limited, M&S Bank and M&S Energy, are combined and presented in "All other segments". Finance income and costs are not allocated to segments as each is managed on a centralised basis.

The Executive 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.

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

		26 weeks ended 26 Sep 2020 (Unaudited)				
	Note	UK Clothing & Home	UK Food	International	All other segments[3]	Group
		£m	£m	£m	£m	£m
Revenue before adjusting items[1]	3	917.2	2,838.6	346.3	-	4,102.1
Operating (loss)/profit before adjusting items[2]	3	(107.5)	109.7	19.7	39.9	61.8
Finance income before adjusting items	3					27.3
Finance costs before adjusting items						(106.5)
(Loss)/profit before tax and adjusting items	3	(107.5)	109.7	19.7	39.9	(17.4)
Adjusting items	3					(70.2)
(Loss)/profit before tax	3	(107.5)	109.7	19.7	39.9	(87.6)

		26 weeks ended 28 Sep 2019 (Unaudited) (Restated)				
		UK Clothing & Home[4]	UK Food	International[4,5]	All other segments[3,6]	Group[7]
		£m	£m	£m	£m	£m
Revenue before adjusting items		1,550.4	2,845.8	464.7	-	4,860.9
Operating profit before adjusting items[2]	3	109.6	92.2	55.8	12.3	269.9
Finance income before adjusting items						26.4
Finance costs before adjusting items						(120.0)
Profit before tax and adjusting items	3	109.6	92.2	55.8	12.3	176.3
Adjusting items	3					(17.5)
Profit before tax	3	109.6	92.2	55.8	12.3	158.8

	Note	52 weeks ended 28 March 2020 (Audited)				
		UK Clothing & Home	UK Food	International	All other segments[3]	Group
		£m	£m	£m	£m	£m
Revenue before adjusting items		**3,209.1**	**6,028.2**	**944.6**	**-**	**10,181.9**
Operating profit before adjusting items[2]	**3**	**223.9**	**236.7**	**110.7**	**19.4**	**590.7**
Finance income before adjusting items	3					44.0
Finance costs before adjusting items	3					(231.6)
Profit before tax and adjusting items	**3**	**223.9**	**236.7**	**110.7**	**19.4**	**403.1**
Adjusting items	3					(335.9)
Profit before tax	**3**	**223.9**	**236.7**	**110.7**	**19.4**	**67.2**

[1]Revenue is stated prior to adjusting items of £11.2m (see note 3).

[2]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.

[3]The result of 'All other segments' split by the material parts are:
- Group's investment in Ocado Retail Limited £38.8m (last half year: (£0.5m); last full year: £2.6m); and
- M&S Bank, M&S Energy and Share of result in other associates £1.1m (last half year: £12.8m; last full year: £16.8m).

[4]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 £19.1m and operating profit of £1.7m being transferred.

[5]International operating profit was previously reported as £59.9m and has been restated to £55.8m due to the reallocation of central costs between the Group's reportable segments (decreased by £5.8m) and the impact of footnote 4 (increased by £1.7m).

[6]All other segments have been restated from £13.3m to £12.3m due to the reallocation of central costs between the Group's reportable segments (decreased by £1.0m).

[7]Group comparative figures have been restated to reflect the correction of an error that resulted from the transition to IFRS 16 Leases. The correction has resulted in a decrease to Group operating profit before adjusting items of £1.7m (restatement £0.3m and £1.4m made to UK Clothing & Home and UK Food respectively), a decrease to finance costs of £1.5m and a decrease to adjusting items of £5.5m. The overall impact is an increase in Group profit for the period of £5.3m.

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

Other disclosures

	As at 26 Sep 2020 (Unaudited)[1]	As at 28 Sep 2019 (Unaudited)	As at 28 March 2020 (Audited)
	£m	£m	£m
Write-down of inventories to net realisable value	19.7	95.7	389.0

[1] Includes write-back of inventories to net realisable value in relation to Covid-19. See note 3 for further detail.

3 Adjusting items

The total adjusting items reported for the 26 week period ended 26 September 2020 is a net charge of £70.2m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	26 weeks ended		Year ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 Mar 2020 (Audited)
	£m	£m	£m
Included in revenue			
Sparks loyalty programme transition	11.2	-	-
	11.2	**-**	**-**
Included in operating profit			
Strategic programmes - Organisation	92.1	11.3	13.8
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1,2]	(49.4)	-	166.5
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	7.1	-	16.8
Sparks loyalty programme transition	4.1	-	-
Strategic programmes - UK store estate[1]	2.9	9.9	29.3
Establishing the investment in Ocado Retail Limited	1.7	-	1.2
M&S Bank charges incurred in relation to the insurance mis-selling and Covid-19 forward economic guidance provision	1.4	10.7	12.6
Strategic programmes - UK logistics	0.1	0.5	10.2
Strategic programmes - Operational transformation	-	6.5	11.6
Strategic programmes - Changes to pay and pensions	-	1.5	2.9
Strategic programmes - IT restructure	-	0.7	0.4
Strategic programmes - International store closures and impairments	-	(0.1)	2.2
Store impairments and other property charges[1]	-	-	78.5
Goodwill impairment - per una[1]	-	-	13.4
Other	-	(23.5)	(23.5)
	60.0	**17.5**	**335.9**
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind	(1.0)	-	2.9
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1,2]	-	-	(2.9)
	(1.0)	**-**	**-**
Adjustment to profit before tax	**70.2**	**17.5**	**335.9**

