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Marks and Spencer Group Plc

Full Year Results for 52 Weeks Ended 2 April 2022

"STRONG PERFORMANCE DELIVERED BY A MORE RESILIENT M&S"

The impact of Covid in 2020/21 renders comparisons to the prior year less meaningful. To aid understanding, throughout this document we are showing the 52 weeks to 28 March 2020 as the comparative period, unless stated otherwise.

Strong all-round performance

- Profit before tax and adjusting items of £522.9m (2019/20 £403.1m).
- Statutory profit after tax of £309.0m (2019/20 £27.4m).
- Food growth of 10.1%, ex hospitality and franchise sales¹ up 14.7%.
- M&S share of Ocado Retail net profit £13.9m including £7.2m net exceptional costs.
- C&H sales up 3.8%. Online growth of 55.6%, stores down 11.2%.
- Strong cash flow, reducing net debt excluding lease liabilities by £1.0bn to £420m.

Business well positioned for inflationary headwinds and the next phase of transformation

- M&S Food outperformance supported by record quality and improved value perception.
- Ocado Retail basket size normalised as anticipated, transitioning to rapid capacity growth.
- Reshaped C&H range and value commitment delivering full-price sales growth of 28.5%.
- Online C&H sales now 34% of UK C&H sales and nascent brands platform established.
- Sparks has grown to 15m members, fuelling data and personalisation drive.
- International online retail sales over £250m vs £100m in 2019/20.
- Increased store rotation pipeline in both Food and C&H; new format stores performing well.

Steve Rowe, CEO: "When I took over the reins at M&S six years ago, I committed to tackling the underlying issues that had eroded the strength of the business and building the foundations for future growth. For me, what is important about these results is not just the restoration of profit and strong cash flow; it is that they demonstrate that M&S has fundamentally changed. While there is much more to do, the business has moved beyond proving its relevance and has the opportunity for substantial future growth. It has been my privilege to be the steward and shopkeeper of this fantastic business and extraordinary brand at such an important stage in its history. The changes we have delivered are down to the commitment and hard work of colleagues across the business, and I am delighted to hand the baton on to Stuart, Katie and Eoin to lead the next phase."

Group Results	52 weeks ended 2 April 22	53 weeks ended 3 April 21	52 weeks ended 28 March 20	Change vs 2019/20 (%)
Statutory revenue	£10,885.1m	£9,166.9m	£10,181.9m	6.9
Sales before adjusting items ²	£10,909.0m	£9,166.9m	£10,181.9m	7.1
Operating profit before adjusting items	£709.0m	£222.2m	£590.7m	20.0
Profit before tax & adjusting items	£522.9m	£50.3m	£403.1m	29.7
Adjusting items	£(131.2)m	£(259.7)m	£(335.9)m	-60.9
Profit/(loss) before tax	£391.7m	£(209.4)m	£67.2m	482.9
Profit/(loss) after tax	£309.0m	£(201.2)m	£27.4m	1,027.7
Basic earnings/(loss) per share	15.7p	(10.1)p	1.3p	1,107.7
Adjusted basic earnings/(loss) per share	21.7p	1.4p	16.7p	29.9
Free cash flow	£699.2m	£296.4m	£205.7m	239.9
Net debt	£2.7bn	£3.52bn	£3.95bn	-31.7
Net debt excluding lease liabilities	£0.4bn	£1.11bn	£1.39bn	-71.2
Dividend per share	-	-	3.9p	n/a

There are a number of non-GAAP measures and alternative profit measures (APMs), 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. Refer to adjusting items table below for further details.

¹ The Food ex hospitality and franchise sales APM is based on total revenue rather than like-for-like revenue, as was presented at the 20/21 year-end results, and 21/22 half-year results.

²All references to sales, a new APM, throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT.

COMPLETION OF THE FIRST PHASE OF TRANSFORMATION – FIXING THE BASICS.

Four years ago, we set out in a presentation entitled 'Facing the Facts' the unvarnished truths about the state of M&S and the reasons why far-reaching change was needed to arrest decline. Now on the eve of a long-planned leadership succession, our results demonstrate the extent of change delivered and the areas where there is more to do:

- The Food business has gone from amongst the lowest performing UK food businesses on LFL sales to the top performing over 12 months.
- Our brand perception was weakening and too many customers thought M&S was no longer relevant. Now on almost all customer metrics we see renewed interest and approval.
- The option count in Clothing & Home had proliferated leading to low rate of sale but has now been reduced by c.20% since 2018/19, with popular lines bought in greater depth.
- We had high levels of discounting at c.30% of Food and c.35% of Clothing & Home sales, eroding customer trust. Now this has halved to less than 15% and c.18% respectively.
- Clothing & Home online capability was behind competitors and at only c.18% of sales. It is now market competitive and penetration has almost doubled to 34%.
- The Sparks 'point-based' system had lost credibility but has now been relaunched and we have 15m members and over 4m app users.
- The online fulfilment centre at Castle Donington struggled to cope with demand and fulfilment speeds were uncompetitive but now output has doubled, and speeds are at market levels.
- The Food business had no online grocery capability but now the Ocado joint venture investment is established and growing capacity.
- The legacy store base was ageing with no track record of closures or adaptation to modern shopping patterns. We have now closed 68 full-line stores, opening or relocating 13.
- Store formats were dull, complex to shop, and dated. We now have a strong performing new format in both main businesses.
- The balance sheet was stretched with £1.8bn net debt (excluding lease liabilities) but is now much more resilient with just £420m.
- The business was slowed down by heavyweight corporate functions and hierarchy whereas it is now restructured into a family of faster moving accountable businesses.

Nonetheless there remains much to do as we embark on our new 'shaping the future' stage and reposition M&S as a growth business focused on rewarding shareholders with a combination of sustainable returns and profit growth through a balance of investment and cash generation. There are many areas where the business has improved but three important infrastructure challenges remain which can still impact the pace of change and recovery;

- Although we have materially changed our digital footprint, some of our core technology systems need investment, most notably in Clothing & Home where planning and supply chain systems can be significantly improved to drive more efficient trading.
- The Clothing & Home and Food supply chains both require further investment. In Clothing & Home we have a lot of opportunity to reduce single picking, improve capacity, reduce costs and improve store operations as a result. In Food we need to further improve operations with Gist and invest in and reshape the network.
- Some of the full-line estate remains out of date and poorly located compared to the competition and although we have made progress, there is much still to do to convert stores to a new more efficient shoppable format and make them suitable for an omni-channel era. Although Clothing & Home store sales are running more than 25% below four years ago we have delivered less than a 10% reduction in space since then, so the imperative both to reduce space and to rotate to newer, better stores remains.

The substantial progress we have made in 'fixing the basics' demonstrates the potential beyond the current profit recovery and now provides a much stronger platform for the new leadership to take forward. Their objective is to increase the pace of change and to reposition the business for growth in the UK and globally. Stuart Machin, Katie Bickerstaffe and Eoin Tonge will set out their plans for the future later in the year.

STRONG PERFORMANCE DELIVERED BY A MORE RESILIENT M&S

A strong all-round performance combined with the benefits of the transformation delivered an encouraging performance across M&S. Profit before tax and adjusting items for the period was £522.9m (2019/20: £403.1m). Statutory profit before tax was £391.7m (2019/20: £67.2m). The recovery of profit combined with a focus on working capital and tightly controlled capital expenditure generated substantial free cash flow and a sharp reduction in net debt. Results included £59.8m of UK business rates relief and a net rates charge of £139.7m in the period.

M&S Food now a high-performing business with market share growth

M&S Food delivered sales growth of 10.1%. Combined with an improving margin mix in H2 and the benefits of the “lowering cost” programme, this supported a strong increase in operating profit before adjusting items. We were encouraged by the core sales performance and the resilience of larger basket sizes, even as we saw a gradual recovery in the franchise travel and hospitality businesses in H2. Value and quality perception indicators are robust. The strength of performance in new channels (Ocado and Costa Coffee) reinforces our belief in the long-term potential to grow the business.

Ocado Retail transitioning to strong capacity growth post pandemic reversion

As expected, Ocado Retail saw a normalisation of basket sizes and the shape of trade, resulting in a 4% decline in revenue and a reduced contribution to Group results after exceptional costs including the Erith fire. At the same time, we are investing in new capacity despite the backdrop of well-understood industry cost pressures, demonstrating our confidence in Ocado Retail. This has the potential to grow the business by over 50% when fully ramped up. With the M&S brand consistently over 25% of the average Ocado basket, we believe there is substantial further synergy potential for the two businesses to exploit.

Clothing & Home on track for a more profitable model capable of growth

Clothing & Home delivered 3.8% sales growth, driven by online sales. We shifted to trusted value, reducing option count by c.20% over three years, which resulted in good growth in core categories and a reduction of stock into sale. Operating profit before adjusting items grew strongly, reflecting the improved full-price mix. MS2 made multiple improvements to the online offer and service, with around 11% of orders fulfilled from store. We have successfully grown the Sparks programme to 15m members and app users to over 4m, and have begun to personalise customer experience. The nascent brands platform now has around 40 clothing brand partnerships, own or invested brands.

Building store rotation pipeline driving exit from legacy stores

We are now developing a growing pipeline of store relocations, moving to modern well-located sites, in the renewal format with omni-channel capability. We aim to fund the exit costs of the legacy estate through an increasingly active asset management and disposal programme. We have a pipeline of c.15 new full-line stores over the next three years and c.40 new Food stores, many in the larger renewal format with click-and-collect services for Clothing & Home. The 10 new stores opened last year traded 11% ahead of sales plan and are on track to generate a payback of the net capital invested in just 1.5 years. New store performance gives us encouragement wherever possible to accelerate rotation.

International absorbing Brexit-related costs, but emerging global strategy encouraging

The International business, together with our partners, generated 4% retail sales growth. This included a solid performance in the Middle East and online retail sales more than doubling to over £250m through growth in markets with a store presence and global platforms. Operating profit before adjusting items reflected the combined effects of EU border costs and tariffs of £29.6m and an estimated trading impact in the region of £15m. While we have provided for the £31m cost of fully exiting Russia and business disruption in Ukraine, and will incur a loss of contribution, we are also exploring multiple opportunities for further growth, including through the Reliance joint venture in India.

Extending and expressing our sustainability lead

During the year we reset Plan A with a singular focus on cutting our carbon footprint by one third by 2025 and becoming a fully net zero business by 2040. As an own-brand retailer, M&S is very well positioned to work with its supplier partners to find better ways of doing things. We developed a multi-stakeholder plan spanning customers, colleagues and suppliers to deliver on this target. We also agreed a new £850m revolving credit facility linked to the delivery of the net zero roadmap.

Business well positioned for next phase of transformation and inflationary headwinds

As we enter the next phase of the transformation, we maintain our ambition to create a business capable of sustainable growth in sales, market share and profit. With improved profitability and cash conversion, and financial net debt under a third of 2019/20 levels, the business is resilient to the macroeconomic headwinds while having flexibility to invest in our transformation priorities.

Overall trading in the first six weeks of the financial year has been ahead of the comparable periods in 2021/22, including the period from 12 April 2021 when non-essential retail reopened, with a particularly strong performance in Clothing & Home and growth in the total Food business continuing to outperform the overall market.

This year the business will not receive business rates relief and International will not have the profit contribution from Russia. As we invest in capacity growth at Ocado Retail, we anticipate a minimal contribution of share of net income to group results. Consequently, we start 2022/23 from a lower adjusted profit base. The business is now much better positioned and has had an encouraging start to the year. However, given the increasing cost pressures and consumer uncertainty we do not currently expect to progress from this lower profit base in 2022/23.

M&S FOOD: HIGH-PERFORMING BUSINESS AND MARKET SHARE GROWTH

The objective for M&S Food is to “protect the magic” by investing in our unique focus on own-brand innovation and fresh, easy-to-cook food, while “modernising the rest” of the infrastructure supporting it. By extending reach of the brand into bigger, new-format stores and growing new channels (Ocado Retail, Costa Coffee), we see the potential for substantial growth.

M&S Food delivered sales growth of 10.1% vs 2019/20 and in H2 continued to be the best-performing UK grocery chain (Source: Kantar 12 weeks ended 20 March 2022). This was despite continuing adverse Covid-related headwinds and the absence of online grocery sales, which are reported separately through Ocado Retail.

Sales grew 14.7% after adjusting for the Covid-related impact on the hospitality and franchise businesses. H2 saw a gradual recovery of stores in city centres and the franchise travel business compared to H1.

Sales vs 2019/20 (%)	H1	H2	FY	Sales vs 2019/20 (%)	H1	H2	FY
Simply Food	27	18	23	High street	-10	-6	-8
Retail parks	23	20	22	City centre	-18	-10	-14
Franchise fuel	13	8	11	Franchise travel (rail/air/roadside)	-49	-29	-39
Total	25	18	21	Total	-18	-10	-14

Operating profit before adjusting items of £277.8m, as compared to £236.7m in 2019/20, reflected sales growth and the lowering cost programme, partly offset by increasing supply chain cost pressures in H2 and Brexit-related costs in Northern Ireland.

Performance underpinned by improvement in quality and value

The outperformance of the M&S Food range over the past four years has delivered improved customer perceptions for both value and quality, and good core sales growth. Market share has grown from 3.4% to 3.6% over three years.

The consistently strong core sales performance throughout 2021/22, supported by good market conditions, is evident in the category sales mix, with growth in core areas such as produce, meat and grocery. This was driven by larger basket sizes, which began to normalise through the year as the effects of Covid reduced.

Sales vs 2019/20 (%)	H1	H2	FY	Sales vs 2019/20 (%)	H1	H2	FY
Frozen	40	18	27	Food-on-the-move	-18	-4	-11
Beers, wines & spirits	30	17	23	Hospitality	-53	-27	-40
Grocery & household	33	9	20				
Meat, fish, poultry, deli, dairy	20	14	17				
Bakery	13	18	15				
Produce & flowers	14	12	13				
Total	20	14	17	Total	-30	-12	-21

Growth was supported by a substantial programme of product innovation, with over 1,350 new lines over the past year, including summer barbecue ranges, extensions to our market-leading Plant Kitchen offer, and an expanded "Dine In" programme.

In a climate of increasing price awareness, "Remarkable Value" and "Fresh Market Specials" ranges have been relaunched, offering products with an M&S quality differential at everyday low prices. Around one in four M&S baskets now include one of these lines. Overall, value perception has improved by five points since March 2019, ahead of the market, and quality perception is at the highest level in over five years.

The Food renewal format creates larger stores with the efficiency of a supermarket and the 'soul' of a fresh food market. This has now been implemented in 40 stores, enabling customers to access more of the M&S range. Annualised sales in Food stores which have been fully renewed have been strong, on average up over 10% vs control stores.

In the second half, we launched a ground-breaking partnership with Costa Coffee, making available around 30 M&S food-on-the-move products in c.2,500 coffee shops. These include new lunch options, hot meal boxes and children's food. Early sales are in line with our expectations.

More to do on supply chain, waste and availability

The M&S Food supply chain remains less efficient and, we believe, higher cost to serve than our competitors. This is a result of a complex store and logistics network, a high level of chilled product mix and a costly supply chain contract with our partners, Gist. Alongside this, our forecasting, ordering and stock allocation systems are dated and are in the process of being upgraded.

Over the past two years, we have implemented the "Vanguard" trading model across the full Food estate, creating more efficient processes for stock management and replenishment of stores, which has helped to sustain availability through the supply chain disruption of last year. However, waste and stock loss remain above target levels. In the next stage we will roll out new forecasting, ordering, and space, range and display systems to better match catalogue and product display to customer demand, with the objective of realising a substantial reduction in food waste. The increasing store rationalisation programme is also helping to create a network of conforming stores which are lower cost to serve.

OCADO TRANSITIONING TO STRONG CAPACITY GROWTH POST PANDEMIC REVERSION

Our ambition is to grow Ocado Retail over the next five years to achieve a market-leading national position in online food retailing and a brilliant showcase for the M&S brand and range. Doing so means building on the competitive advantages in quality, value and service that the Ocado platform combined with M&S Food can achieve. We will deliver growth through rapid expansion of customer fulfilment centres (“CFCs”) alongside our immediacy proposition, Zoom.

Following a successful switchover to M&S supply, Ocado Retail delivered an exceptional performance during the lockdown periods in 2020/21. As expected, 2021/22 saw a reduction in average basket size to c.£123 in Q4 (2020/21: c.£145) and increasingly normalised demand across the week. At the same time, with a substantially larger industry growth opportunity than we envisaged when we acquired 50% of Ocado Retail, we are investing in an ambitious capacity roll-out plan, with new CFCs coming on stream against a backdrop of well-understood industry-wide cost pressures.

Ocado Retail delivered revenue of £2,248.8m, down 4.4% compared to 2020/21, and EBITDA before exceptional items of £104.8m as compared to £189.9m in 2020/21. We recorded a Group share of net income of £13.9m, after a £7.2m share of net exceptional costs.