[1.] (Gains)/expenses directly attributable to the Covid-19 pandemic in the current and previous periods 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.

	26 weeks ended		Year ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited)	28 Mar 2020 (Audited)
	£m	£m	£m
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[2]	(49.4)	-	163.6
Store impairments	-	-	24.2
UK store estate impairments	-	-	11.6
Goodwill impairment – per una	-	-	13.4
Total Covid-19 (gains)/charges	**(49.4)**	**-**	**212.8**

[2.] The 2019/20 net charge for Directly attributable (gains)/expenses resulting from the Covid-19 pandemic is made up of £166.5m of charges within operating expenses and a £2.9m gain within net finance costs relating to forecast purchases no longer expected to occur.

Strategic programmes – Organisation (£92.1m)

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.

In May 2020, as part of the 'Never the Same Again' transformation, the Group announced a commitment to integrate more flexible management structures into store operations as well as streamline the business at store and management level. The changes are expected to result in a reduction of c.7,950 roles across central support centres, regional management and our UK stores, with a charge of £92.1m recognised in the period primarily for redundancy costs associated with these changes.

These costs are recognised as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative and are consistent with the disclosure of costs for similar restructuring programmes previously undertaken. Total programme costs incurred to date are £165.5m.

Directly attributable (gains)/expenses resulting from the Covid-19 pandemic (£49.4m CR)
In March 2020, following the declaration by the World Health Organization of the Covid-19 global pandemic and subsequent UK government restrictions, the Group sustained significant disruption to its operations, with the Group able to continue to trade its Food business (albeit with social-distancing rules in place) but unable to trade Clothing & Home from full-line stores, with sales predominantly coming from online sales and Click & Collect in stores. In addition, all M&S Outlets stores and a number of Food franchise stores were also closed. In response to the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the fast-paced changes taking place across the retail sector, the Board approved a Covid-19 scenario to reflect management's best estimate of the significant volatility and business disruption expected as a result of the on-going pandemic.

As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, in 2019/20 the Group identified total Covid-19 charges of £212.8m across four adjusting items programmes. The charges related 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. The Group disclosed in 2019/20 that should the estimated charges prove to be in excess of the amounts required, the release or reassessment of any amounts previously provided would also be treated as adjusting items.

The pandemic has continued to impact the Group through-out the period and it has become increasingly more difficult to differentiate Covid-19 items from costs that support the underlying performance of the business. In addition the estimated timeframe over which these effects may impact the business has increased. As a result, the Group has taken the decision to only include changes in estimates to items that were included in adjusting items at year end, in this case relating to the inventory provision. The impact that Covid-19 has had on underlying trading continues not to be recognised within adjusting items. The Group has provided additional disclosure of the significant impacts of Covid-19 on the underlying results on page 10.

In particular, the Group has received support from the Government during the period in the form of Business Rates relief of £83.7m and the Coronavirus Job Retention Scheme of £94.5m. The Group took the decision to furlough up to c. 29,000 colleagues across our stores and support centres. The furlough income, received in the form of a government grant, has been deducted against the corresponding staff costs for furloughed colleagues and recognised within the underlying results. Further details of which are provided in note 15 – government support.

Write-back of inventories to net realisable value (£49.4m CR)

The carrying value of the Group's inventories at 28 March 2020 was £564.1m. The carrying value of this inventory split across the UK Clothing & Home, UK Food and International businesses included gross inventories of £539.7m, £162.9m and £66.3m respectively, against which a provision of £184.3m, £8.3m and £12.2m was recognised.

Included within directly attributable expenses resulting from the Covid-19 pandemic of £163.6m at 2019/20, was 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.

In response to the earlier than anticipated reopening of our Clothing & Home and Outlet stores and strong trading over the summer driven by our NHS Charity Rainbow sale, albeit at lower margins, the Group has been able to sell much higher volumes of stock than assumed versus the Covid-19 scenario. As a result, a net credit of £49.4m has been recorded, representing a release to the inventory provisions recorded in the 2019/20 financial statements to align to our latest estimates based on current sales performance, offset by charges in the period relating to reassessment of storage and fabric cancellation provisions.