2021/22	M&S financial quarter			
	Q1	Q2	Q3	Q4
Average orders per week (k)	383	338	375	367
Retail revenue (£m ex VAT)	618.4	517.5	547.8	564.7

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods. Average orders per week refers to results of Ocado.com

Targeting growth in active customers as pandemic conditions normalise

Ocado Retail delivered good growth in active customers through the year, with an acceleration in the final quarter compared with the prior year, as new CFCs came on stream. Order growth and average basket size reflected the return of customer behaviours towards pre-Covid levels as restrictions reduced and there was a return to more in-office working. As a result, revenue declined, but substantially outperformed the online grocery market (Source: Kantar 12 weeks ended 20 March 2022).

Near-term margins reflecting a higher percentage of immature capacity

Near-term margins reflect the higher percentage of immature capacity as well as the peaks and troughs associated with normalised trading. Following a period of more limited capacity owing to a fire, Erith CFC was fully reopened in December 2021. During 2021 we also opened two new CFCs in Purfleet and Andover, which were operating at around half of their end-game capacities by Q4. Some one-off costs, associated with the fire at the Erith distribution centre and technology platform transition, have impacted the M&S share of profit.

Alongside the opening of Bicester in 2022 and Luton in 2023, we have plans to reach capacity for over 700,000 orders per week based on pre-Covid basket sizes, representing growth of over 50% when fully ramped.

Substantial further potential for the joint venture

The M&S brand is consistently over 25% of Ocado Retail’s sales, and this has generated substantial buying gains for both M&S Food and Ocado Retail. We believe there is additional unexploited potential to make better use of the M&S brand, data capabilities, and cross-marketing as the businesses work even more closely together. Towards the end of our coming financial year, we are also planning to re-platform from the legacy operating system to the “Ocado Smart Platform”. This represents a major technology switchover and will provide Ocado Retail with a website and ordering capability that when fully developed we believe will be market-leading.

CLOTHING & HOME ON TRACK FOR A MORE PROFITABLE MODEL CAPABLE OF GROWTH

The objective of Clothing & Home is to create a contemporary M&S range bought in greater depth, alongside a family of internal and external partner brands providing broader choices to our customers. We are at the very early stages of transitioning to an omni-channel business backed by exceptional data and highly personalised customer relationships, and a more sustainable, profitable model is starting to emerge.

Clothing & Home delivered sales growth of 3.8% vs 2019/20, with three consecutive quarters of underlying growth. Online sales were up 55.6%, with strong growth throughout the year outperforming pure-play peers and gaining 60bps of market share (Source: Kantar 52 weeks to 3 April 2022). Store sales declined 11.2%, with performance continuing to be impacted by legacy high street and city centre stores, although there was some improvement in H2.

Sales vs 2019/20 (%)	Q1	Q2	Q3	Q4	FY
Retail park	-2	3	3	24	5
Outlet	-10	1	3	26	3
Shopping centre	-26	-16	-12	15	-12
High street	-24	-22	-20	-5	-19
City centre	-37	-28	-19	3	-22
Total C&H stores	-21.2	-14.3	-10.9	5.6	-11.2

Operating profit before adjusting items of £330.7m, as compared to £223.9m in 2019/20, reflected the benefits of sales growth combined with an increased full-price sales mix.

Reshaping the “product engine” to drive shape of buy and reduce clearance

The Clothing & Home offer has been reshaped over the past three years around trading principles focused on contemporary style, simple accessible product, and greater depth of buy. Overall option count has reduced by c.20% on 2018/19. Alongside the product change, there has been a successful shift to trusted value and everyday low price. As a result of these actions, discounted sales have reduced and stock into the clearance sale was down 34% on two years ago, enabling a simpler, more profitable operation. These changes are beginning to be reflected in improved customer style perceptions and are generating increased confidence in the new approach within the core product teams.

Blanket promotions, which often obscured inconsistent pricing and reduced trust, have largely been removed. The pricing architecture is clearer, offering value on entry price points in products such as women’s jeggings, men’s denim and the recently introduced “Remarksable Value” label in our Home ranges. As we have shifted to a trusted value approach, we have seen an improvement in value perception, which is now market-leading.

Strong performance in core categories and improving style perception

As expected, category performance over the two pandemic years has been greatest in core casual categories, sleepwear and soft furnishings. Following the reopening of the economy in July 2021, the slow return to offices, combined with greater mobility, has led to a gradual improvement in formal ranges, elements of footwear and holiday.

Sales vs 2019/20 (%)	H1	H2	FY	Sales vs 2019/20 (%)	H1	H2	FY
Women's denim	8	27	17	Women's formal	-33	-20	-26
Women's casual tops	10	30	17	Women's holiday	-35	26	-24
Women's knitwear	15	7	9	Men's formal	-35	-20	-28
Men's casual	1	13	7	Men's footwear	-9	6	-1
Kids' daywear	21	27	24				
Lingerie	0	9	5				
Soft furnishings	23	12	16				

- Womenswear has driven good growth in the "big three" departments of denim, knitwear and casual tops. A focus on simple, repeatable styles in dresses, supported by popular collaborations with brands such as Ghost, has resulted in a very strong performance. The Goodmove activewear brand has grown to over £65m in two years.
- Lingerie has seen a recovery over the past year in core areas such as sleep, underwear and bras. A focus on sharper value through multi-packs at opening price points has combined with new stretch offers such as "Boutique" and the launch of the "Neutrals" range.
- Menswear was impacted in the pandemic by its high formal and office-wear shares. We saw good growth in jersey, knitwear and underwear, although following reopening availability in formal categories was below target.
- Kidswear's increased focus on daywear has combined with growth in schoolwear to deliver double-digit sales growth. The growth of M&S Kids provides an important entry point to the brand for family-age customers.
- Home ranges have been reshaped, with pricing realigned to the market in areas such as bed linen, lighting and curtains. Furniture ranges are being upgraded and losses have reduced.

MS2 driving omni-channel growth

MS2 had a successful year, with strong online sales growth at an adjusted operating profit margin competitive with store sales. The MS2 organisation brings together the data, digital and online teams across M&S. Its aim is to prioritise the best online offer, acting with the speed of a pure-play while leveraging the store estate to drive advantages in reach and fulfilment to deliver better customer service.

- A programme of front-end digital development to inspire customers has included upgraded imagery, increased user-generated content, "shop the look" features and "hotspotting" of product benefits.
- We have introduced over 60 digital hubs in stores, enabling rapid click-and-collect and rolled out paper-free returns.
- Online availability through omni-channel fulfilment now exceeds store availability, with an increasing number of "online-only" products and use of the channel to trial "test and repeat" ranges. The online commercial teams are fully involved in category planning.
- During the year, c.11% of online orders were satisfied through in-store fulfilment. The ability to sell through stock in the store network has increased customer convenience, improved stock turn and helped drive customer availability to c.90%, compared with c.75% through the online distribution centre alone.
- The cut-off for next-day delivery remains below our target level but is now market-competitive.

Over the past three years we have built the foundations of a more personalised, customer-focused digital offer. We have created a single customer data platform alongside our enterprise data platform, "BEAM", which continues to consolidate our data in one place.

The relaunched Sparks programme has grown to over 15m members, of which close to 9m are active, and we are working on the next generation of improvements to the offer. We have grown app users to over 4m and expect to launch Sparks Pay, offering customers an integrated payment and credit proposition including loyalty rewards through Sparks and the M&S app.

Over the past year we began to personalise the customer experience through our website, app and customer relationship management programme, and around 8% of M&S.com sales are now being driven by personalisation. Although still at an early stage, we have developed a bespoke in-house solution to deepen relationships with customers and drive future growth. The goal is to build personalisation at scale to move from a targeted promotions model to one where the range, interactions and product presentation are relevant to the individual customer, making M&S a more engaging and easier place to shop.

Sparks and data provide the gateway to delivery of further services, notably the shift to a digital proposition for M&S Bank customers including credit, loyalty rewards and payment.

Nascent platform of brands established

M&S has a strong and trusted brand which attracts customers to our platforms as the second largest UK online clothing retailer (Source: Kantar 52 weeks ending 3 April) with the largest omni-channel footprint. This, combined with our 15m Sparks card holders, credit card and customer data engine, creates the scope to bring other brands onto our platform, providing broader choice and personalisation for the M&S customer and substantial new revenue streams.

- In the last year we have established a series of pilots with a combination of around 40 clothing brand partnerships, own or invested brands. This has included the purchase and relaunch of Jaeger, as a contemporary British brand, a 27% shareholding in Nobody's Child and the majority acquisition of activewear brand curator, The Sports Edit, which brings new capabilities, customers and brands to the Group.
- These brand partnerships bring broader choice, premium price points and additional expertise to M&S. In total, third-party brands across Clothing, Home and Beauty, including Jaeger, generated c.£100m of orders in 2021/22.
- In establishing the operation, we have made early investment in the initial capacity required for ordering and business development. At this stage, the business trades through a wholesale or commission model, with product flowing through the M&S distribution network. We expect to evolve the model to add dropship capability, enabling the sale and fulfilment of orders from partner stock.

Improving performance through addressing legacy issues

Despite the far-reaching developments and progress in the product engine, the Clothing & Home business requires further development in legacy systems, supply chain and stores to enable a more responsive business with faster speed to market, an improved returns process, lower stock levels and a lower cost to operate.

In the current system, less effective systems configuration and interface makes planning and tracking slow and labour intensive. Teams have limited visibility to create accurate channel plans, and stock journeys from port to customer via multiple stock holding and consolidation points are lengthy and can be hard to track. The reconfiguration of systems is likely to take a number of years to implement.

The supply chain picking model can be slow and high cost to operate, resulting in a risk of trapped stock. The opportunity is to reconfigure the network to support our omni-channel needs better. In addition, the returns channel remains slow, creating excess handling cost and margin loss. We have already identified multiple ways of reducing this; for instance preparing returns for resale in the store of return or nearby stores to enable further improvements in omni-channel availability.

So, the pattern and rhythm of product flow will be further reshaped over the next few years. This reshaping will be underpinned by a commitment to fewer, deeper strategic supplier relationships to support a faster, more flexible sourcing model which has already proved comparatively resilient during the pandemic.

BUILDING STORE ROTATION PIPELINE DRIVING EXIT FROM LEGACY STORES

The step change in online participation and further shift of trade away from high street and city centre stores during the pandemic has increased the imperative to reduce Clothing & Home trading space. Last year we set out the objective of the M&S store rotation programme to create a modernised estate of c.180 full-line stores and a growing programme of larger, more inspirational Food stores. We aim to fund the exit costs of the

legacy estate through an increasingly active asset management and freehold disposal programme, which we expect to release at least £200m of cash proceeds.

Developing profitable rotation pipeline for full-line and food stores

So far in the transformation, we have made significant progress in closing 68 legacy full-line stores and 19 smaller Food stores. We have also created a bigger Food store format which can serve more of the family shop and offer click-and-collect services for Clothing & Home, and opened 13 new, more efficient full-line stores.

We are now developing a growing pipeline of store relocations, moving from old multi-floor buildings, often with challenged fabric and poor access and car parking, to modern, well-located sites wherever possible in the renewal format with omni-channel capability. Moving away from town centres is not our only focus, but we recognise that in an omni-channel world, ease of shopping and fast access is critical to competitiveness, and in many cases we believe the town centre locations have lost impetus as a result of failed local authority or government policy. As a result, a high proportion, but not all, of our relocations are to the edge of town.

Combined with the relocation programme, we are targeting an overall reduction in Clothing & Home space reflecting the rapid growth of online and our exit from the long tail of low sales density stores that deliver a small proportion of total profit.

The full-line store pipeline already has around 15 new stores planned over the next three years, including seven former Debenhams sites, and we expect this to build further. This will help enable a further 32 store closures. Examples include:

- In Leamington Spa, the recent closure of related town centre stores and relocation to a full-line edge-of-town former Debenhams to create a full-line proposition is expected to pay back the net capital of £7.0m invested in the new site in 3.5 years.
- The relocation of Thurrock from the back of an underperforming centre with no accessible parking to the former Debenhams site by the bus station with extensive parking is expected to cost a net £8.4m and to pay back in 2.0 years.
- The announced closure of the legacy four-floor town centre store at Colchester and opening of a new modern store in the retail park on the edge of town will cost a net £7.3m, resulting in an estimated payback of 3.2 years.

To accelerate the estate's rotation, we are focused on driving the recapture of Clothing & Home sales from existing legacy sites either to new stores, to alternative stores or online and are trialling a number of new initiatives to increase this.

To also help enable the full-line store rotation, and to drive access to new areas of growth, we currently anticipate opening c.40 new Food stores in the next three years, largely in the 12,000-15,000 sq ft renewal format. These stores generate higher productivity and good cash paybacks.

Encouraging results from recent openings

Of the 10 M&S stores opened in 2020/21*, sales are averaging c.11% above plan, with paybacks of around 1.5 years.

	10 stores opened in 2020/21		Foodhall	Full-line
	Performance	vs original plan	Performance	Performance
Average annual sales (£m)	14.3	11%	12.3	18.8
Average capex (£m)	3.7	-2%	2.2	7.3
Average payback (years)	1.5	-44%	1.5	1.5

*2020/21 store openings are shown above rather than 2021/22, as these have 12 months of sales data to allow a full financial review.

INTERNATIONAL ABSORBING BREXIT RELATED COSTS BUT EMERGING GLOBAL STRATEGY ENCOURAGING

Our objective is to create a growing International business through strong partnerships and a multi-platform online business with global reach.

International sales grew 1.7% at constant currency, reflecting the continuing rebound in activity through the year and sustained growth in online sales both in markets with a store presence and through global marketplaces. Operating profit before adjusting items of £73.6m (2019/20: £110.7m) included costs and tariffs of £29.6m and an estimated trading impact in the region of £15m due to ongoing EU border issues, largely related to the Republic of Ireland following Brexit.

Solid growth in the Middle East, India and Global Online

Together with our partners, we generated 4% growth in retail sales in 2021/22. This included a particularly good performance in the Middle East region, with growth in domestic demand. In Asia, we saw a substantial bounce back in India following lockdown in Q1, which was partly offset by continuing restrictions in some markets. Sales in Europe reflected strength in Clothing & Home sales in the Republic of Ireland, partly offset by the impact of EU-related border issues on the Food business. Over the past two years, online retail sales of M&S and our partners have grown by 152% and now total £251m. Following the expansion into an additional 46 territories in March 2021, we now trade in 105 markets.

Performance vs 2019/20 (%)	H1	H2	FY	Performance vs 2019/20 (%)	H1	H2	FY
Europe	4.2	7.4	5.8	Stores	-13.1	1.5	-5.7
Middle East	9.5	28.0	18.6	Online	165.7	141.1	152.2
Asia	-23.6	9.9	-6.6	Total retail sales	-2.7	11.2	4.3
Total retail sales	-2.7	11.2	4.3				

Adapting to geo-political shocks: Brexit & Russia/Ukraine

During the year, the business faced the dual headwinds of the impact of EU border issues and the ending of shipments to our franchise partner in Russia as a result of the war in Ukraine.

To mitigate EU border costs, we exited the high street franchise Food operation in France and ceased exporting chilled food to the Czech business. We continue to absorb material administration-related cost headwinds on Food exports to Ireland, because of certification, declarations and the complexity of segregation in warehouses, none of which benefit customers. We expect to be able to mitigate these costs further through increased local sourcing and by automating processes. In our Clothing & Home operation, we are planning to open a new "EU hub" in Croatia, enabling the direct flow of stock into market to fulfil orders for our partners, including marketplaces.

The M&S businesses in Russia and Ukraine have been operated by a licence holder and franchise partner and in 2021/22 generated retail sales of £102.5m and a contribution to profit before adjusting items of £5.2m. M&S is a values-led business; therefore, as a result of the invasion of Ukraine, we ceased shipments to Russia on 3 March 2022. Subsequently, we have made the decision to fully exit our Russian franchise and we have recognised a charge of £31m in adjusting items, representing our full exit costs from Russia and business disruption in Ukraine. Unfortunately, our Ukrainian business has also been partially closed as a result of war impacts, and we are working with our partner to reopen as and when possible.

Exploiting global growth opportunities in India, The Republic of Ireland and online

Our joint venture partnership with Reliance Retail in India opened six new stores, closed nine mostly smaller-format stores and refurbished or expanded a further six. The business is exploring multiple options for future growth, including ambitious plans to grow space, with around 10 new store openings per year and expansions

in key existing locations, as well as leveraging the dedicated Indian website and pursuing growth through third-party marketplaces.

During the year we also developed and grew in-store fulfilment of Clothing & Home online orders in key markets such as the Republic of Ireland. In addition, the partnership with Zalando has delivered substantial growth over the past year, and we expect to broaden the range available as we develop additional capabilities.

EXTENDING AND EXPRESSING OUR SUSTAINABILITY LEAD

M&S was a pioneer in creating an industry-leading, fully integrated sustainability plan under the “Plan A” banner, launched in 2007, which reflected values that have been core to M&S’s culture since its inception. During the year we reset Plan A with a singular focus on cutting our carbon footprint by one third by 2025 and becoming a net zero business across Scope 1, 2 and 3 by 2040. As an own-brand retailer, M&S is very well positioned to work with its supplier partners to find better ways of doing things. We have developed a multi-stakeholder plan spanning customers, colleagues and suppliers to deliver on this target.