As a result, the carrying value of the Group's inventories at 26 September 2020 is £663.4m. The carrying value of this inventory split across the UK Clothing & Home, UK Food and International businesses represents gross inventories of £535.5m, £181.2m and £74.7m respectively, against which against which a provision of £113.8m, £3.9m and £10.3m has been recognised. Included within the UK Clothing & Home provision is an incremental write-down of inventory to net realisable value of £71.2m reflecting management's best estimate of the impact of the Covid-19 pandemic on UK Clothing & Home inventory as at 26 September 2020. The total UK Clothing & Home inventory provisions represent 21% 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 £26.8m and would result in a corresponding reduction to recognised loss before tax in the period.

The £49.4m directly attributable net gains 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 and treatment as adjusting items is consistent with the treatment of charges of a consistent nature recognised in 2019/20. Further charges are anticipated during the second half of 2020/21 to reflect actions that will be taken as a direct result of the length of time that the on-going government restrictions are in place, and how trade and consumer behaviour is impacted. Any future credits relating to these items will continue to also be classified as adjusting.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£7.1m)
Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10 – 40 years with an amortisation charge of £8.8m recognised in the period and a related deferred tax credit of £1.7m.

These charges are considered to be adjusting 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.

Sparks loyalty programme transition (£15.3m)
In July 2020, the Group relaunched its Sparks loyalty programme as a Digital First loyalty scheme, with a promise that "Good Things Happen Every Time You Shop". The new Sparks programme removes certain elements of the old, such as points and sale access tiers, and introduces new instant rewards to deliver immediate and clearer value to customers for shopping with M&S. As part of the transition to the new Sparks programme, customers who were members of the old loyalty scheme were provided with 'thank you' gifts for their loyalty, the value of which was determined in part with reference to the number of Sparks pointed earnt historically. These 'thank you' gifts consisted of tote bags and vouchers for money-off future purchases. As a result, a charge of £15.3m has been recognised in the period relating to one-off transition and 'thank-you' costs associated with the closure of the old Sparks programme.

These costs are directly attributable to the closure of the old Sparks programme and are considered to be adjusting as they are significant in quantum, are one-off in nature and not considered to be part of the normal operating costs of the business. No similar charges of this type have been incurred by the Group in the past, and no further charges are expected in future years.

Strategic programmes - UK store estate (£2.9m)
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.

Whilst Covid-19 has continued to impact the Group's day-to-day operations our UK store estate strategic programme remains on track. A charge of £2.9m has been recognised in the period for those stores identified as part of the transformation plans. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs. There have been no further directly attributable incremental charges due to Covid-19 reflected during the period.

Further material charges relating to the closure and reconfiguration 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 the latest view of store closure costs, at 26 September 2020, further charges of c.£120m are estimated within the next seven financial years, bringing anticipated total programme costs to be up to c.£680m.

Establishing the investment in Ocado Retail Limited (£1.7m)
In 2018/19 the Group announced its 50/50 investment in Ocado Retail Limited. £4.6m of charges were recognised across 2018/19 and 2019/20 primarily relating to due diligence for the Ocado Retail transaction and one-off charges, that are not part of the day-to-day operational costs our business with Ocado Retail, incurred in preparation for the launch in September 2020.

A further £1.7m of "getting ready" charges were incurred in the period prior to launch on 1 September, bring the total one-off charges relating to Ocado Retail Limited to £6.3m. No further costs are expected post launch in the second half of the financial year.

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.

M&S Bank charges incurred in relation to the insurance mis-selling provision and Covid-19 forward economic guidance provision (£1.4m)
The Group has an economic interest in Marks and Spencer Financial Services plc (trading as M&S Bank), a wholly owned subsidiary of HSBC UK Bank plc, 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 and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. 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 £1.4m.

The treatment of this in adjusting items is in line with previous charges in relation to settlement of PPI claims and although it is recurring, it is significant in quantum in the context of the total charges recognised for PPI mis-selling to-date and is not considered representative of the normal operating performance of the Group. As previously noted, whilst 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 in the second half of the year and beyond. The total charges recognised in adjusting items since September 2013 for both PPI and Covid-19 forward economic guidance provision is £358.7m which exceeds the total offset against profit share of £244.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Strategic programmes – UK logistics (£0.1m)
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.

In February 2020, the next phase of the single tier programme was announced with the closure of two further distribution centres across 2020/21 and 2021/22. A net charge of £0.1m has been recognised in the period, reflecting an updated view of estimated closure costs and transition project costs relating to these closures. Total programme costs to date are £37.7m with further charges expected in the second half of this financial year.

The Group considers these costs to be adjusting items as they have been 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.