This reset includes the return of the Group’s iconic “Look behind the Label” campaign, focusing customers on the stories behind five everyday products, from coffee to cotton, which are responsibly sourced. We also identified 100 colleagues as “Carbon Champions” in leadership positions in key roles in buying, sourcing and operations and identified key targets for 2025.

Following the reset of Plan A, we agreed to link our new £850m revolving credit facility to the delivery of our net zero targets. These targets span activity on our net zero roadmap across the value chain, including commitments to zero deforestation in soy sourcing, sourcing more sustainable fibres, reducing emissions in our property estate and eliminating millions of units of single-use plastic packaging.

During the year we launched new initiatives to help customers lead lower-carbon lives, including:

- Removing 75 million items of plastic packaging from our food products and installing plastic take-back bins in over 500 of our stores to make it easier for customers to recycle soft plastic.
- A new incentive programme to reward Sparks customers when they donate pre-loved clothes to our “Shwopping” partnership with Oxfam.
- A “test and learn” trial in an important growth market, clothing rental, with a Founders Factory joint venture investment in the Zoa Group, the operator of leading clothing rental website, Hirestreet.
- In January, a Sparking Change National Challenge, inviting 14 million Sparks customers to try a lower-carbon diet, to feel healthier and potentially save money.

While we have leading positions in customer perception, there is much more to do in Plan A to communicate our practices. In the year ahead we expect to accelerate our programmes and bring them through much more strongly to the shelf edge both within the store environment and during the online shopping experience. We believe that wider sustainability concerns are here to stay, resulting in opportunities for our brand to enter new markets. Through our deep relationships with customers through Sparks, our longstanding trusted supplier partners and our portfolio of innovation partners, we are well placed to develop customer propositions in areas such as circular fashion and low-impact farming.

BUSINESS WELL SET UP FOR THE NEXT PHASE OF TRANSFORMATION AND INFLATIONARY HEADWINDS

As we enter the next phase of the transformation, we maintain our ambition to create a business capable of sustainable growth in sales, market share and profit. With improved profitability and cash conversion, and financial net debt under a third of 2019/20 levels, the business is resilient to the macroeconomic headwinds while having flexibility to invest in our transformation priorities.

Macroeconomic headwinds impact on performance and expectations

There is substantial inflation in both cost of goods sold and operating costs including fuel, power, building materials and maintenance. Food cost inflation is being driven not just by global supply issues but also labour shortages, border- and customs-related costs, and in some cases reduction in UK capacity by growers and

producers. In Clothing & Home, factory cost prices, transport and freight costs, combined with continued supply issues in China, are driving similar pressures.

Consequently, customers' spending capacity is under pressure. We expect these pressures to increase as the year progresses. We are therefore planning for an adverse impact on volumes due to price inflation, slowing the rate of sales growth.

Latest update and guidance for 2022/23

Overall trading in the first six weeks of the financial year has been ahead of the comparable periods in 2021/22, including the period from April 12, 2021 when non-essential retail reopened, with a particularly strong performance in Clothing & Home and growth in the total Food business continuing to outperform the overall market.

While encouraging, we expect the impact of declining real incomes to sharpen in the second half and endure for at least the remainder of the financial year. There is no current sign of inflation abating, although we believe the rate of cost growth will subside by the third quarter.

However, we believe that our market positioning and business strategy will help us mitigate the effects as:

- Our stronger value perception in both businesses will provide protection from customer downtrading;
- Our large share in 'for tonight' shopping in Food, provides resilience compared with the core grocery market;
- Travel, leisure events and weddings return, we expect to see a revival of the demand that receded in the past couple of years;
- Some of our customers, while not immune to the pressure, have a degree of cushion from the higher savings ratio recorded during the pandemic; and
- The experience of the past two years has illustrated the earnings balance provided by both Food and Clothing & Home and trading through stores, online and international channels.

In addition, we are taking specific steps to support performance in this environment and offset inflation. In Clothing & Home we are taking a more flexible approach to trading and currently retain a substantial proportion of open to buy for H2. We are also starting to develop the strategic supplier programme. We expect further benefits from the 'lowering cost' programme in Food and are continuing to drive digital-led efficiencies in stores and simplify ways of working in support centres.

This year the business will not receive business rates relief and International will not have the profit contribution from Russia. As we invest in capacity growth at Ocado Retail, we anticipate a minimal contribution of share of net income to group results. Consequently, we start 2022/23 from a lower adjusted profit base. The business is now much better positioned and had an encouraging start to the year. However, given the increasing cost pressures and consumer uncertainty, we do not currently expect to progress from this lower profit base in 2022/23.

Increasing the pace of change and investing in growth

Despite the near-term challenges, the business is better set up both financially and operationally for the medium-term. The combined opportunities to both improve the infrastructure and invest in growth mean that we expect to continue to increase our investment rate, albeit subject to careful assessment and even stricter financial discipline given heightened uncertainty. As a result, and taking into account inflationary pressures, we anticipate capital expenditure will increase to around £400m in the coming year (2021/22 £300.2m excluding property acquisitions and disposals). The areas of focus and opportunity are as follows:

- Technology investment to drive the digital transformation of M&S and systems improvement to support more responsive trading.
- Supply chain investment to create a quicker, more efficient operation and pave the way to a modern, automated network.
- Multiple opportunities for growth in the store estate, including investment in renewal, larger-format Food stores, rotation to modern, accessible full-line stores, and growth through franchise partnerships.

Our capital allocation decisions will continue to be guided by our ambition to grow the business while sustaining balance sheet metrics consistent with investment grade. The Board will consider the scale and timing of a resumption of dividend payments at the year end.

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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 7:30am on 25 May 2022.

Steve Rowe and Eoin Tonge will host a Q&A session at 9.30am on 25 May 2022:

Registration link [here](#)

Dial in number: 020 3936 2999 Access Code: 559374

A recording will be available until Wednesday 01 June 2022 using the following details:

UK: 020 3936 3001

USA: 1 845 709 8569

All other locations: +44 20 3936 3001

Access Code: 045457

Fixed Income Investor Conference Call:

This will be hosted by Eoin Tonge, Chief Finance Officer, at 2pm on 25 May 2022:

Registration link [here](#)

Dial in number: 020 3936 2999 Access Code: 532207

A recording will be available until Wednesday 01 June 2022 using the following details:

UK: 020 3936 3001

USA: 1 845 709 8569

All other locations: +44 20 3936 3001

Access Code: 593163

FULL YEAR FINANCIAL REVIEW

Financial Summary

52 weeks ended	2 Apr 22	27 Mar 21 ¹	28 Mar 20	Change vs 20/21 %	Change vs 19/20 %
Group statutory revenue	10,885.1	8,961.5	10,181.9	21.5	6.9
Group sales before adjusting items	10,909.0	8,972.7	10,181.9	21.6	7.1
UK Food	6,639.6	5,994.8	6,028.2	10.8	10.1
UK Clothing & Home	3,332.2	2,198.6	3,209.1	51.6	3.8
International	937.2	779.3	944.6	20.3	-0.8
Group operating profit/(loss) before adjusting items	709.0	209.7	590.7	238.1	20.0
UK Food	277.8	213.6	236.7	30.1	17.4
UK Clothing & Home	330.7	(129.4)	223.9	n/a	47.7
International	73.6	45.1	110.7	63.2	-33.5
M&S Bank and Services	13.0	2.0	16.8	550.0	-22.6
Share of result in associates and joint ventures	13.9	78.4	2.6	-82.3	434.6
Interest payable on lease liabilities	(115.6)	(122.5)	(133.4)	-5.6	-13.3
Net financial interest	(70.5)	(45.6)	(54.2)	54.6	30.1
Profit before tax & adjusting items	522.9	41.6	403.1	1,157.0	29.7
Adjusting items	(131.2)	(242.8)	(335.9)	-46.0	-60.9
Profit/(loss) before tax	391.7	(201.2)	67.2	n/a	482.9
Profit/(loss) after tax	309.0	(194.4)	27.4	n/a	1,027.7
Basic earnings/(loss) per share	15.7p	(9.8)p	1.3p	n/a	1,107.7
Adjusted basic earnings/(loss) per share	21.7p	1.1p	16.7p	1,872.7	29.9
Dividend per share	-	-	3.9p	n/a	n/a
Net debt	£2.70bn	£3.52bn	£3.95bn	-23.3	-31.6

Notes:

There are a number of non-GAAP measures and alternative profit measures ("APMs") 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 the adjusting items table below for further details.

Given the exceptional nature of financial results last year due to the impact of Covid, all comparatives within this Financial Review are given against 2019/20 unless otherwise stated.

In the current period, we have introduced a new APM: 'sales'. All references to sales throughout this document are statutory revenue plus the gross value of consignment sales excluding VAT. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This new measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.

¹ 2020/21 was a 53-week year and comparative periods are on a 52-week basis. To aid understanding, we have presented the unaudited 52 weeks to 27 March 2021; however, net debt is given on a 53-week basis.

Group results

Group sales before adjusting items was £10,909.0m. Sales increased 7.1% versus 2019/20, driven by Food sales up 10.1%, Clothing & Home sales up 3.8% and International sales down 0.8%. Statutory revenue in the period was £10,885.1m, an increase of 6.9% versus 2019/20. The Group generated an adjusted profit before tax of £522.9m and a statutory profit before tax of £391.7m.

UK business rates relief of £59.8m (2020/21: £172.2m) helped to compensate for the continuing loss of trade from lower footfall to Clothing & Home stores in the UK, and in the Food hospitality business which was closed until mid-May 2021 and continues to trade well below 2019/20 levels.

Statutory profit before tax includes total charges for adjusting items of £131.2m.

For full details on adjusting items and the Group's related policy, see notes 1 and 3 to the financial information.

UK: Food

UK Food sales increased by 10.1%, driven by the performance of core categories, partly offset by reduced sales from the recovering franchise and hospitality businesses. Excluding franchise and hospitality, sales grew 14.7%.

Change vs 19/20 %	Q1	Q2	Q3	Q4	FY
Food	9.4	11.5	12.4	7.0	10.1
Food ex franchise and hospitality	17.0	16.8	16.4	8.6	14.7

M&S Food reported sales do not benefit from a direct online grocery presence, with these sales instead reported through Ocado Retail.

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Footfall, m (average/week)	10.1	8.0	11.8	-14.4
Transactions, m (average/week)	8.0	5.6	9.3	-14.0
Basket value inc VAT (£)	15.9	20.6	12.6	26.2
Total sales ex VAT £m¹	6,639.6	5,994.8	6,028.2	10.1

¹ Includes M&S.com

Footfall in the period, while recovering, remained below 2019/20, with a similar trend for the number of transactions. Revenue was driven by increased basket value as customers used M&S for more of their everyday shop. However, basket size has declined compared to 2020/21 driven by the gradual recovery of our hospitality and food-on-the-move businesses, which typically have smaller baskets, as well as a reduction in "core" basket size through the year as Covid tailwinds reduced. Although customer behaviour started to normalise in Q4, metrics remained ahead of 2019/20 levels.

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %
Sales ¹	6,639.6	5,994.8	6,028.2	10.1
Operating profit before adjusting items	277.8	213.6	236.7	17.4
Operating margin	4.2%	3.6%	3.9%	30 bps

¹ 'Sales' is equal to revenue within the Food business.

The Food business in total generated operating profit before adjusting items of £277.8m compared with £236.7m in 2019/20.

The table below sets out the drivers of the movement in Food operating profit margin before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	3.9
Gross margin	0.2
Store staffing	1.4
Other store costs	0.4
Distribution and warehousing	(1.1)
Central costs	(0.6)
2021/22	4.2

- **Gross margin** increased c.20bps. The improvement in margin rate was a result of cost-saving programmes, including Ocado synergies, as well as lower net waste and reduced sales in our lower gross margin Franchise business. This was partly offset by investment in price, reduced sales from our higher-margin Hospitality offering, and additional warehousing and freight charges within margin.
- **Store staffing** costs decreased c.140bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing initiatives, partly offset by investment in colleague pay rates and Covid-related costs such as door hosts.
- The c.40bps decrease in **other store costs** relates to government business rates relief of £24.6m and lower depreciation charges as legacy store modernisations come to the end of their useful economic lives, partly offset by an increase in maintenance and store standards spend.
- **Distribution and warehousing** costs increased c.110 bps, reflecting investment in the Milton Keynes ambient depot to support volume growth, higher pay, incentives and sub-contracting related to warehouses and haulage, the cost to serve of online orders, and inefficiencies from EU border-related processes for serving Northern Ireland.
- **Central costs** increased c.60bps, driven by investments in technology, data and digital initiatives, including in forecasting, ordering and allocation systems, as well as colleague incentives. This was partly offset by technology savings from optimising the cost base and a reduction in the depreciation of technology assets as they reach the end of their useful lives.

Ocado Retail Ltd

The Group holds a 50% interest in Ocado Retail Ltd ("Ocado Retail"). The remaining 50% interest is held by Ocado Group plc ("Ocado Group"). Full Year Results are consistent with the quarterly results reported by Ocado Group on behalf of Ocado Retail for the quarterly periods ended 30 May 2021, 29 August 2021, 28 November 2021 and 27 February 2022.

All commentary in this section is against 2020/21 comparatives, as the acquisition of the investment in Ocado Retail Ltd by M&S was made part-way through 2019/20.

	Q1	Q2	Q3	Q4
Revenue growth vs 2020/21 (%)	8.4	-10.6	-3.9	-5.7
Active customers (k)	777	769	832	835
Average orders per week (k)	383	338	375	367

Notes: Retail revenue comprises revenues from Ocado.com and Ocado Zoom and excludes revenues from Fetch in current and prior periods. Average orders per week refers to results of Ocado.com

Revenue declined 4.4% compared to 2020/21 (-3.0% excluding Fetch) as trade annualised against sales growth during three national lockdowns in 2020 and towards the end of H1 was impacted by the fire at the Erith CFC on 16 July. These impacts were partly offset by the ongoing capacity roll-out in the period. M&S products continue to account for over 25% of the average Ocado basket.

£m	52 weeks ended 27 February 2022	52 weeks ended 28 February 2021	Change %
Revenue	2,248.8	2,353.2	-4.4
EBITDA before exceptional items	104.8	189.9	-44.8
Exceptional items	(14.4)	50.5	-128.5
Depreciation and amortisation	(41.3)	(36.2)	-14.1
Operating profit	49.1	204.2	-76.0
Profit after tax	27.8	156.8	-82.3
M&S 50% share of profit after tax	13.9	78.4	-82.3

Ocado Retail Ltd 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. It is expected that full consolidation of Ocado Retail Ltd by Ocado Group plc will continue for at least five years from the formation of the joint venture, after which it is anticipated that control of the joint venture will pass to M&S following which it will consolidate the joint venture. Exceptional items are defined within the Ocado Group plc Annual Report and Accounts 2021.

Ocado Retail EBITDA before exceptional items was down 44.8%, reflecting the normalisation of basket size and shape of week as well as an increasing higher percentage of immature capacity as we open new CFCs.

In addition, Ocado Retail has recognised £14.4m of net exceptional costs before tax, including £6.8m exceptional costs relating to the fire at Erith CFC and £6.2m relating to the development and introduction of IT systems as we transition away from Ocado Group IT services, tools and support. Exceptional items in the prior period relate primarily to the Andover fire insurance receipts.

As a result of lower EBITDA and net exceptional costs, Group share of Ocado Retail profit after tax was £13.9m.

UK: Clothing & Home

Clothing & Home sales increased 3.8% as the continued growth of the online business offset the decline in store sales due to lower footfall. The online business remained robust throughout the period.

Change vs 19/20 %	Q1	Q2	Q3	Q4	FY
Clothing & Home sales	-4.2	2.0	3.2	17.3	3.8
Clothing & Home stores sales	-21.2	-14.3	-10.9	5.6	-11.2
Clothing & Home online sales	59.2	62.3	50.8	52.1	55.6
<i>Clothing & Home statutory revenue</i>	-4.6	1.4	2.4	16.0	3.1

Comparative figures in Q4 are impacted by the first Covid national lockdown, which we estimated had a £78m adverse impact on sales at the time, predominantly in stores. Adjusting for this, Clothing & Home sales increased c.3.9% in Q4 and c.1.4% for the full year.

Online

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Traffic (m) ¹	405.7	417.5	308.8	31.4
Active customers (m) ²	9.0	9.0	5.9	52.5
Conversion (%) ³	7.0	7.2	6.3	+70 bps
Average order value inc VAT pre returns (£)	55.4	49.7	51.5	7.6
Returns rate (%)	25.8	18.6	28.0	- 220 bps
Sales ex VAT £m	1,122.7	1,109.7	721.3	55.6

¹ Traffic: the number of site visits to M&S.com and the app.

² Active customers: the number of unique customers who have made a purchase in the prior 52 weeks.

³ Conversion: the number of orders as a % of the number of site visits.

Following growth in 2020/21, online sales remained robust, with growth on both a one- and two-year basis for the full year, despite elevated comparatives in Q4 2020/21 from the third national lockdown. Online traffic through the app was up over 200% on 2019/20 following the relaunch of Sparks in July 2020, which has helped to drive the increase in active customers. Increased app usage has driven better conversion and, encouragingly, app conversion for the full year remains consistent with H1 at over 9%.

As anticipated, as customer habits reverted to pre-pandemic trends, returns rates have normalised towards 2019/20 levels through the year. Average order value ("AOV") was ahead of 2019/20 levels driven by a full-price trading stance which increased average selling price ("ASP"), along with the benefit of third-party brands.

Stores

52 weeks ended	2 Apr 22	27 Mar 21	28 Mar 20	Change vs 19/20 %
Footfall, m (average/week)	4.0	1.9	5.9	-32.2
Transactions, m (average/week)	1.7	1.0	2.1	-19.0
Average basket value inc VAT pre returns (£)	34.9	30.6	32.3	8.0
Sales ex VAT £m	2,209.5	1,088.9	2,487.8	-11.2

UK Clothing & Home store sales decreased 11.2%: Average weekly footfall was below 2019/20 levels in the period, with the business continuing to be adversely impacted by the shape of the store estate. Excluding March, sales in high streets and city centres were down 22% and 26% respectively, while sales in retail parks were up c.1% on 2019/20 levels.

Total Clothing & Home

The Clothing & Home business in total generated an operating profit before adjusting items of £330.7m compared with £223.9m in 2019/20.

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %
Revenue before adjusting items	3,308.3	2,198.6	3,209.1	3.1
Sales	3,332.2	2,198.6	3,209.1	3.8
Operating profit/(loss) before adjusting items	330.7	(129.4)	223.9	47.7
<i>Operating margin</i>	<i>9.9%</i>	<i>-5.9%</i>	<i>7.0%</i>	<i>290 bps</i>

The table below sets out the drivers of the movement in Clothing & Home operating profit before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	7.0
Gross margin	1.5
Store staffing	2.6
Other store costs	1.5
Distribution and warehousing	(1.7)
Central costs	(1.0)
2021/22	9.9

- **Gross margin** increased c.150bps. The continuing benefit of increased full-price trading and lower stock into sale more than offset cost headwinds of adverse currency movements and additional freight and warehousing costs.
- **Store staffing** costs decreased c.260bps, primarily driven by retail restructuring efficiencies enabled by technology improvements in store and ongoing initiatives as well as lower variable staffing costs from reduced volumes. These impacts more than offset investment in colleague pay rates.
- The decrease in **other store costs** of c.150bps largely relates to government business rates relief of £35.2m, with lower depreciation charges relating to legacy store modernisations offset by increased maintenance costs in the store estate and reduced rates rebates.
- **Distribution and warehousing** increased c.170bps, largely relating to the higher costs to serve online demand, including an increased proportion of home deliveries, as well as increased pay rates, haulage incentives and fuel inflation. Note the higher courier costs of home deliveries were offset by delivery income, which is reported within sales. These overall higher costs were partly offset by savings from lower volumes and cost-reduction programmes.
- The increase in **central costs** of c.100bps was driven by investments in technology, data and digital initiatives, colleague incentives, additional costs to support brands, and higher pay-per-click marketing activity to drive online growth. This was partly offset by a reduction in the depreciation of technology assets as they reach the end of their useful lives.

Clothing & Home online generated an adjusted operating profit margin of c.9%, with the reversion towards 2019/20 returns rates reducing margin year-on-year as anticipated, as well as investments in data and digital initiatives to drive future growth. The adjusted operating profit in stores represented a margin on sales of c.10%, or approximately 9% after excluding the benefit of rates relief.

International

International sales increased 1.7% at constant currency ("CC") despite the continued impact of Covid on Asian markets, in particular in India during Q1, and the disruption and complexity arising from new EU border processes in Food supply chains, predominantly in France and the Republic of Ireland. There was solid growth in the Middle East and online sales continued to grow on both a one- and two-year constant currency basis, with both our own websites and marketplaces driving growth of 125.5% as we retained customers acquired during the lockdowns in 2020/21.

Change vs 19/20 %	Q1 CC	Q2 CC	Q3 CC	Q4 CC	FY CC	FY Reported
Total sales	-6.1	-0.3	5.1	7.9	1.7	-0.8

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 %	Change vs 19/20 CC %
Sales¹					
Clothing & Home	654.2	483.2	620.7	5.4	9.1
Food	283.0	296.1	323.9	-12.6	-12.1
Total	937.2	779.3	944.6	-0.8	1.7
<i>Memo: Online sales</i>	172.5	165.7	77.2	123.4	125.5

¹ 'Sales' is equal to revenue within the International business.

Clothing & Home sales recovered to above 2019/20 levels, driven by robust growth in online sales and exceptionally strong shipments to the Middle East. India was heavily impacted in Q1 by Covid (c.-61% vs 2019/20) and again in Q4 (c.-3% excluding March vs 2019/20), but overall retail sales in the market grew 6%. Trading in the rest of Asia remained challenging. We saw a similar shape of trade in European owned markets, with Clothing & Home performance in the Republic of Ireland performing robustly.

Food sales declined due to disruption caused by EU border-related processes in European markets. This has resulted in significant cost and complexity in servicing the Republic of Ireland and a restructuring of our Food operations in continental Europe. Excluding France, Food sales were level with 2019/20.

Operating profit before adjusting items was down 33.5%, driven principally by the additional costs of new EU border processes and tariffs of £29.6m, and associated trade impacts such as lower availability and higher waste, which we estimate reduced gross profit by a further c.£15m.

The table below sets out the drivers of the movement in International operating profit margin before adjusting items over two years.

Operating profit margin before adjusting items	%
2019/20	11.7
Gross margin	(0.1)
Store staffing	1.0
Other store costs	1.0
Distribution and warehousing	(3.0)
Central costs	(2.7)
2021/22	7.9

- **Gross margin** declined c.10bps primarily as a result of additional tariffs and waste due to inefficiencies from EU border-related processes for serving the Republic of Ireland. This was partly offset by growth of the online business.
- **Store staffing** costs decreased c.100bps primarily as a result of efficiency savings from retail restructuring in the Republic of Ireland.
- The c.100bps movement in **other store costs** largely relates to government relief in owned markets and rent concessions in India, which resulted in one-off savings in the period.
- **Distribution and warehousing** increased c.300bps, reflecting higher operational and administrative costs associated with EU border-related processes, as well as higher costs to serve online demand.
- **Central costs** increased c.270bps, driven by higher marketing spend associated with the growth of the online channel and colleague incentives.

M&S Bank and Services

M&S Bank and Services profit before adjusting items was down £3.8m to £13.0m. Adjusting items charges of £16.0m have been incurred relating primarily to the insurance mis-selling provision, resulting in a statutory loss of £(3.0)m.

Lower demand for unsecured credit and travel money is the primary driver for the lower profits. This was largely offset by the release of bad debt provisions, as economic conditions proved more favourable than anticipated.

Net finance cost

52 weeks ended	2 Apr 22 £m	27 Mar 21 £m	28 Mar 20 £m	Change vs 19/20 £m
Interest payable	(85.1)	(89.9)	(80.5)	(4.6)
Interest income	9.6	4.7	14.5	(4.9)
Net interest payable	(75.5)	(85.2)	(66.0)	(9.5)
Pension net finance income	13.2	47.2	23.6	(10.4)
Unwind of discount on Scottish Limited Partnership liability	(4.4)	(4.9)	(6.9)	2.5
Unwind of discount on provisions	(3.8)	(2.7)	(4.9)	1.1
Net financial interest	(70.5)	(45.6)	(54.2)	(16.3)
Net interest payable on lease liabilities	(115.6)	(122.5)	(133.4)	17.8
Net finance costs before adjusting items	(186.1)	(168.1)	(187.6)	1.5
Adjusting items included in net finance costs	5.6	(6.8)	-	5.6
Net finance costs	(180.5)	(174.9)	(187.6)	7.1

Net finance costs before adjusting items decreased £1.5m to £186.1m. Lower pension income due to the reduced IAS 19 pension surplus compared with 2019/20 and the reversal of ineffectiveness on a currency swap within interest income in 2019/20 offset a reduction in the net interest payable on lease liabilities.

Group profit before tax and adjusting items

Group profit before tax and adjusting items was £522.9m, up 29.7% on 2019/20. The profit increase was driven by adjusted operating profit growth in Clothing & Home and Food and the additional profit from the Ocado joint venture, offset by a reduction in International and M&S Bank operating profits.

Group profit before tax

Group profit before tax was £391.7m, up £324.5m on 2019/20. This includes net charges for adjusting items of £131.2m (2019/20: £335.9m).

Adjusting items

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures (APMs) 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.

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
Strategic programmes – UK store estate	(161.4)	(95.3)	(29.3)	(132.1)
Strategic programmes – UK logistics	21.9	(2.2)	(10.2)	32.1
Strategic programmes – Organisation	14.3	(133.7)	(13.8)	28.1
Strategic programmes – International store closures and impairments	0.4	(3.6)	(17.1)	17.5
Store impairments, impairment reversals and other property charges	60.0	6.9	(78.5)	138.5
Amortisation and fair value adjustments arising from the investment in Ocado Retail Limited	(32.5)	(14.2)	(16.8)	(15.7)
Directly attributable to Covid	17.8	90.8	(163.6)	181.4
M&S Bank charges incurred in relation to insurance mis-selling provisions	(16.0)	(2.4)	(12.6)	(3.4)
Franchise restructure	(41.3)	-	-	(41.3)
Intangible asset impairments	-	(79.9)	(13.4)	13.4
Sparks loyalty programme transition	-	(16.6)	-	-
Establishing the investment in Ocado Retail Limited	-	(1.7)	(1.2)	1.2
Remeasurement of contingent consideration including discount unwind	5.6	(6.8)	(2.9)	8.5
Other	-	(1.0)	23.5	(23.5)
Adjusting items	(131.2)	(259.7)	(335.9)	204.7

Adjusting items net charges incurred in the period were £131.2m.

UK store estate

A charge of £161.4m has been recognised in relation to store closures identified as part of UK store estate rotation plans. The charge reflects a revised view of latest store exits and underlying assumptions around estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores. Further charges relating to the closure and rotation of the UK store estate are anticipated as the programme progresses, with total future charges of up to c.£200m over the next nine financial years, bringing the anticipated total programme costs since 2016 to c.£1bn. The anticipated total programme costs do not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next nine years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store the exit routes are not yet certain.

	Incurred up to 3 Apr 21 £m		Incurred in 52 weeks ended 2 Apr 22 £m	
	P&L	Cash	P&L	Cash
PPE and ROU asset impairments	(452.2)	n/a	(81.0)	n/a
Accelerated depreciation	(175.3)	n/a	(50.7)	n/a
Closed store rent, rates and onerous leases net of sublet income	(23.1)	(26.1)	(16.4)	(10.9)
Redundancy	(9.9)	(7.0)	(2.4)	(0.7)
Profit/(loss) or cash proceeds/(outflows) on disposal/surrender	(3.8)	11.4	(3.7)	(3.2)
Closure costs, strips, dilapidations	10.3	(39.7)	(4.0)	(11.0)
Other	(3.6)	(9.0)	(3.2)	(4.4)
Total	(657.6)	(70.4)	(161.4)	(30.2)¹

¹Cash outflows include rent, reported within cash lease payments in the cash flow, and proceeds on disposal/surrender, which is net off against capex in the cash flow. Therefore, these cash outflows do not tie to UK store estate cash adjusting items

Other adjusting items

A net credit of £21.9m has been recognised in the period relating to UK logistics, reflecting in large part a gain on the disposal of distribution centres.

A credit of £14.3m has been recognised in relation to organisational change. This credit largely relates to an £11.9m reversal of an impairment associated with the centralising of the Group's London support office functions, with the remainder reflecting the finalisation of previous redundancy costs associated with this programme. No provision remains at the year end and there are no further charges anticipated.

In response to the strong Group performance and lifting of government restrictions, a credit of £63.4m has been incurred for the reversal of store impairments recognised in adjusting items in previous periods, partly offset by a £3.4m charge primarily relating to the impairment of assets in certain stores.

A charge of £41.3m has been recognised relating to the restructuring of certain International franchise operations. In September 2021, the Group restructured our French operations after an assessment of the profitability of the business under increased EU border costs and tariffs, at a cost of £10.3m. In March 2022, the Group made the decision to fully exit its Russian franchise. As a result, the Group has recognised a charge of £31.0m representing the Group's full exit costs from Russia and business disruption in Ukraine.

A charge of £32.5m has been recognised with respect to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail and related deferred tax charges of £14.9m predominantly relating to the substantive enactment of the Finance Act 2021 during the period, which will increase the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

A gain of £17.8m has been recognised as being directly attributable to the Covid pandemic. This relates mostly to the release of the remaining inventory provision made in adjusting items in 2019/20, driven by the sell-through of Clothing & Home stock being greater than anticipated.

Charges of £16.0m have been incurred relating to M&S Bank, primarily due to the insurance mis-selling provision. The total charges recognised in adjusting items since September 2012 for PPI is £326.3m, which exceeds the total offset against profit share of £259.0m to date; 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 18.2% (2019/20: 20.7%; 2020/21: 50.3% on a 53-week basis). As part of cash-optimisation measures, no payments were made to the Marks and Spencer Scottish Limited Partnership ("SLP") during the year. As such, there has been no recapture of previous tax relief, resulting in a lower effective tax rate than prior years.

As well as there being no recapture of previous tax relief under the SLP structure in the period, future changes to the UK statutory corporation tax rate result in deferred tax assets being recognised at the higher substantively enacted rate of 25%. Restating these deferred tax assets from a rate of 19% to 25% results in a tax credit in the period, reducing the effective tax rate.

The effective tax rate on statutory profit before tax was 21.1% (2019/20: 59.3%; 2020/21: 3.9% credit on a statutory loss on a 53-week basis), which was higher than the effective tax rate on profit before adjusting items due to the impact of disallowable adjusting items.

Next year, we anticipate an effective tax rate on profit before adjusting items higher than the UK corporation tax rate of 19%, principally due to the recapture of previous tax relief as payments to the SLP resume.

Earnings/loss per share

Basic earnings per share was 15.7p (2019/20: 1.3p; 2020/21: loss of 10.1p on a 53-week basis), due to the increase in profit year-on-year. The weighted average number of shares in issue during the period was 1,958.1m (2019/20: 1,894.9m ; 2020/21: 1,953.5m).

Adjusted basic earnings per share was 21.7p (2019/20: 16.7p; 2020/21:1.4p on a 53-week basis) due to higher adjusted profit year-on-year.

Cash flow

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
Adjusted operating profit	709.0	222.2	590.7	118.3
Depreciation and amortisation before adjusting items	510.7	603.1	632.5	(121.8)
Cash lease payments	(344.3)	(316.6)	(335.7)	(8.6)
Working capital	239.7	268.1	(67.8)	307.5
Defined benefit scheme pension funding	(36.8)	(37.1)	(37.9)	1.1
Capex and disposals	(213.5)	(203.8)	(325.9)	112.4
Financial interest	(79.9)	(76.0)	(79.5)	(0.4)
Taxation	(7.7)	(5.8)	(91.6)	83.9
Acquisitions, investments and divestments	(41.4)	8.7	(580.3)	538.9
Employee-related share transactions	39.1	18.5	9.7	29.4
Proceeds from rights issue net of costs	-	-	574.4	(574.4)
Share of (profit)/loss from associate	(13.9)	(78.4)	(2.6)	(11.3)
Cash received from settlement of derivatives	-	14.0	7.7	(7.7)
Adjusting items outflow	(61.8)	(120.5)	(88.0)	26.2
Free cash flow	699.2	296.4	205.7	493.5
Dividends paid	-	-	(191.1)	191.1
Free cash flow after shareholder returns	699.2	296.4	14.6	684.6
Opening net debt excluding lease liabilities	(1,110.0)	(1,388.6)	(1,404.7)	294.7
Free cash flow after shareholder returns	699.2	296.4	14.6	684.6
Exchange and other non-cash movements excluding leases	(9.3)	(17.8)	1.5	(10.8)
Closing net debt excluding lease liabilities	(420.1)	(1,110.0)	(1,388.6)	968.5
Opening net debt	(3,515.9)	(3,950.6)	(3,981.5)	465.6
Free cash flow after shareholder returns	699.2	296.4	14.6	684.6
Decrease in lease obligations	216.0	184.3	201.4	14.6
New lease commitments and remeasurements	(100.6)	(48.3)	(204.1)	103.5
Exchange and other non-cash movements	2.5	2.3	19.0	(16.5)
Closing net debt	(2,698.8)	(3,515.9)	(3,950.6)	1,251.8

The business generated free cash flow of £699.2m, largely driven by the recovery in EBITDA, working capital inflow and reduced cash tax and capital expenditure.

Cash lease payments increased £8.6m partly as a result of rental payments which were deferred from last year into this year as part of cash conservation measures enacted at the start of the pandemic. Cash lease payments relating to stores identified as part of the UK store estate strategic programme which are probable for closure totalled £54.8m.

For further detail on working capital movements, refer to the section below.

Defined benefit scheme pension funding of £36.8m reflects the SLP interest distribution to the pension scheme.

For capex and disposals, refer to the section below.