Remeasurement of contingent consideration including discount unwind (£1.0m CR)
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 gain for the period of £1.0m represents the unwind of discounting from the year end. Discount unwind will be (credited)/charged to adjusting items until the final contingent consideration payment is made in 2023/24.

4 Finance income/(costs)

		26 weeks ended		52 weeks ended
		26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 March 2020 (Audited)
	Notes	£m	£m	£m
Bank and other interest receivable		1.3	6.0	8.6
Pension net finance income	9	22.8	11.3	23.6
Other finance income		0.6	5.9	5.9
Interest income on subleases		2.6	3.2	5.9
Finance income before adjusting items		27.3	26.4	44.0
Finance income in adjusting items	3	1.0	-	2.9
Finance income		**28.3**	**26.4**	**46.9**
Interest on bank borrowings		(0.2)	(0.3)	-
Interest payable on syndicated bank facility		(1.9)	(1.2)	(2.3)
Interest payable on medium-term notes		(35.6)	(41.1)	(78.2)
Interest payable on commercial paper facility		(0.3)	-	-
Interest payable on lease liabilities		(64.8)	(71.5)	(139.3)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	10	(2.4)	(3.4)	(6.9)
Unwind of discount on provisions		(1.3)	(2.5)	(4.9)
Ineffectiveness on financial instruments		-	-	-
Finance costs before adjusting items		(106.5)	(120.0)	(231.6)
Finance costs in adjusting items	3	-	-	(2.9)
Finance costs		**(106.5)**	**(120.0)**	**(234.5)**
Net finance costs		**(78.2)**	**(93.6)**	**(187.6)**

Finance income/(costs) of £1.0m (last half year: £nil; last full year: (£2.9m)) relating to the remeasurement of contingent consideration including discount unwind and finance income of £nil (last half year: £nil; last full year: £2.9m) relating to directly attributable gains resulting from the Covid-19 pandemic included within adjusting items as detailed in note 3.

5 Taxation

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings, adjusted for actual tax on adjusting items.

The taxation charge in the income statement for the half year is based on a forecast full year tax rate on (loss)/profit before adjusting items of 27.0% (last half year 23.1% and last full year 20.7%) and 16.1% tax on adjusting items arising in the period to 26 September 2020 (last half year (restated) 25.1% and last full year 12.9%) to give an effective tax rate on (loss)/profit before taxation of 18.3% (last half year (restated) 22.9% and last full year 59.3%). The effective tax rate on the (loss)/profit before adjusting items is higher than the UK statutory rate of 19.0% (19.0% last year) principally due to the unwind of the tax benefit in respect of the Scottish Limited Partnership pension structure.

6 Earnings per share

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

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or value (see note 3). 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 period; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

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

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 March 2020 (Audited)
	£m	£m	£m
(Loss)/profit attributable to equity shareholders of the Company	**(67.4)**	**118.1**	**23.7**
Add/(less):			
Adjusting items (see note 3)	70.2	17.5	335.9
Tax on adjusting items	(11.3)	(4.4)	(43.6)
(Loss)/profit before adjusting items attributable to equity shareholders of the Company	**(8.5)**	**131.2**	**316.0**
	Million	Million	Million
Weighted average number of ordinary shares in issue	1,951.7	1,840.2	1,894.9
Potentially dilutive share options under Group's share option schemes[1]	17.4	2.0	10.7
Weighted average number of diluted ordinary shares	**1,969.1**	**1,842.2**	**1,905.6**
	Pence	Pence	Pence
Basic earnings per share	(3.5)	6.4	1.3
Diluted earnings per share	(3.5)	6.4	1.2
Adjusted basic earnings per share	(0.4)	7.1	16.7
Adjusted diluted earnings per share	(0.4)	7.1	16.6

[1] The current year potentially dilutive share options figure includes all outstanding shares on the 2020 PSP scheme as the performance conditions have not yet been set by the Remuneration Committee due to the Covid-19 global pandemic. These will be agreed by 31 December 2020.

7 Dividends

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited)	28 March 2020 (Audited)
	£m	£m	£m
Prior period final dividend of 6.8p per share	-	115.1	115.1
Prior period interim dividend of 3.9p per share	-	-	76.0
	-	**115.1**	**191.1**

The Board of Directors have not proposed an interim dividend for 2020/21. The Board of Directors will continue to defer consideration of further dividends until visibility of the pace and scale of market recovery has improved.

8 Investments in joint ventures and associates

The Group holds a 50% interest in Ocado Retail Limited. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited is considered an associate of the Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition in August 2019, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as the Group will have an option to obtain more power over Ocado Retail Limited if certain conditions are met. If the Group 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 29 November 2020, aligning with its parent company, Ocado Group Plc. Ocado Retail Limited will prepare financial information for the Group purposes to the nearest quarter-end date of Ocado Retail Limited's year end. The results of Ocado Retail Limited are incorporated in this interim financial statement from 2 March 2020 to 30 August 2020. There were no significant events or transactions in the period from 31 August 2020 to 26 September 2020 that had a material effect.