The reduction in tax payments of £83.9m is due to no UK corporation tax being paid in the period. This is driven by the utilisation of carried-forward tax losses from 2020/21.

Acquisitions, investments and divestments were driven principally by the payment of £33.8m of contingent consideration relating to the investment in Ocado Retail Ltd in the period. The final contingent payment for Ocado Retail Ltd of c.£156m plus interest will be paid in financial year 2024/25 if a specified target level of earnings in the financial year ending November 2023 is achieved. Based on the latest five-year plan of Ocado Retail Ltd, the performance target is expected to be met.

Other acquisitions and investments in the period include the strategic investment in the fast-growing brand platform "The Sports Edit", a minority stake and funding for "Nobody's Child" and a cornerstone investment in True Capital Limited's seed-stage fund. These investments were offset by income from the disposal of a property investment company.

Employee-related share transactions cash inflows increased due to a change in policy to no longer purchase shares for issue in colleague incentive schemes, increased deferred colleague incentive share scheme payments, and increased uptake of employee share schemes during the pandemic.

Adjusting items cash outflow was £61.8m. This included £16.5m relating to the UK store estate strategy, £16.0m relating to the M&S Bank insurance mis-selling provisions, £15.9m of organisational restructuring costs largely relating to the Republic of Ireland, £9.4m largely relating to the restructuring of our French operations, and £3.7m for the restructuring of the UK Clothing & Home logistics network.

Working capital

The business generated £508m cash inflow from working capital over the past two years.

Most of this was driven by payables, partly as a result of changes to payment terms for Clothing & Home suppliers, in addition to higher outstanding payments over year end as a result of business growth.

As previously reported, receivables remain at a lower level than pre-Covid, partly due to the adverse impact of the pandemic on our Food franchise business.

Stock increased slightly over the period, driven primarily by inventory build in the Food business as we approached the end of March, as well as the timing of Clothing & Home intake over year-end.

As part of our focus on deeper, strategic supplier relationships, we are improving supplier payment terms in both Clothing & Home and Food. In Clothing & Home, we anticipate the benefits of longer supplier terms within these results to partially reverse in the coming year.

Capital expenditure

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	Change vs 19/20 £m
UK store remodelling	50.1	27.0	60.3	(10.2)
New UK stores	49.9	14.9	33.3	16.6
International	18.2	6.7	15.7	2.5
Supply chain	28.6	25.2	39.2	(10.6)
IT and M&S.com	68.2	47.6	81.1	(12.9)
Property asset replacement	85.2	19.2	102.4	(17.2)
Acquisition of Jaeger brand	-	6.3	-	-
Capital expenditure before property acquisitions and disposals	300.2	146.9	332.0	(31.8)
Property acquisitions and disposals	(43.9)	(0.3)	(2.7)	(41.2)
Capital expenditure	256.3	146.6	329.3	(73.0)
Movement in capital accruals	(42.8)	57.2	(3.4)	(39.4)
Capex and disposals as per cash flow	213.5	203.8	325.9	(112.4)

Group capital expenditure before disposals decreased £31.8m to £300.2m compared to 2019/20; however, it was up on 2020/21 as we increased investment in the transformation.

UK store remodelling costs related principally to 22 full line and food renewal stores, some of which have not yet opened, as well as upgrades to Clothing & Home space.

Spend on new UK stores primarily related to eight new or extended Simply Foods and seven new or extended full-line stores in the current year, some of which have not yet opened.

Supply chain expenditure reflects the expansion of our Bradford warehouse to support online growth in Clothing & Home, Food equipment purchases, and investment in our Milton Keynes Food depot to support capacity increases.

IT and M&S.com spend includes costs related to technology replacement and upgrades in stores, the development of the Food ordering and allocation system and buying portals, website development and ongoing investment in digital capability in the support centre and stores.

Property asset replacement normalised towards 2019/20 levels as replacement of core assets across the estate, which had been de-prioritised during 2020/21 due to cash conservation measures, was re-prioritised. This includes roof works and replacement of fridges, freezers, boilers, lifts and escalators.

Property acquisitions and disposals primarily relates to cash inflows from the disposal of two warehouses in the third quarter.

Capital accruals were higher at year-end compared to 2020/21 as transformation spend increased in the second half. It should be noted that 2020/21 capital expenditure cash flow included some accrued spend relating to 2019/20.

Net debt

Group net debt decreased by £1.25bn compared to 2019/20, driven by free cash flow generation, and by £0.8bn since the start of the year.

There was a further reduction in the value of discounted lease obligations outstanding since the start of the year. New lease commitments and remeasurements in the period were £100.6m, largely relating to 20 new UK leases, lease additions in India and UK property and logistics liability remeasurements. This was more than offset by £216.0m of capital lease repayments.

The composition of Group net debt is as follows:

	52 weeks ended 2 Apr 22 £m	53 weeks ended 3 Apr 21 £m	52 weeks ended 28 Mar 20 £m	vs 19/20 £m
Cash and cash equivalents	1,197.9	674.4	254.2	943.7
Medium Term Notes	(1,529.5)	(1,682.1)	(1,536.2)	6.7
Current financial assets and other	99.4	83.2	96.1	3.3
Partnership liability to the UK DB pension fund	(187.9)	(185.5)	(202.7)	14.8
Net debt excluding lease liabilities	(420.1)	(1,110.0)	(1,388.6)	968.5
Lease liabilities	(2,278.7)	(2,405.9)	(2,562.0)	283.3
- Full-line stores	(919.5)	(982.6)	(1,054.8)	135.3
- Simply Food stores	(712.8)	(727.0)	(747.7)	34.9
- Offices, warehouses and other	(449.5)	(494.5)	(523.7)	74.2
- International	(196.9)	(201.8)	(235.8)	38.9
Group net debt	(2,698.8)	(3,515.9)	(3,950.6)	1,251.8

Full-line store liabilities include £225.3m relating to stores identified as part of the UK store estate strategic programme. We are seeking to fund the closure costs of rotation of the store estate with the realisation of funds from our asset management programme.

Of the remaining full-line stores lease liability, the average liability-weighted lease length is c.25 years, although the average lease term to break is shorter at c.19 years. However, these average lease lengths are skewed by five particularly long leases we hold, with the longest of these having 135 years remaining. These five leases, with a combined lease liability of c.£100m, are not deemed probable for closure in our UK store estate programme as they are currently trading well in locations we wish to remain in. Excluding these five leases, the average lease term to break is c.14 years.

Simply Food store liabilities include £30.9m relating to stores identified as part of the UK store estate strategic programme. Of the remaining lease liability, the average lease length to break is c.10 years.

Within offices, warehouses and other, £144.9m relates to the sublet lease on our Merchant Square offices. Average lease length of all other offices and warehouses to break is c.7 years.

International leases relate primarily to India (c.£85m) and Ireland (c.£66m). Average lease length to break in India is close to nil, as most of these leases are past the break point, and so we have the flexibility to exit these at any time on several months' notice. Average lease length to break in Ireland is c.10 years.

Liquidity

At 2 April 2022, the Group held cash balances of £1,197.9m (2019/20: £254.2m). In addition, during the year the Group agreed a new £850m revolving credit facility expiring in June 2025 on terms linked to delivery of its net zero roadmap. With the facility undrawn, the Group now has liquidity headroom of £2.1bn. This liquidity position is as a result of free cash flow performance.

As part of our approach to liability management we have announced a tender offer for c.£150m of our near-term debt maturities.

Dividend

We did not pay a dividend for 2020/21, and the Board has decided not to pay a dividend this year. This is consistent with the announcement at the half-year results that payment of a dividend this financial year would be unlikely as we focus on restoring sustainable profitability and recovering balance sheet metrics consistent with investment grade.

Pension

At 2 April 2022, the IAS 19 net retirement benefit surplus was £1,038.2m (2020/21: £631.4m). The increase was largely driven by an increase in discount rates towards the end of the period.

The most recent actuarial valuation of the UK DB 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. We continue to work constructively with the Trustees of the UK DB Pension Scheme with regard to agreeing the triennial actuarial valuation of the scheme as at 31 March 2021. Consequently, the results of the valuation are not yet finalised, although it is likely that there will continue to be a surplus.

With the pensioner buy-in policies purchased in September 2020, 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 £2,917.9m at the period end, an increase of 27.7% since the start of the year largely due to free cash generation.

Important Notice:

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 2022 Annual Report (pages 45-54).

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 -

Consolidated income statement

		52 weeks ended 2 April 2022	53 weeks ended 3 April 2021
	Notes	Total £m	Total £m
Revenue	2, 3	10,885.1	9,155.7
Share of result in associate - Ocado Retail Limited	2, 3, 17	(18.6)	64.2
Operating profit/(loss)	2, 3	572.2	(30.7)
Finance income	3, 4	33.9	57.4
Finance costs	3, 4	(214.4)	(236.1)
Profit/(loss) before tax	3	391.7	(209.4)
Income tax (expense)/credit	5	(82.7)	8.2
Profit/(loss) for the year		309.0	(201.2)
Attributable to:			
Owners of the parent		306.6	(198.0)
Non-controlling interests		2.4	(3.2)
		309.0	(201.2)
Earnings/(loss) per share			
Basic earnings/(loss) per share	6	15.7 p	(10.1p)
Diluted earnings/(loss) per share	6	15.1p	(10.1p)
Reconciliation of profit before tax and adjusting items:			
Profit/(loss) before tax		391.7	(209.4)
Adjusting items	3	131.2	259.7
Profit before tax and adjusting items - non-GAAP measure		522.9	50.3
Adjusted earnings per share - non-GAAP measure			
Adjusted basic earnings per share	6	21.7p	1.4p
Adjusted diluted earnings per share	6	20.9p	1.4p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Profit/(loss) for the year		309.0	(201.2)
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	8	357.0	(1,352.0)
Tax (charge)/credit on retirement benefit schemes		(127.6)	256.5
Loss on disposal of investment held at fair value through other comprehensive income ("FVOCI")		(3.7)	-
		225.7	(1,095.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		(13.5)	(27.7)
- reclassified and reported in profit or loss		(0.5)	3.7
Cash flow hedges			
- fair value movements recognised in other comprehensive income		91.3	(215.5)
- reclassified and reported in profit or loss		(10.5)	26.5
Tax (charge)/credit on cash flow hedges		(14.7)	37.0
		52.1	(176.0)
Other comprehensive income/(expense) for the year, net of tax		277.8	(1,271.5)
Total comprehensive income/(expense) for the year		586.8	(1,472.7)
Attributable to:			
Owners of the parent		584.4	(1,469.5)
Non-controlling interests		2.4	(3.2)
		586.8	(1,472.7)

Consolidated statement of financial position

	Notes	As at 2 April 2022 £m	As at 3 April 2021 £m
Assets			
Non-current assets			
Intangible assets	10	192.5	232.0
Property, plant and equipment	11	4,902.3	5,058.6
Investment property		15.0	15.2
Investments in joint ventures and associates	17	810.9	825.8
Other financial assets		4.5	9.7
Retirement benefit asset	8	1,043.9	639.2
Trade and other receivables		270.6	261.4
Derivative financial instruments		21.4	0.3
		7,261.1	7,042.2
Current assets			
Inventories	3	706.1	624.6
Other financial assets		17.6	18.4
Trade and other receivables		217.1	209.6
Derivative financial instruments		43.6	32.8
Current tax assets		-	35.4
Cash and cash equivalents		1,197.9	674.4
		2,182.3	1,595.2
Total assets		9,443.4	8,637.4
Liabilities			
Current liabilities			
Trade and other payables		1,960.9	1,599.0
Partnership liability to the Marks & Spencer UK Pension Scheme	9	71.9	124.9
Borrowings and other financial liabilities		247.2	432.8
Derivative financial instruments		3.2	96.0
Provisions		53.6	43.1
Current tax liabilities		34.0	-
		2,370.8	2,295.8
Non-current liabilities			
Retirement benefit deficit	8	5.7	7.8
Trade and other payables		188.2	192.3
Partnership liability to the Marks & Spencer UK Pension Scheme	9	120.4	68.6
Borrowings and other financial liabilities		3,561.0	3,659.9
Derivative financial instruments		0.4	10.7
Provisions		91.8	74.2
Deferred tax liabilities		187.2	42.3
		4,154.7	4,055.8
Total liabilities		6,525.5	6,351.6
Net assets		2,917.9	2,285.8
Equity			
Issued share capital		19.7	489.2
Share premium account		910.6	910.4
Capital redemption reserve		2,680.4	2,210.5
Hedging reserve		17.6	(54.8)
Cost of hedging reserve		3.6	4.6
Other reserve		(6,542.2)	(6,542.2)
Foreign exchange reserve		(73.9)	(59.9)
Retained earnings		5,897.9	5,325.2
Equity attributable to owners of the parent		2,913.7	2,283.0
Non-controlling interests		4.2	2.8
Total equity		2,917.9	2,285.8

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve ¹ £m	Foreign exchange reserve £m	Retained earnings ² £m	Total £m	Non-controlling interest £m	Total £m
As at 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 year	-	-	-	-	-	-	-	(198.0)	(198.0)	(3.2)	(201.2)
Other comprehensive (expense)/income:											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	(27.7)	-	(27.7)	-	(27.7)
- reclassified and reported in profit or loss	-	-	-	-	-	-	3.7	-	3.7	-	3.7
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	(1,352.0)	(1,352.0)	-	(1,352.0)
Tax credit on retirement benefit schemes	-	-	-	-	-	-	-	256.5	256.5	-	256.5
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	(214.2)	(1.3)	-	-	-	(215.5)	-	(215.5)
- reclassified and reported in profit or loss	-	-	-	26.5	-	-	-	-	26.5	-	26.5
Tax on cash flow hedges	-	-	-	36.8	0.2	-	-	-	37.0	-	37.0
Other comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	-	(24.0)	(1,095.5)	(1,271.5)	-	(1,271.5)
Total comprehensive (expense)/income	-	-	-	(150.9)	(1.1)	-	(24.0)	(1,293.5)	(1,469.5)	(3.2)	(1,472.7)
Cash flow hedges recognised in inventories	-	-	-	33.9	-	-	-	-	33.9	-	33.9
Tax on cash flow hedges recognised in inventories	-	-	-	(6.4)	-	-	-	-	(6.4)	-	(6.4)
Transactions with owners:											
Shares issued in respect of employee share options	1.6	-	-	-	-	-	-	(1.6)	-	-	-
Purchase of own shares held by employee trusts	-	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Credit for share-based payments	-	-	-	-	-	-	-	19.3	19.3	-	19.3
Deferred tax on share schemes	-	-	-	-	-	-	-	4.0	4.0	-	4.0
As at 3 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8
As at 4 April 2021	489.2	910.4	2,210.5	(54.8)	4.6	(6,542.2)	(59.9)	5,325.2	2,283.0	2.8	2,285.8
Profit for the year	-	-	-	-	-	-	-	306.6	306.6	2.4	309.0
Other comprehensive income/(expense):											
Foreign currency translation											
- movements recognised in other comprehensive income	-	-	-	-	-	-	(13.5)	-	(13.5)	-	(13.5)
- reclassified and reported in profit or loss	-	-	-	-	-	-	(0.5)	-	(0.5)	-	(0.5)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	-	357.0	357.0	-	357.0
Tax charge on retirement benefit schemes	-	-	-	-	-	-	-	(127.6)	(127.6)	-	(127.6)
Loss on disposal of investments held at FVOCI	-	-	-	-	-	-	-	(3.7)	(3.7)	-	(3.7)
Cash flow hedges											
- fair value movement in other comprehensive income	-	-	-	92.1	(0.8)	-	-	-	91.3	-	91.3
- reclassified and reported in profit or loss	-	-	-	(10.5)	-	-	-	-	(10.5)	-	(10.5)
Tax on cash flow hedges	-	-	-	(14.5)	(0.2)	-	-	-	(14.7)	-	(14.7)
Other comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	225.7	277.8	-	277.8
Total comprehensive income/(expense)	-	-	-	67.1	(1.0)	-	(14.0)	532.3	584.4	2.4	586.8
Cash flow hedges recognised in inventories	-	-	-	6.5	-	-	-	-	6.5	-	6.5
Tax on cash flow hedges recognised in inventories	-	-	-	(1.2)	-	-	-	-	(1.2)	-	(1.2)
Transactions with owners:											
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	(1.7)	(1.7)	(1.0)	(2.7)
Shares issued in respect of employee share options	0.4	0.2	-	-	-	-	-	(0.3)	0.3	-	0.3
Buy back and cancellation of own shares ³	(469.9)	-	469.9	-	-	-	-	-	-	-	-
Credit for share-based payments	-	-	-	-	-	-	-	38.8	38.8	-	38.8
Deferred tax on share schemes	-	-	-	-	-	-	-	3.6	3.6	-	3.6
As at 2 April 2022	19.7	910.6	2,680.4	17.6	3.6	(6,542.2)	(73.9)	5,897.9	2,913.7	4.2	2,917.9

¹The "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.

²Included within retained earnings is the fair value through other comprehensive income reserve.

³On 8 July 2021, the Company reduced the nominal value of its 1,957,779,626 ordinary shares in issue at that date from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remains unchanged and each shareholder's proportionate interest in the share capital of the Company remains unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged.

Consolidated statement of cash flows

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Cash flows from operating activities			
Cash generated from operations	14	1,385.7	876.7
Income tax paid		(7.7)	(5.8)
Net cash inflow from operating activities		1,378.0	870.9
Cash flows from investing activities			
Proceeds on property disposals		43.9	2.9
Purchase of property, plant and equipment		(192.8)	(158.9)
Purchase of intangible assets		(64.6)	(47.8)
Sale/(purchase) of current financial assets		0.8	(6.7)
Purchase of non-current financial assets		(3.3)	-
Proceeds on disposal of non-current financial assets		5.2	-
Purchase of investments in associates and joint ventures ¹	17	(37.8)	8.7
Acquisition of subsidiary, net of cash acquired ²		(4.5)	-
Loans to related parties		(1.0)	-
Interest received		8.4	9.2
Net cash used in investing activities		(245.7)	(192.6)
Cash flows from financing activities			
Interest paid ³		(216.6)	(219.3)
Issuance of Medium Term Notes		-	300.0
Redemption of Medium Term Notes		(163.6)	(136.4)
Repayment of lease liabilities		(216.0)	(184.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		-	(17.2)
Shares issued on exercise of employee share options		0.3	-
Purchase of own shares by employee trust		-	(0.8)
Cash received from settlement of derivatives		-	14.0
Net cash used in financing activities		(595.9)	(244.0)
Net cash inflow from activities		536.4	434.3
Effects of exchange rate changes		(8.2)	(3.3)
Opening net cash		669.7	238.7
Closing net cash	15	1,197.9	669.7

¹Current year includes £33.8m outflow in relation to contingent consideration settled with Ocado Retail Limited and £4.0m outflow on the acquisition of 27% of the issued share capital of Nobody's Child Limited. Last year includes inflow of £11.2m upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited and outflow of £2.5m in relation to Founders Factory Retail Limited.

²£4.5m outflow on the acquisition of 77.7% of the issued share capital of The Sports Edit Limited.

³Includes interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £nil (last year: £6.4m) and interest paid on lease liabilities of £128.3m (last year: £132.3m).

1 Accounting Policies

General information

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 2 April 2022 or 3 April 2021. The financial information for the year ended 3 April 2021 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 2 April 2022 will be delivered to the Registrar of Companies following the company's annual general meeting.

Basis of preparation

Whilst the financial information included in this press release has been prepared in accordance with the recognition and measurement criteria of UK-adopted International Accounting Standards, this announcement does not itself contain sufficient information to comply with these standards. The financial information has been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 3 April 2021, with the exception of the change in accounting policy and new accounting standards adopted in the year set out below. The Company's full financial statements will be prepared in compliance with UK-adopted International Accounting Standards.

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, the financial position of the Group, its cash flows, liquidity position and borrowing facilities, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 12 and the principal risks and uncertainties.

The Group continues to maintain a robust financial position providing it with sufficient access to liquidity, through a combination of cash and committed facilities, to meet its needs in the short and medium term. At 2 April 2022, the Group had further strengthened its available liquidity over the year to £2,072.9m (last year: £1,799.4m), comprising cash and cash equivalents of £1,197.9m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £850.0m (set to mature in June 2025), and undrawn uncommitted facilities amounting to £25.0m. The Group's net debt at 2 April 2022 was £2,698.8m, a reduction of £817.1m since 3 April 2021, primarily driven by strong free cash flow generation.

The Group successfully renegotiated its RCF in December 2021, which is set to run until June 2025, and replaces the facility which was due to mature in April 2023. The new facility contains a financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually.

In adopting the going concern basis of preparation, the Board has assessed the Group's cash flow forecasts which incorporate a latest estimate of the ongoing impact of current market conditions on the Group and include a number of assumptions including sales growth and customer behaviour. While trading continues to be strong, in forming their outlook on the future financial performance, the Board considered a variety of downsides that the Group might experience, such as a sustained economic recession, increased costs and an inability for the Group to execute the transformation plan.

Under these latest forecasts, the Group is able to operate without the need to draw on its available facilities and without taking any supplementary mitigating actions, such as reducing capital expenditure and other discretionary spend. The forecast cash flows also indicate that the Group will comply with all relevant banking covenants during the forecast period, being at least 12 months from the approval of the financial statements.

The Board has also modelled a more severe, but plausible, downside scenario. This downside scenario assumes that:

- There will be a period of economic recession in the UK in 2022/23 and 2023/24 (following the impacts of the Covid-19 pandemic, the unfolding humanitarian crisis following the invasion of Ukraine and the subsequent sharp increases in the cost of living), resulting in a decline in sales of 4.0% per annum, across all three business units.
- Utilities, fuel and other costs increasing by over £50m across 2022/23 and 2023/24.
- A delay on transformation benefits results in incremental sales expected from the transformation declining by 10%, 20% and 40% respectively across the three-year period across both Food and Clothing & Home business units.

Even under this severe but plausible downside scenario, the Group would continue to have sufficient liquidity and headroom on its existing facilities and against the RCF financial covenant for the forecast period. Although, should such a scenario arise, there are a range of mitigating actions that could be taken to reduce the impact. Given current trading and expectations for the business, the Board considers that this downside scenario reflects a plausible, but remote, outcome for the Group.

In addition, reverse stress testing has been applied to the model, which represents a significant decline in sales compared to the downside scenario. Such a scenario, and the sequence of events which could lead to it, is considered to be remote.

As a result, the Board expects the Group to have adequate resources to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach the covenant under the revolving credit facility for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. The Board therefore considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

New accounting standards adopted by the Group

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 4 April 2021:

- Amendments to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform Phase 2.

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

New accounting standards in issue but not yet effective

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

- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture
- IFRS 17 Insurance Contracts
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities arising from a Single Transaction
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Alternative performance measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. The Group's definition of adjusting items is consistent with prior periods. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. On this basis, the following items were included within adjusting items for the 52-week period ended 2 April 2022:

- 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 or operational changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are significant in nature and/or value. Impairment charges are recognised in operating profit before adjusting items where they relate to stores not previously impaired.
- 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.
- 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.

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

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 have therefore been identified as follows:

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

Other business activities and operating segments, including 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:

	52 weeks ended 2 April 2022						53 weeks ended 3 April 2021					
	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Sales before adjusting items ¹	3,332.2	6,639.6	937.2	-	-	10,909.0	2,239.0	6,138.5	789.4	-	-	9,166.9
Revenue before adjusting items ²	3,308.3	6,639.6	937.2	-	-	10,885.1	2,239.0	6,138.5	789.4	-	-	9,166.9
Operating profit/(loss) before adjusting items ³	330.7	277.8	73.6	13.9	13.0	709.0	(130.8)	228.6	44.1	78.4	1.9	222.2
Finance income before adjusting items						28.3						57.4
Finance costs before adjusting items						(214.4)						(229.3)
Profit/(loss) before tax and adjusting items	330.7	277.8	73.6	13.9	13.0	522.9	(130.8)	228.6	44.1	78.4	1.9	50.3
Adjusting items						(131.2)						(259.7)
Profit/(loss) before tax	330.7	277.8	73.6	13.9	13.0	391.7	(130.8)	228.6	44.1	78.4	1.9	(209.4)

¹ Sales before adjusting items is revenue before adjusting items stated prior to adjustments for UK Clothing & Home brand consignment sales of £23.9m.

² Revenue is stated prior to adjusting items of £nil (last full year: £11.2m) (see note 3).

³ Operating profit/(loss) before adjusting items is stated as gross profit less operating costs prior to adjusting items. Reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Other segmental information

	52 weeks ended 2 April 2022						53 weeks ended 3 April 2021					
	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Additions to property, plant and equipment, and intangible assets (excluding goodwill and right-of-use assets)	139.2	163.7	18.5	-	-	321.4	50.5	105.0	6.8	-	-	162.3
Depreciation and amortisation ^{1,2}	(268.1)	(248.8)	(35.0)	-	-	(551.9)	(312.3)	(259.4)	(25.1)	-	-	(596.8)
Impairment charges, impairment reversals and asset write-offs ¹	(37.2)	10.7	(8.0)	-	-	(34.5)	(155.1)	(34.9)	(4.7)	-	-	(194.7)

¹ These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.

² Includes £0.2m (last year: £0.3m) depreciation charged on investment property.

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.

3 Adjusting items

The total adjusting items reported for the 52-week period ended 2 April 2022 is a net charge of £131.2m (last year: £259.7m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2022 £m	2021 £m
Included in revenue			
Sparks loyalty programme transition		-	(11.2)
		-	(11.2)
Included in operating profit			
Strategic programmes - UK store estate	11	(161.4)	(95.3)
Strategic programmes - UK logistics	11	21.9	(2.2)
Strategic programmes - Organisation	11	14.3	(133.7)
Strategic programmes - International store closures and impairments		0.4	(3.6)
Store impairments, impairment reversals and other property charges	11	60.0	6.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	17	(32.5)	(14.2)
Directly attributable gains resulting from the Covid-19 pandemic		17.8	90.8
M&S Bank charges incurred in relation to insurance mis-selling provisions		(16.0)	(2.4)
Franchise restructure		(41.3)	-
Intangible asset impairments	10	-	(79.9)
Sparks loyalty programme transition		-	(5.4)
Establishing the investment in Ocado Retail Limited		-	(1.7)
GMP and other pension equalisation	8	-	(1.0)
		(136.8)	(241.7)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind		5.6	(6.8)
		5.6	(6.8)
Adjustments to profit before tax		(131.2)	(259.7)

Strategic programmes - UK store estate (£161.4m)

In November 2016, the Group announced a strategic programme to transform the UK store estate with the overall objective to improve our store estate to better meet our customers' needs. The Group incurred charges of £657.6m up to April 2021 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

During 2020/21, the Group experienced a significant channel shift from stores to online due to the pandemic, accelerating the Group's ambition to achieve a Clothing & Home online sales mix of at least 40% over the next three years. This acceleration in channel shift required the Group to revise the UK store estate strategic programme to ensure the estate continued to meet customers' needs.

The Group has recognised a charge of £161.4m in the period in relation to those stores identified as part of the rotation plans. The charge primarily reflects a revised view of latest store closure plans and assumptions for estimated store closure costs, as well as charges relating to the impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes.

Further charges relating to the closure and rotation of the UK store estate are anticipated over the next nine years as the programme progresses, the quantum of which is subject to change throughout the programme period as we get greater certainty of circumstances that need to be in place to make closure financially viable. Future charges will not include Foodhall closures at lease event where there is opportunity for a better location, as this is not in the scope of the programme.

Following the latest review at 2 April 2022, the total closure programme now consists of 204 stores, 100 of which have already closed. Further charges of c.£200m are estimated within the next nine financial years, bringing anticipated total programme costs since 2016 to c.£1bn, vs c.£926m last year. In addition, where store exit routes in the next nine years lead to the recognition of gains on exit, particularly those relating to asset management, these credits will also be recognised within adjusting items as part of the programme.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our store estate and to aid comparability from one period to the next.

The anticipated total programme costs do not include any costs that may arise in relation to a further c.30 stores currently under consideration for closure within the next nine years. At this stage these c.30 stores remain commercially supportable and in the event of a decision to close the store the exit routes are not yet certain.

Strategic programmes – UK logistics (£21.9m credit)

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. 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 credit of £21.9m has been recognised in the period, reflecting the gain on disposal of distributions centres and an updated view of estimated closure costs. Total programme costs to date are £17.9m with further net charges of £43.3m expected over the next three financial years.

These net credits are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our UK logistics network and to aid comparability from one period to the next.

Strategic programmes – Organisation (£14.3m credit)

During 2020/21, 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 in the UK and Republic of Ireland as part of the 'Never the Same Again' transformation. The changes resulted in a reduction of c.8,200 roles across central support centres, regional management and stores. A credit of £2.4m has been recognised in the period based on the finalisation of redundancy costs associated with these changes. No provision remains at the year end and there are no further charges anticipated.

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 previous years, an impairment charge of £11.9m was recognised in relation to the sublet of previously closed offices. In the period, this impairment charge has been fully reversed with a credit of £11.9m recognised. This relates to the updating of assumptions and market fluctuations over the life of the sub-let of previously closed offices. Total costs of centralising our London Head Office functions into one building incurred to date are c.£86m. Any future charges will relate to the updating of assumptions and market fluctuations over the life of the sublet lease.

These credits are reported as adjusting items on the basis that they are consistent with the disclosure of costs previously recognised.

Strategic programmes – International store closures and impairments (£0.4m credit)

In 2016/17, the Group announced its intention to close owned stores in 10 international markets. A credit of £0.4m (last year: charge of £3.6m) has been recognised in the year, reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred, taking the programme net cost to date to £148.2m.

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

Directly attributable gains resulting from the Covid-19 pandemic (£17.8m credit)

In March 2020, following the onset of the Covid-19 global pandemic and subsequent UK government restrictions, the Group sustained significant disruption to its operations. In response to the uncertainty resulting from the 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 ongoing pandemic.

The pandemic continued to impact the Group throughout 2020/21 and it became increasingly more difficult to differentiate Covid-19 items from costs that supported the underlying performance of the business. In addition, the estimated timeframe over which these effects may have impacted the business increased. As a result, the Group took the decision in the interim 2020/21 results to only include changes in estimates to items that were included in adjusting items in 2019/20, in this case relating to the inventory provision and bad debt provision.

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. Accordingly, of the total £204.8m inventory provision, £157.0m was recognised in adjusting items and £47.8m in the underlying results. The total remaining provision held as at 3 April 2021 was £36.7m.

Included within the UK Clothing & Home provision last year was an incremental write-down of inventory to net realisable value of £18.6m reflecting management's best estimate of the impact of the Covid-19 pandemic on UK Clothing & Home inventory as at 3 April 2021. During 2021/22, UK Clothing & Home performance has been strong, with better-than-expected sell-through of stock originally provided for. During the year, £10.2m of the Covid-19 provision has been utilised, and there has been a release of £14.0m recognised in adjusting items. No UK Clothing & Home inventory provisions in relation to Covid-19 remain on the balance sheet at 2021/22. Similarly, following better-than-expected sell-through of inventory previously provided for in the International markets, there has been a release of £0.8m of the Covid-19 inventory provisions during 2021/22. No International Covid-19 stock provisions remain on the balance sheet at 2021/22. During the year, of the UK Food provision against excess slow-moving personal protective equipment, committed to during the peak of the first Covid-19 lockdown and incurred directly in response to the Covid-19 pandemic, £3.0m has been utilised and £2.2m released. A provision of £5.6m remains on the balance sheet at 2021/22.

The carrying value of the Group's inventories at 2 April 2022 is £706.1m, split across the UK Clothing & Home, UK Food and International businesses representing gross inventories of £506.9m, £200.4m and £70.8m respectively, against which a provision of £48.3m, £17.8m and £5.9m has been recognised. The total UK Clothing & Home inventory provisions represent 9.5% (last year: 15.4%) of UK Clothing & Home inventory. The UK Clothing & Home inventory provision is based on future trading assumptions in line with the Group's 2022/23 Budget. However, trading could be higher or lower than expected and a 5% increase in the UK Clothing & Home inventory provision (from 9.5% to 14.5%) would result in a reduction in the valuation of inventory held on the balance sheet of £25.2m and would result in a corresponding decrease to recognised profit before tax in the period.

In addition, a release of £0.8m has been recognised within adjusting items in relation to the Covid-19 bad debt provision recognised against international franchise partners. At 2021/22 no Covid-19 bad debt provision remains.

The £17.8m 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. No future charges are expected. Any future credits relating to these items will continue to also be classified as adjusting.

Store impairments, impairment reversals and property charges (£60.0m credit)

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

In response to the strong Group performance and lifting of government restrictions, the Group has revised future cash flow projections for UK and International stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £2.9m (last year: £66.4m) has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £63.4m (last year: £73.3m) has been incurred for the reversal of store impairments recognised in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 11 for further details on the impairments.

A further charge of £0.5m has been recognised in relation to the settlement of provisions for property charges. This treatment is consistent with the original provision charges, which were recognised within adjusting items.

The charges/credits have been classified as an adjusting item on the basis of the significant quantum of the charge/credit in the period to the results of the Group. Any future charges or reversals relating to stores previously impaired within adjusting items will continue to be recognised within adjusting items in line with the original charge.

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£32.5m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 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 £17.6m recognised in the period. In addition, a further deferred tax charge of £14.9m has been recognised predominantly relating to the substantial enactment of the Finance Act 2021 during the period increasing the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

The amortisation charge and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. These charges are reported as adjusting items on the basis that they are significant in quantum and to aid comparability from one period to the next.

M&S Bank charges incurred in relation to insurance mis-selling provisions (£16.0m)

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 £16.0m (last year: £2.4m).

The treatment of this in adjusting items is in line with previous charges in relation to settlement of Payment Protection Insurance (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, while the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue. The total charges recognised in adjusting items since September 2012 for PPI is £326.3m which exceeds the total offset against profit share of £259.0m to date, and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Franchise restructuring (£41.3m)

During the year, the Group recognised a charge of £41.3m as a result of the restructure of certain International franchise operations.