The carrying amount of the Group's interest in Ocado Retail Limited is £786.5m (last half year: £748.7m; last full year: £754.8m). The Group's share of Ocado Retail Limited profits of £31.7m (last half year: £0.5m loss; last full year: £14.2m loss) includes the Group's share of underlying profits of £38.8m, which includes £14.3m of exceptional income before tax related to anticipated insurance receipts (share of result last half year: £0.5m loss; last full year: £2.6m profit) and adjusting item charges of £7.1m (last half year: £nil; last full year: £16.8m) (see note 3).

Summarised financial information in respect of Ocado Retail Limited 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 30 August 2020 (Unaudited) £m	As at 1 March 2020 (Unaudited) £m
Ocado Retail Limited		
Current assets	308.4	484.9
Non-current assets	250.3	206.6
Current liabilities	(250.7)	(489.7)
Non-current liabilities	(206.6)	(178.2)
Net assets	**101.4**	**23.6**

	2 March 2020 to 30 August 2020 (Unaudited) £m
Revenue	1,167.7
Profit for the period	77.6
Other comprehensive income	-
Total comprehensive income	**77.6**

As part of the investment, a contingent consideration was agreed. 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 £204.3m 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 (see note 11).

In addition, the Group holds immaterial investments in joint ventures totalling £7.4m (last half year: £6.1m; last full year: £5.6m). The Group's share of losses totalled £0.7m (last half year: £0.6m loss; last full year: £0.9m loss).

9 Retirement benefits

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited) £m	28 Sep 2019 (Unaudited) £m	28 March 2020 (Audited) £m
Opening net retirement benefit surplus	**1,902.6**	**914.3**	**914.3**
Current service cost	(0.1)	(0.1)	(0.2)
Administration costs	(2.3)	(2.0)	(4.5)
Net interest income	22.8	11.3	23.6
Employer contributions	39.0	39.2	41.8
Remeasurements[1]	(1,071.8)	29.2	927.9
Exchange movement	(0.2)	(0.7)	(0.3)
Closing net retirement benefit surplus	**890.0**	**991.2**	**1,902.6**
Total market value of assets	11,349.0	11,364.6	10,653.8
Present value of scheme liabilities	(10,451.0)	(10,364.1)	(8,743.3)
Net funded pension plan asset	898.0	1,000.5	1,910.5
Unfunded retirement benefits	(4.0)	(3.7)	(3.9)
Post-retirement healthcare	(4.0)	(5.6)	(4.0)
Net retirement benefit surplus	**890.0**	**991.2**	**1,902.6**
Analysed in the Statement of Financial Position as:			
Retirement benefit asset	902.3	1,026.2	1,915.0
Retirement benefit deficit	(12.3)	(35.0)	(12.4)
Net retirement benefit surplus	**890.0**	**991.2**	**1,902.6**

[1] The 26 September 2020 remeasurement loss includes £2.5m relating to an equalisation charge recognised in FY18/19 that was reclassified from provisions in the current period.

In addition to the amounts disclosed above the Group made payments of £33.1m (last half year: £32.9m; last full year: £65.6m) /relating to the Your M&S Pension Saving Plan (a defined contribution arrangement).

Financial assumptions

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

The most significant of these are the discount rate and the inflation rate which are 1.55% (last half year: 1.85%; last full year: 2.40%) and 2.90% (last half year: 3.10%; last full year: 2.70%) respectively. The inflation rate of 2.90% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.20% (last half year: 2.30%; last full year: 2.00%) has been used.

The amount of the surplus varies if the main financial assumptions change. If the discount rate decreased by 0.25%, the surplus would decrease by £20m (last half year: decrease by £50m; last full year: increase by £50m). If the discount rate decreased by 0.50%, the surplus would decrease by £50m (last full year: increase by £100m). If the inflation rate decreased by 0.25%, the surplus would decrease by £10m (last half year: decrease by £50m; last full year: decrease by £50m). If the inflation rate decreased by 0.50%, the surplus would decrease by £20m (last full year: decrease by £100m). A one year decrease in life expectancy would increase the schemes surplus by £280m (last half year: increase by £300m; last full year: increase by £240m).

The discount rate sensitivity is comparable to the sensitivity quoted at the year end. However, the sign has changed from an increase in surplus to a reduction in surplus. The pension scheme hedges against a different basis to IAS19, which leads to an IAS19 over-hedge on gilt yields and this increased materially over the prior year. Consequently, assets were projected to grow by more than liabilities in this scenario, whereas now assets are projected to grow by less than liabilities. Given changes in inflation and discount rate assumptions over the past year, the range of sensitivities shown has been widened. Within the discount rates scenarios, a quarter of the change is from credit spreads with the remainder from gilt yields. 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.