In September 2021 the Group announced the closure of 11 franchise stores in France in response to increased EU border costs. Consequently, the Group has recognised a charge of £10.3m for closure costs. No future costs are currently expected.

In March 2022, in response to the unfolding humanitarian crisis following the invasion of Ukraine, the Group announced it had suspended shipments to its Turkish franchisee's Russian business. The Group has subsequently made the decision to fully exit its Russian franchise. As a result, the Group has recognised a charge of £31.0m representing the Group's full exit costs from Russia and business disruptions in Ukraine.

The costs are considered to be adjusting items as they are one-off in nature and significant in value to the results of the Group and to the International segment.

Remeasurement of contingent consideration including discount unwind (£5.6m credit)

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. During the period, £33.8m of contingent consideration was settled, following the achievement of the first and second performance targets. A credit of £5.6m has been recognised in the period, representing the revaluation of the contingent consideration payable. The change in fair value 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 remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

4 Finance income/(costs)

	2022	2021
	£m	£m
Bank and other interest receivable	3.7	2.9
Other finance income	5.9	1.8
Pension net finance income	13.2	47.2
Interest income of subleases	5.5	5.5
Finance income before adjusting items	28.3	57.4
Finance income in adjusting items	5.6	-
Finance income	33.9	57.4
Other finance costs	(0.8)	(0.6)
Interest payable on syndicated bank facility	(4.7)	(3.9)
Interest payable on Medium Term Notes	(79.6)	(86.4)
Interest payable on commercial paper facility	-	(0.4)
Interest payable on lease liabilities	(121.1)	(130.4)
Unwind of discount on provisions	(3.8)	(2.7)
Unwind of discount on Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(4.4)	(4.9)
Finance costs before adjusting items	(214.4)	(229.3)
Finance costs in adjusting items	-	(6.8)
Finance costs	(214.4)	(236.1)
Net finance costs	(180.5)	(178.7)

5 Income tax (credit)/expense

The effective tax rate was 21.1% (last year: 3.9%) and the effective tax rate of profit excluding adjusting items was 18.2% (last year: 50.3%).

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 quantum and are considered distortive to underlying results (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 year; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

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

	2022	2021
	£m	£m
Profit/(loss) attributable to equity shareholders of the Company	306.6	(198.0)
Add/(less):		
Adjusting items (see note 3)	131.2	259.7
Tax on adjusting items	(12.6)	(33.5)
Profit before adjusting items attributable to equity shareholders of the Company	425.2	28.2
	Million	Million
Weighted average number of ordinary shares in issue	1,958.1	1,953.5
Potentially dilutive share options under Group's share option schemes ¹	73.0	15.0
Weighted average number of diluted ordinary shares	2,031.1	1,968.5
¹ In the prior year, the potentially dilutive share options are only considered in relation to adjusted diluted earnings per share as the Group made a basic loss per share.		
	Pence	Pence
Basic earnings/(loss) per share	15.7	(10.1)
Diluted earnings/(loss) per share	15.1	(10.1)
Adjusted basic earnings per share	21.7	1.4
Adjusted diluted earnings per share	20.9	1.4

7 Dividends

At the full-year results in May 2021, the Board announced that payment of a dividend in the 2021/22 financial year would be unlikely as we focus on restoring sustainable profitability and recovering the balance sheet towards metrics consistent with investment grade.

Consistent with that announcement, the Board does not expect to pay a dividend this financial year.

8 Retirement benefits

	2022	2021
	£m	£m
Opening net retirement benefit surplus	631.4	1,902.6
Current service cost	(0.2)	(0.2)
Administration cost	(4.8)	(4.5)
Net interest income	13.2	47.2
Employer contributions	41.8	41.5
Past service cost	-	(1.0)
Remeasurements ¹	357.0	(1,354.5)
Exchange movement	(0.2)	0.3
Closing net retirement benefit surplus	1,038.2	631.4

	2022	2021
	£m	£m
Total market value of assets	10,090.7	10,442.9
Present value of scheme liabilities	(9,046.8)	(9,803.7)
Net funded pension plan asset	1,043.9	639.2
Unfunded retirement benefits	(2.6)	(3.8)
Post-retirement healthcare	(3.1)	(4.0)
Net retirement benefit surplus	1,038.2	631.4

Analysed in the statement of financial position as:

Retirement benefit asset	1,043.9	639.2
Retirement benefit deficit	(5.7)	(7.8)
Net retirement benefit surplus	1,038.2	631.4

¹ Includes £nil (last year: £2.5m loss) relating to an equalisation charge recognised in 2018/19 that was reclassified from provisions.

Financial assumptions

The financial assumptions for the UK DB pension scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 "Employee Benefits" in order to assess the liabilities of the schemes. The most significant of these are the discount rate and the inflation rate which are 2.70% (last year: 2.00%) and 3.70% (last year: 3.30%). The inflation rate of 3.70% (last year: 3.30%) reflects the Retail Price Index (RPI) rate.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate decreased by 0.25% the surplus would decrease by c.£20m. If the inflation rate decreased by 0.25%, the surplus would decrease by c.£70m.

With the pensioner buy-in policies purchased in September 2020, 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.

9 Marks and Spencer Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the "Partnership"). 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 £1.3bn (last year: £1.4bn) of properties at book value which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited Partnership interest (held by the Marks & Spencer UK Pension Scheme) previously entitled the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. As a result of the Covid-19 pandemic and the need to preserve cash, in agreement with the Trustees, only £18.9m of the June 2020 payment was made, with the remaining £53.0m being deferred.

During the period, the Group and the Pension Scheme Trustees agreed to amend the distribution dates so that, rather than making the planned payment of £71.9m in June 2021 along with the deferred £53.0m, the Pension Scheme is now entitled to receive £71.9m in 2022, £73.0m in 2023 and £54.4m in 2024. The second Partnership interest (also held by the Marks & 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 £192.3m (last year: £193.5m) is included as a financial liability in the Group's financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the year to 2 April 2022, an interest charge of £4.4m (last year: £4.9m) 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 £193.5m (last year: £142.5m).

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

10 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
As at 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation and impairments	(72.4)	(112.3)	(1,187.6)	(32.1)	(1,404.4)
Net book value	64.0	-	307.5	27.6	399.1
Year ended 3 April 2021					
Opening net book value	64.0	-	307.5	27.6	399.1
Additions	-	6.3	0.1	41.4	47.8
Transfers and reclassifications	-	-	44.7	(44.2)	0.5
Asset Impairments ¹	(39.6)	-	(40.0)	-	(79.6)
Asset write-offs	-	-	(3.2)	-	(3.2)
Amortisation charge	-	(0.2)	(131.4)	-	(131.6)
Exchange difference	(0.7)	-	(0.3)	-	(1.0)
Closing net book value	23.7	6.1	177.4	24.8	232.0
At 3 April 2021					
Cost	135.7	118.6	1,539.6	56.9	1,850.8
Accumulated amortisation, impairments and write-offs	(112.0)	(112.5)	(1,362.2)	(32.1)	(1,618.8)
Net book value	23.7	6.1	177.4	24.8	232.0
Year ended 2 April 2022					
Opening net book value	23.7	6.1	177.4	24.8	232.0
Additions	4.8	0.1	0.9	63.8	69.6
Transfers and reclassifications	-	-	29.6	(44.6)	(15.0)
Asset write-offs	-	-	(0.6)	-	(0.6)
Amortisation charge	-	(0.6)	(93.0)	-	(93.6)
Exchange difference	0.1	-	-	-	0.1
Closing net book value	28.6	5.6	114.3	44.0	192.5
At 2 April 2022					
Cost	140.6	118.7	1,570.1	76.1	1,905.5
Accumulated amortisation, impairments and write-offs	(112.0)	(113.1)	(1,455.8)	(32.1)	(1,713.0)
Net book value	28.6	5.6	114.3	44.0	192.5

Goodwill related to the following assets and groups of cash generating units (CGUs):

	per una £m	India £m	Sports Edit £m	Other £m	Total goodwill £m
Net book value at 3 April 2021	16.5	6.5	-	0.7	23.7
Additions ²	-	-	4.8	-	4.8
Exchange difference	-	0.1	-	-	0.1
Net book value at 2 April 2022	16.5	6.6	4.8	0.7	28.6

¹Last year asset impairments of £79.6m made up of: £39.6m charge recorded against per una goodwill, £40.0m in relation to replaced, retired or decommissioned as part of MS2.

²In February 2022, the Group acquired 77.7% of the issued share capital of The Sports Edit Limited, a non-listed company based in England and Wales. The Sports Edit Limited is a brand platform specialising in activewear and was acquired for an initial purchase price of £4.5m. Goodwill of £4.8m was recognised on acquisition of the business, with the acquisition representing a strategic investment opportunity.

Goodwill impairment testing

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

The goodwill balance relates to the goodwill recognised on the acquisition of per una £16.5m (last year: £16.5m), India £6.6m (last year: £6.5m), Sports Edit £4.8m (last year: £nil) and other £0.7m (last year: £0.7m).

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

The per una brand was a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m and has been fully amortised. It is held at a net book value of £nil (last year: £nil). The per una goodwill of £16.5m is tested for annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 1.6% (last year: 0.5%), which is a reduction from the overall Group long-term growth rate of 2.0% (last year: 1.75%). The Group's current view of achievable long-term growth for India is 5.5% (last year: 5.9%).

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital ("WACC") which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium

and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 10.8% for per una (last year: 11.0%) and 11.3% for India (last year: 12.9%).

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

For both per una and India respectively, there are no reasonably possible changes in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

11 Property, plant and equipment

The Group's property, plant and equipment of £4,902.3m (last year: £5,058.6m) consists of owned assets of £3,486.5m (last year: £3,562.6m) and right-of-use assets of £1,415.8m (last year: £1,496.0m).

Property, plant and equipment - owned

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 28 March 2020				
Cost	2,887.5	5,457.1	138.0	8,482.6
Accumulated depreciation, impairments and write-offs	(720.1)	(3,880.6)	(18.0)	(4,618.7)
Net book value	2,167.4	1,576.5	120.0	3,863.9
Year ended 3 April 2021				
Opening net book value	2,167.4	1,576.5	120.0	3,863.9
Additions	3.8	18.6	92.1	114.5
Transfers and reclassifications	7.2	157.0	(162.6)	1.6
Impairment reversals	36.9	36.2	-	73.1
Impairment charge	(73.2)	(48.7)	-	(121.9)
Asset write-offs	(29.8)	(17.4)	(0.1)	(47.3)
Depreciation charge	(83.3)	(228.5)	-	(311.8)
Exchange difference	(6.6)	(2.8)	(0.1)	(9.5)
Closing net book value	2,022.4	1,490.9	49.3	3,562.6
At 3 April 2021				
Cost	2,809.9	5,450.2	67.5	8,327.6
Accumulated depreciation, impairments and write-offs	(787.5)	(3,959.3)	(18.2)	(4,765.0)
Net book value	2,022.4	1,490.9	49.3	3,562.6
Year ended 2 April 2022				
Opening net book value	2,022.4	1,490.9	49.3	3,562.6
Additions	0.9	17.7	238.0	256.6
Transfers and reclassifications	3.0	175.8	(164.3)	14.5
Disposals	(15.9)	(1.9)	-	(17.8)
Impairment reversals	34.5	27.6	-	62.1
Impairment charge	(57.6)	(31.4)	-	(89.0)
Asset write-offs	0.9	(11.4)	-	(10.5)
Depreciation charge	(34.2)	(256.1)	-	(290.3)
Exchange difference	(1.7)	-	-	(1.7)
Closing net book value	1,952.3	1,411.2	123.0	3,486.5
At 2 April 2022				
Cost	2,764.8	5,275.7	141.2	8,181.7
Accumulated depreciation, impairments and write-offs	(812.5)	(3,864.5)	(18.2)	(4,695.2)
Net book value	1,952.3	1,411.2	123.0	3,486.5

Asset write-offs in the year include assets with gross book value of £383.3m (last year: £67.4m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

Right-of-use assets

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

Right-of-use assets	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 28 March 2020	1,571.1	59.2	1,630.3
Additions	37.2	13.1	50.3
Transfers and reclassifications	0.3	-	0.3
Disposals	(5.5)	0.2	(5.3)
Impairment reversals	36.9	-	36.9
Impairment charge	(52.7)	-	(52.7)
Depreciation charge	(132.0)	(21.1)	(153.1)
Exchange difference	(10.6)	(0.1)	(10.7)
As at 3 April 2021	1,444.7	51.3	1,496.0
Additions	72.7	17.9	90.6
Transfers and reclassifications	0.5	-	0.5
Disposals	(7.7)	(0.2)	(7.9)
Impairment reversals	28.9	-	28.9
Impairment charge	(25.4)	-	(25.4)
Depreciation charge	(146.2)	(21.6)	(167.8)
Exchange difference	0.9	-	0.9
As at 2 April 2022	1,368.4	47.4	1,415.8

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

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

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment and impairment reversals have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 3).

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure as detailed fully in note 3.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 9.8% to 15.8% (last year: 8.9% to 14.0%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £6.9m and impairment reversals of £63.4m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £66.4m and impairment reversals of £64.5m). Impairment charges of £2.9m and impairment reversals of £63.4m have been recognised within adjusting items (see note 3). The remaining £4.0m impairment charge has been recognised in operating profit before adjusting items as it relates to stores not previously impaired. The impaired stores were impaired to their value in use recoverable amount of £37.1m, which is their carrying value at year end. The stores with impairment reversals were written back to their value in use recoverable amount of £302.3m.

For UK stores, when considering both impairment charges and reversals, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.0%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2.0%. The rate used to discount the forecast cash flows for UK stores is 9.8% (last year: 8.9%).

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

A reduction in sales of 5% from the three-year plan in year 3 would result in an increase in the impairment charge of £22.8m and a 25 basis point reduction in gross profit margin from year 3 onwards would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. A 50 basis point increase in the discount rate

would increase the impairment charge by £6.0m. Reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

A reduction in sales of 5% from the three-year plan in year 3 would result in a reduction in the reversal of £17.2m and a 25 basis point reduction in gross profit margin from year 3 onwards would result in a reduction in the reversal of £1.1m. In combination, a 5% fall in sales and a 25 basis point fall in gross profit margin would reduce the reversal by £19.0m. A 50 basis point increase in the discount rate would reduce the reversal by £3.3m. Reducing the long-term growth rate to 0% across all stores, would not result in a significant decrease to the reversal, either individually or in combination.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £107.5m and impairment reversals of £27.6m relating to the ongoing UK store estate programme (last year: impairment charge of £107.9m and impairment reversals of £36.7m). These stores were impaired to their value in use recoverable amount of £376.7m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 3). Impairment reversals predominantly reflect improved trading expectations compared to those assumed at the end of the prior year.

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 9.8% (last year: 8.9%).

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

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge by £37.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge by £14.2m. Neither a 50 basis point increase in the discount rate, a 25 basis point reduction in management gross margin during the period of trading, nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the prior year, the Group recognised an impairment reversal of £8.8m in Ireland as a result of store impairment testing.

12 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 that 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:

	2022				2021			
	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 loss (FVTPL)								
- derivatives held at FVTPL	-	0.6	-	0.6	-	0.7	-	0.7
- other investments ¹	-	17.6	4.5	22.1	-	18.4	-	18.4
Derivatives used for hedging	-	64.4	-	64.4	-	32.4	-	32.4
Unlisted equity investments ²	-	-	-	-	-	-	9.7	9.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- derivatives held at FVTPL	-	(0.9)	-	(0.9)	-	(12.1)	-	(12.1)
- contingent consideration ³	-	-	(172.6)	(172.6)	-	-	(212.0)	(212.0)
Derivatives used for hedging	-	(2.7)	-	(2.7)	-	(94.6)	-	(94.6)

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 during the period.

¹Within Level 3 other investments, the Group holds £3.1m of venture capital investments, managed by True Capital Limited, measured at FVTPL (last year: £nil) which are Level 3 instruments. The fair value of these investments has been determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. Where investments are either recently acquired or there have been recent funding rounds with third parties, the primary input when determining the valuation is the latest transaction price.

²The Group holds £nil in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) which is a Level 3 instrument. The fair value of this investment was determined with reference to the net asset value of the entity in which the investment was held, which in turn derived the majority of its net asset value through a third-party property valuation.

³As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. In June 2021, £16.8m was settled, relating to the first of the three targets. In October 2021, £17.0m was settled, relating to the second target. The final target related to Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the arrangement is £156.3m plus interest of 4%.

The fair value of the contingent consideration was estimated by applying an appropriate discount rate to the expected future payments. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance target is binary and, based on the latest five-year plan of Ocado Retail Limited, is expected to be met and therefore the fair value reflects the full, discounted £156.3m plus interest, and it is therefore expected that £190.8m will become payable in 2024/25. Should the target not be met, no consideration would be payable. Should the discount rate applied be changed, the fair value of the contingent consideration would change, but the amount of consideration that would ultimately be paid would not necessarily change. A discount rate of 4.2% was used and a 2.0% change in the discount rate would result in a change in fair value of £8.0m. A 5% change in the forecast level of earnings used to assess the performance target would not result in a significant change in fair value of the contingent consideration. During the period, £33.8m of contingent consideration was settled and a gain of £5.6m recognised in profit or loss in relation to the remeasurement (see note 3).