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 10).

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

10 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks and 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 half year: £1.4bn; last full 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 and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme) entitles the Pension Scheme to receive a further £36.4m annually from June 2017 until June 2031. All profits generated by the Partnership in excess of this are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £190.9m (last half year: £204.0m; last full year: £207.4m) 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 transferrable financial instrument. During the period to 26 September 2020 an interest charge of £2.4m (last half year: £3.4m; last full year: £6.9m) 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 £141.5m (last half year: £210.5m; last full year: £211.2m).

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.

11 Financial Instruments

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities. The Group had no level 1 investments or financial instruments.
- 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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

				(Unaudited) As at 26 Sep 2020				(Audited) As at 28 March 2020
	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Assets measured at fair value								
Financial assets at fair value through profit or								
- trading derivatives	-	1.5	-	**1.5**	-	2.5	-	**2.5**
Derivatives used for hedging	-	84.7	-	**84.7**	-	183.4	-	**183.4**
Short term investments	-	13.2	-	**13.2**	-	11.7	-	**11.7**
Unlisted investments[1]	-	-	9.7	**9.7**	-	-	9.7	**9.7**
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
- trading derivatives	-	(0.4)	-	**(0.4)**	-	(2.8)	-	**(2.8)**
- contingent consideration (see note 8)[2]	-	-	(204.3)	**(204.3)**	-	-	(202.4)	**(202.4)**
Derivatives used for hedging	-	(32.3)	-	**(32.3)**	-	(10.9)	-	**(10.9)**

[1]There were no transfers between the levels of the fair value hierarchy during the period. There were also no changes made to any of the valuation techniques applied as of 28 March 2020. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last half year: £9.9m; last full year: £9.7m) 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 of the contingent consideration 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 2.0% to 2.7% and a 0.5% change in the discount rates would result in a change in fair value of £3.3m.

Fair value of financial instruments

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

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,531.0m (last half year: £1,957.1m; last full year: £1,536.2m); the fair value of this debt was £1,600.7m (last half year: £2,066.5m; last full year: £1,531.4m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £190.9m (last half year: £204.0m; last full year: £207.4m) and the fair value of this liability, which represents only the principal value excluding accrued interest is £185.5m (last half year: £202.7m; last full year: £202.7m).

Lease liabilities

Future cash outflows related to the post break clause period included in the lease liability

The Group holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16 the Group has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £2,507.9m of lease liabilities held on the balance sheet.

Cash flow hedge accounting

The Group hedges its exposure to foreign currency risk using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, including that forecast transactions are "highly probable". The Group has continued to apply judgment in assessing whether forecast purchases remain "highly probable". There have been no de-designated hedges or realised ineffectiveness in the foreign exchange forward contracts in the period and as at 26 September 2020, all forecast purchases qualify for hedge accounting.

12 Capital expenditure and commitments

Capital expenditure

Additions to the cost of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £62.2m (last half year: £125.9m) and for the year ended 28 March 2020 were £352.3m. Disposals in net book value of property, plant and equipment, investment property and intangible assets, excluding right of use assets are £nil (last half year: £nil) and for the year ended 28 March 2020 were £nil.

Capital commitments

	As at 26 Sep 2020 (Unaudited) £m	As at 28 Sep 2019 (Unaudited) £m	As at 28 March 2020 (Audited) £m
Commitments in respect of properties in the course of construction	75.3	109.1	78.7
Software capital commitments	4.1	15.1	8.6
	79.4	124.2	87.3

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

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 March 2020 (Audited)
	£m	£m	£m
(Loss)/profit on ordinary activities after taxation	**(71.6)**	**122.4**	**27.4**
Income tax (credit)/expense	(16.0)	36.4	39.8
Finance costs	106.5	120.0	234.5
Finance income	(28.3)	(26.4)	(46.9)
Operating (loss)/profit	**(9.4)**	**252.4**	**254.8**
Share of result in associate - Ocado Retail Limited before adjusting items	(38.8)	0.5	(2.6)
Decrease/(increase) in inventories	8.2	(119.2)	(29.3)
Decrease/(increase) in receivables	28.1	8.1	(9.2)
Increase/(decrease) in payables	38.7	43.4	(10.0)
Adjusting items net cash outflows[1,2]	(17.4)	(57.9)	(75.4)
Depreciation, amortisation and write-offs before adjusting items	306.1	315.9	632.5
Non-cash share-based payment charges	7.7	10.1	18.5
Defined benefit pension funding	(36.2)	(36.5)	(37.9)
Adjusting items M&S Bank[3]	(1.4)	(10.7)	(12.6)
Adjusting operating profit items	71.2	17.5	335.9
Cash generated from operations	**356.8**	**423.6**	**1,064.7**

[1] Excludes £12.4m (last half year: £6.3m; last year end: £11.3m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cashflows 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, directly attributable (gains)/expenses arising from the Covid-19 pandemic, Sparks loyalty programme 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.

14 Analysis of net debt

Reconciliation of net cash flow to movement in net debt

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited)	28 Sep 2019 (Unaudited) (Restated)	28 March 2020 (Audited)
	£m	£m	£m
Opening net debt	**(4,025.2)**	**(4,075.4)**	**(4,075.4)**
Net cash inflow/(outflow) from activities	58.7	92.5	(49.5)
Increase/(decrease) in current financial assets	1.7	2.2	(130.1)
Decrease/(increase) in debt financing	94.7	(96.3)	414.9
New lease commitments	(11.5)	(55.8)	(204.1)
Exchange and other non cash movements	(25.1)	(5.6)	19.0
Movement in net debt	**118.5**	**(63.0)**	**50.2**
Closing net debt	**(3,906.7)**	**(4,138.4)**	**(4,025.2)**

Reconciliation of net debt to statement of financial position

	As at 26 Sep 2020 (Unaudited)	As at 28 Sep 2019 (Unaudited) (Restated)	As at 28 March 2020 (Audited)
	£m	£m	£m
Statement of financial position and related notes			
Cash and cash equivalents	285.9	351.4	248.4
Current financial assets	13.2	144.0	11.7
Bank loans and overdrafts	(63.4)	(43.9)	(84.3)
Medium term notes - net of hedging derivatives	(1,486.1)	(1,891.2)	(1,471.4)
Lease liabilities	(2,507.9)	(2,529.3)	(2,562.0)
Partnership liability to the Marks and Spencer UK Pension Scheme (note 10)	(190.9)	(204.0)	(207.4)
	(3,949.2)	**(4,173.0)**	**(4,065.0)**
Prepaid interest relating to lease liabilities[1]	-	(22.1)	-
Interest payable included within related borrowing and the partnership liability to the Marks and Spencer UK Pension Scheme	42.5	56.7	39.8
Total net debt	**(3,906.7)**	**(4,138.4)**	**(4,025.2)**

[1] Lease liabilities as at 28 Sep 2019 are net of prepaid interest due to the timing of the balance sheet date and the lease payment due date.

15 Government support

The Group has utilised government support measures in the geographies in which it operates, including employee furlough schemes. At the peak for four weeks in May, c.29,000 UK employees were furloughed who were all paid at least 90% of their salary, with the Group making up any difference beyond the government subsidy limits. The total UK, Greek, Czech and Irish government grant income recognised in the period in relation to these schemes was £97.6m. The salary expense relating to those colleagues on furlough during the period was £149.9m.

In addition, the Group has made use of government-backed tax deferral schemes, including UK VAT payments that were due between March and June 2020 that can be deferred until March 2021, resulting in a benefit to working capital of £36.3m.

The Group also benefited from the business rates holiday for the retail, hospitality and leisure sector of £83.7m and the Eat Out to Help Out Scheme of £2.6m in the period.

There are no unfulfilled conditions or contingencies attached to these grants.

16 Related party transactions

The Group's significant related parties are disclosed in the Group's 2020 Annual Report.

Associate

The following transactions were carried out with Ocado Retail Limited, an associate of the Group.

Sales and purchases of goods and services:

	26 weeks ended		52 weeks ended
	26 Sep 2020 (Unaudited) £m	28 Sep 2019 (Unaudited) £m	28 March 2020 (Audited) £m
Sales of goods and services	5.8	-	-
Purchases of goods and services	0.1	-	-

Included within trade and other receivables is a balance of £3.3m (last half year: £nil; last full year: £nil) owed by Ocado Retail Limited.

Key management compensation

Transactions between the Group and key management personnel in the period relate only to remuneration consistent with the policy set out in the Directors' Remuneration Report within the Group's 2020 Annual Report.

There have been no other material changes to the arrangements between the Group and key management personnel in the period.

17 Subsequent events

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 material changes in key estimates and judgements have been identified as adjusting post balance sheet events. There have been no material non-adjusting events since 26 September 2020.

In making its going concern statement, the Group has considered the impact of the national lockdown announced by the government on 31 October 2020. Refer to note 1 for further details of the going concern assessment.

Glossary

<table>
<tr><th>Alternative performance measure</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income Statement Measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores</td><td>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.
<table>
<tr><th></th><th>HY 20/21
£m</th><th>HY 19/20
£m</th><th>%</th></tr>
<tr><td>UK Food</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>2,762.8</td><td>2,691.2</td><td>2.7</td></tr>
<tr><td>Net new space[1]</td><td>75.8</td><td>154.6</td><td></td></tr>
<tr><td>Total UK Food revenue</td><td>2,838.6</td><td>2,845.8</td><td></td></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>904.1</td><td>1,488.6</td><td>(39.3)</td></tr>
<tr><td>Net new space</td><td>13.1</td><td>61.8</td><td></td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>917.2</td><td>1,550.4</td><td></td></tr>
</table>
[1] UK Food net new space includes sales to Ocado Retail Limited.</td></tr>
<tr><td>Food LFL ex hospitality</td><td>Movement in revenue per the Income Statement</td><td>Sales from non like-for-like stores and hospitality category</td><td>The period on period change in Food excluding the hospitality category 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 LFL 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. The hospitality category includes cafés, counters and marketplace.
<table>
<tr><th></th><th>HY 20/21
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<tr><td>Hospitality</td><td>(25.2)</td><td>(123.3)</td><td></td></tr>
<tr><td>Like-for-like ex hospitality</td><td>2,737.6</td><td>2,567.9</td><td>6.6</td></tr>
</table></td></tr>
<tr><td>Clothing & Home stores</td><td>None</td><td>Not applicable</td><td>Clothing & Home revenue through stores. These revenues are reported within the UK Clothing & Home segment results. Store revenue excludes revenue from ‘shop your way’ and click & collect, which are included in online revenue. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores channel.
<table>
<tr><th></th><th>HY 20/21
£m</th><th>HY 19/20
£m</th><th>%</th></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td><td></td></tr>
<tr><td>Stores</td><td>475.8</td><td>1,221.8</td><td>(61.1)</td></tr>
<tr><td>Online</td><td>441.4</td><td>328.6</td><td>34.3</td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>917.2</td><td>1,550.4</td><td></td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group’s online platforms. These revenues are reported within the relevant UK 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.</td></tr>
</table>

<table>
<tr><th>Alternative performance measure</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Clothing & Home online</td><td>None</td><td>Not applicable</td><td>Clothing & Home revenue through the Clothing & Home online platforms. These revenues are reported within the UK Clothing & Home segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel.
<table>
<tr><th></th><th>HY 20/21
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</table></td></tr>
<tr><td>International online</td><td>None</td><td>Not applicable</td><td>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel.
<table>
<tr><th></th><th>HY 20/21
£m</th><th>HY 19/20
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>Stores</td><td>283.6</td><td>429.0</td><td>(33.9)</td></tr>
<tr><td>Online</td><td>62.7</td><td>35.7</td><td>75.4</td></tr>
<tr><td>At reported currency</td><td>346.3</td><td>464.7</td><td>(25.5)</td></tr>
</table></td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>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.
<table>
<tr><th></th><th>HY 20/21
£m</th><th>HY 19/20
£m</th><th>%</th></tr>
<tr><td>International Revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>346.3</td><td>459.9</td><td>(24.7)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>4.8</td><td></td></tr>
<tr><td>At reported currency</td><td>346.3</td><td>464.7</td><td>(25.5)</td></tr>
</table></td></tr>
<tr><td>Adjusting items</td><td>None</td><td>Not applicable</td><td>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 Executive Committee.</td></tr>
<tr><td>Revenue before adjusting items</td><td>Revenue</td><td>Adjusting items

(See note 3)</td><td>Revenue before the impact of adjusting items. 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 Executive Committee.</td></tr>
<tr><td>Operating (loss)/profit before adjusting items</td><td>Operating (loss)/profit</td><td>Adjusting items

(See note 3)</td><td>Operating (loss)/profit before the impact of adjusting items. 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 Executive Committee.</td></tr>
</table>

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Finance income before adjusting items	Finance income	Adjusting items (See note 3)	Finance income before the impact of adjusting items. 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 Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 3)	Finance costs before the impact of adjusting items. 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 Executive Committee.
Interest on leases	Finance income/costs	Finance income/ costs (See note 4)	The net of interest income on subleases and interest payable on lease liabilities. 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 Executive Committee.
(Loss)/profit before tax and adjusting items	(Loss)/profit before tax	Adjusting items (See note 3)	(Loss)/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 Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the FY19/20 annual report for explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 3)	(Loss)/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 in the FY19/20 annual report for explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	(Loss)/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 3)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the (loss)/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 14)	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.
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.

Alternative performance measure	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
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.
Other Measures			
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds of asset disposals excluding any assets acquired as part of a business combination or through an investment in an associate.
Covid-19 scenario	None	Not applicable	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 assumed the government guidelines at the period end continued 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.
Ocado Retail Limited	None	Not applicable	References made to Ocado Retail Limited also include its two subsidiaries, Speciality Stores Limited and Paws & Purrs Limited.

INDEPENDENT REVIEW REPORT TO MARKS AND SPENCER GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 September 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
4 November 2020