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,090.7m (last year: £10,442.9m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £4,998.8m (last year: £5,446.0m). Additionally, the scheme assets include £5,091.9m (last year: £4,996.9m) of Level 3 financial assets. See note 8 for information on the Group's retirement benefits.

The following table represents the changes in Level 3 instruments held by the Pension Schemes:

	2022 £m	2021 £m
Opening balance	4,996.9	4,325.1
Fair value gain recognised in other comprehensive income	138.6	68.3
(Withdrawal)/additional investment	(43.6)	603.5
Closing balance	5,091.9	4,996.9

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 9), 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 £1,482.5m (last year: £1,682.1m); the fair value of this debt was £1,549.6m (last year: £1,807.6m) 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 (Level 2 equivalent) is £192.3m (last year: £193.5m) and the fair value of this liability is £187.9m (last year: £185.5m).

13 Contingencies and commitments

A. Capital commitments

	2022 £m	2021 £m
Commitments in respect of properties in the course of construction	59.8	88.3
Software capital commitments	6.1	10.6
	65.9	98.9

In addition to the above, the Group has committed to invest up to £25.0m, over a three-year period to 2024/25, in an innovation and consumer growth fund managed by True Capital Limited. The fund can draw down amounts at any time over the three-year period to make specific investments. During the period, the Group invested £3.3m of this commitment, which is held as a non-current other investment and measured at fair value through profit or loss.

B. Other material contracts

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

See note 9 for details on the Partnership arrangement with the Marks & Spencer UK Pension Scheme.

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

Cash flows from operating activities

	2022 £m	2021 £m
Profit/(loss) on ordinary activities after taxation	309.0	(201.2)
Income tax expense/(credit)	82.7	(8.2)
Finance costs	214.4	236.1
Finance income	(33.9)	(57.4)
Operating profit/(loss)	572.2	(30.7)
Share of results of Ocado Retail Limited	(13.9)	(78.4)
(Increase)/decrease in inventories	(46.5)	41.2
(Increase)/decrease in receivables	(2.9)	67.4
Increase in payables	289.1	159.5
Depreciation, amortisation and write-offs	510.7	603.1
Non-cash share-based payment expense	38.8	19.3
Defined benefit pension funding	(36.8)	(37.1)
Adjusting items net cash outflows ^{1,2}	(45.8)	(118.1)
Adjusting items M&S Bank ³	(16.0)	(2.4)
Adjusting operating profit items	136.8	252.9
Cash generated from operations	1,385.7	876.7

¹ Excludes £5.6m (last year: £12.4m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

² Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, UK logistics and the utilisation of the provisions for International store closures and impairments.

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.

15 Analysis of net debt

A. Reconciliation of movement in net debt

	At 29 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ¹ £m	At 3 April 2021 £m
Net debt						
Bank loans and overdrafts	(15.5)	10.8	-	-	-	(4.7)
Cash and cash equivalents	254.2	423.5	-	-	(3.3)	674.4
Net cash per statement of cash flows	238.7	434.3	-	-	(3.3)	669.7
Current other financial assets	11.7	6.7	-	-	-	18.4
Liabilities from financing activities						
Medium Term Notes	(1,536.2)	(87.9)	-	-	(58.0)	(1,682.1)
Lease liabilities	(2,562.0)	316.7	-	(48.3)	(112.3)	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(202.7)	23.6	-	-	(6.4)	(185.5)
Derivatives held to hedge Medium Term Notes	102.2	(14.0)	(96.3)	-	-	(8.1)
Liabilities from financing activities	(4,198.7)	238.4	(96.3)	(48.3)	(176.7)	(4,281.6)
Less: Cash flows related to interest and derivative instruments	(2.3)	(212.6)	96.3	-	196.2	77.6
Net debt	(3,950.6)	466.8	-	(48.3)	16.2	(3,515.9)

	At 4 April 2021 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements ¹ £m	At 2 April 2022 £m
Net debt						
Bank loans and overdrafts	(4.7)	4.7	-	-	-	-
Cash and cash equivalents	674.4	531.7	-	-	(8.2)	1,197.9
Net cash per statement of cash flows	669.7	536.4	-	-	(8.2)	1,197.9
Current other financial assets	18.4	(0.8)	-	-	-	17.6
Liabilities from financing activities						
Medium Term Notes	(1,682.1)	244.0	-	-	(91.4)	(1,529.5)
Lease liabilities	(2,405.9)	344.3	-	(100.6)	(116.5)	(2,278.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(185.5)	-	-	-	(2.4)	(187.9)
Derivatives held to hedge Medium Term Notes	(8.1)	-	26.6	-	-	18.5
Liabilities from financing activities	(4,281.6)	588.3	26.6	(100.6)	(210.3)	(3,977.6)
Less: Cash flows related to interest and derivative instruments	77.6	(208.7)	(26.6)	-	221.0	63.3
Net debt	(3,515.9)	915.2	-	(100.6)	2.5	(2,698.8)

B. Reconciliation of net debt to statement of financial position

	2022 £m	2021 £m
Statement of financial position and related notes		
Cash and cash equivalents	1,197.9	674.4
Current other financial assets	17.6	18.4
Bank loans and overdraft	-	(4.7)
Medium Term Notes – net of foreign exchange revaluation	(1,494.7)	(1,657.9)
Lease liabilities	(2,278.7)	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(192.3)	(193.5)
	(2,750.2)	(3,569.2)
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	51.4	53.3
Net debt	(2,698.8)	(3,515.9)

¹Exchange and other non-cash movements includes interest paid on Medium Term Notes of £79.6m (last year: £86.4m), interest paid on lease liabilities of £121.1m (last year: £130.4m) and interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £4.4m (last year: £4.9m).

16 Related party transactions

A. Joint ventures and associate

Ocado Retail Limited

A shareholder loan facility with Ocado Retail Limited was established in 2019/20, with Ocado Retail Limited having the ability to draw down up to £30m from each shareholder. The facility was not utilised by Ocado Retail Limited during the year ended 2 April 2022 (last year: not utilised).

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited. The revolving credit facility was undrawn at 2 April 2022 (last year: undrawn).

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

Sales and purchases of goods and services:

	2022 £m	2021 £m
Sales of goods and services	36.1	28.5
Purchases of goods and services	0.2	-

Included within trade and other receivables is a balance of £1.9m (last year: £2.3m) owed by Ocado Retail Limited.

Nobody's Child Limited

Nobody's Child Limited became an associate of the Group in November 2021 (see note 17).

Since November 2021, the Group made purchases of goods amounting to £1.2m. At 2 April 2022, included within trade and other payables is a balance of £0.2m owed to Nobody's Child Limited, and included within other financial assets is a balance of £0.7m owed from Nobody's Child Limited.

B. Other related party transactions

The Group acquired 77.7% of the issued share capital of The Sports Edit Limited ("TSE") in February 2022. A further 4.8% of TSE's issued share capital is currently owned by Mr. Justin King, a Non-Executive Director of the Group (the "JK TSE Shares"). Subject to shareholder approval, the Group will acquire the JK TSE Shares from Mr. Justin King at a total purchase price of £0.3m in July 2022.

The only other related party transactions during the year related to key management compensation.

17 Investments in joint ventures and associates

The Group holds a 50% interest in Ocado Retail Limited, a company incorporated in the UK. The remaining 50% interest is held by Ocado Group Plc. Ocado Retail Limited is an online grocery retailer, operating through the ocado.com and ocadozoom.com websites.

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 financial year end date of 28 November 2021, aligning with its parent company, Ocado Group Plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in these financial statements from 1 March 2021 to 27 February 2022. There were no significant events or transactions in the period from 28 February 2022 to 2 April 2022.

The carrying amount of the Group's interest in Ocado Retail Limited is £800.4m (last year: £819.0m). The Group's share of Ocado Retail Limited loss of £18.6m (last year: profit of £64.2m) includes the Group's share of underlying profits of £13.9m, which includes £1.3m of exceptional income before tax related to insurance receipts (share of profit last year: £25.2m) and adjusting item charges of £32.5m (last year: £14.2m) (see note 3).

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

	As at 27 Feb 2022 £m	As at 28 Feb 2021 £m
Ocado Retail Limited		
Current assets	291.2	353.9
Non-current assets	590.1	336.8
Current liabilities	(223.3)	(245.7)
Non-current liabilities	(449.8)	(264.6)
Net assets	208.2	180.4
	29 Feb 2021 to 27 Feb 2022 £m	2 Mar 2020 to 28 Feb 2021 £m
Revenue	2,248.8	2,353.2
Profit for the period	27.8	156.8
Other comprehensive income	-	-
Total comprehensive income	27.8	156.8

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

	As at 2 Apr 2022 £m	As at 3 Apr 2021 £m
Ocado Retail Limited		
Net assets	208.2	180.4
Proportion of the Group's ownership interest	104.1	90.2
Goodwill	449.1	449.1
Brand	242.7	249.2
Customer relationships	77.7	88.3
Other adjustments to align accounting policies	(78.9)	(63.5)
Acquisition costs	5.7	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	800.4	819.0

In November 2021, the Group acquired 27% of the issued share capital of Nobody's Child Limited, which is accounted for as an investment in associate.

Other than its investment in Ocado Retail Limited, the Group holds immaterial investments in joint ventures and associates (including its investment in Nobody's Child Limited) totalling £10.5m (last year: £6.8m). The Group's share of losses totalled £0.7m (last year: £1.3m loss).

18 Government support

The Group has not benefitted from government grant income in the year. Last year, the Group recognised £131.5m in relation to furlough programmes, such as the Coronavirus Job Retention Scheme ("CJRS") in the UK, and its equivalents in other countries. This income was recognised as a deduction against the related expense.

The Group benefited from business rates relief of £62.2m in the year (last year: £174.6m).

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

19 Contingent assets

The Group is currently seeking damages from an independent third party following their involvement in anti-competitive behaviour that adversely impacted the Group. The Group expects to receive an amount from the claim (either in settlement or from the legal proceedings), a position reinforced by recent court judgements in similar claims. The value of the claim is confidential and is therefore not disclosed.

20 Subsequent events

The Board have approved a tender offer to repurchase c.£150m of the Group's Medium Term Notes which will be announced on 25 May 2022.

Principal risks & uncertainties

The Board continually reviews and monitors the principal risks and uncertainties which could have a material effect on the Group's results. The updated principal risks and uncertainties for 2021/22 are listed below. Full disclosure of the risks including the factors which mitigate them will be set out within the Strategic Report of the 2021/22 Annual Report and Accounts.

AN UNCERTAIN TRADING ENVIRONMENT	Our ability to deliver continued improvements in trading performance could be significantly affected by the individual or aggregate impact of an increasingly complex set of external factors. The ongoing consequences of the pandemic, geo-political and economic uncertainties (both national and international) and the resultant cost of living crisis, are combining to generate difficult and unpredictable headwinds.
BUSINESS TRANSFORMATION	A failure to successfully implement the suite of critical transformation projects could impact medium- and longer-term growth ambitions. While each initiative is individually significant and has its own inherent risks, the aggregate impact of simultaneously delivering these challenging projects could also create further risks to successful implementation.
OCADO RETAIL	A failure to effectively manage the strategic and operational relationship with Ocado Retail could significantly impact the value of our investment, the achievement of our multi-channel food strategy, our Brand and our ability to deliver shareholder value.
TALENT AND CAPABILITY	An inability to attract, retain and develop the right talent, skills and capabilities or to successfully adapt to the expectations of a post-pandemic labour market could impact the delivery of core operational activities and longer-term strategic objectives, including aspects of our transformation programme.
EU BORDER CHALLENGES	A failure to manage the cost consequences and operational friction arising from the complexity of border arrangements following the UK's exit from the European Union (EU) or further developments in the Trade and Cooperation Agreement ("TCA"), including the Northern Ireland Protocol, could have a significant and long-term impact on our Irish business and overall trading performance.
BUSINESS CONTINUITY AND RESILIENCE	Significant operational failures or resilience issues at key business locations, such as Castle Donington, our primary online Clothing & Home distribution centre, or any of our key international sourcing locations, could result in significant business interruption. More broadly, an inability to effectively respond to global events, such as the pandemic or Russia's invasion of Ukraine, a shortage of raw materials or other products used in our business, or significant supply chain disruption, could also impact business performance.
PRODUCT SAFETY AND INTEGRITY	Failure to prevent and/or effectively respond to a food or product safety incident, or to maintain their integrity, could impact customer confidence in our brand and business performance.
INFORMATION SECURITY	Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of information for our customers, employees or business and/or loss of stakeholder and customer confidence.
CORPORATE COMPLIANCE AND RESPONSIBILITY	A failure to deliver against our legal and regulatory obligations or broader corporate responsibility commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers and other stakeholders.
CLIMATE CHANGE AND ENVIRONMENTAL RESPONSIBILITY	An inability to reduce the environmental impact of our business and progress towards our net zero targets, including those linked to our supply chains, as well as managing the consequences of climate change on our business, would fail to meet the expectations of our customers, colleagues, investors and other stakeholders, impacting our brand, future trading performance and other business costs, including financing.
LIQUIDITY AND FUNDING	An inability to maintain short- and long-term funding to meet business needs or to effectively manage associated risks could impact our ability to transform at pace, as well as have an adverse impact on business viability.

Glossary

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																				
Income statement measures																																																							
Sales	Revenue	Consignment sales	Sales includes the gross value of consignment sales (excluding VAT) before the impact of adjusting items.																																																				
Clothing & Home store / Clothing & Home online sales	None	Not applicable	<p>Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.</p> <p>Clothing & Home revenue through stores and through the Clothing & Home online platforms. 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 and online channels.</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>UK Clothing & Home</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Store sales¹</td> <td>2,209.5</td> <td>1,088.9</td> <td>102.9</td> </tr> <tr> <td>Consignment sales</td> <td>(8.6)</td> <td>-</td> <td></td> </tr> <tr> <td>Store revenue</td> <td>2,200.9</td> <td>1,088.9</td> <td>102.1</td> </tr> <tr> <td>Online sales¹</td> <td>1,122.7</td> <td>1,109.7</td> <td>1.2</td> </tr> <tr> <td>Consignment sales</td> <td>(15.3)</td> <td>-</td> <td></td> </tr> <tr> <td>Online revenue</td> <td>1,107.4</td> <td>1,109.7</td> <td>(0.2)</td> </tr> <tr> <td>UK Clothing & Home sales¹ – 52-week basis</td> <td>3,332.2</td> <td>2,198.6</td> <td>51.6</td> </tr> <tr> <td>Consignment sales</td> <td>(23.9)</td> <td>-</td> <td></td> </tr> <tr> <td>UK Clothing & Home revenue – 52-week basis</td> <td>3,308.3</td> <td>2,198.6</td> <td>50.5</td> </tr> <tr> <td>Week 53</td> <td>-</td> <td>40.4</td> <td></td> </tr> <tr> <td>Total UK Clothing & Home revenue</td> <td>3,308.3</td> <td>2,239.0</td> <td>47.8</td> </tr> </tbody> </table> <p>¹ UK Clothing & Home store sales excludes revenue from "shop your way" and click & collect, which are included in UK Clothing & Home online sales.</p> <p>There is no material difference between sales and revenue for UK Food and International.</p>		2021/22 £m	2020/21 £m	%	UK Clothing & Home				Store sales ¹	2,209.5	1,088.9	102.9	Consignment sales	(8.6)	-		Store revenue	2,200.9	1,088.9	102.1	Online sales ¹	1,122.7	1,109.7	1.2	Consignment sales	(15.3)	-		Online revenue	1,107.4	1,109.7	(0.2)	UK Clothing & Home sales ¹ – 52-week basis	3,332.2	2,198.6	51.6	Consignment sales	(23.9)	-		UK Clothing & Home revenue – 52-week basis	3,308.3	2,198.6	50.5	Week 53	-	40.4		Total UK Clothing & Home revenue	3,308.3	2,239.0	47.8
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Like-for-like revenue growth	Movement in revenue per the income statement	Revenue from non like-for-like stores	<p>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.</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> </tr> </thead> <tbody> <tr> <td colspan="3"><i>UK Food</i></td> </tr> <tr> <td>Like-for-like</td> <td>6,414.1</td> <td>5,831.1</td> </tr> <tr> <td>Net new space¹</td> <td>225.5</td> <td>163.7</td> </tr> <tr> <td>Week 53</td> <td>-</td> <td>143.7</td> </tr> <tr> <td>Total UK Food revenue</td> <td>6,639.6</td> <td>6,138.5</td> </tr> <tr> <td colspan="3"><i>UK Clothing & Home</i></td> </tr> <tr> <td>Like-for-like</td> <td>3,218.3</td> <td>2,164.5</td> </tr> <tr> <td>Net new space</td> <td>90.0</td> <td>34.1</td> </tr> <tr> <td>Week 53</td> <td>-</td> <td>40.4</td> </tr> <tr> <td>Total UK Clothing & Home revenue</td> <td>3,308.3</td> <td>2,239.0</td> </tr> </tbody> </table> <p>¹ UK Food net new space includes sales to Ocado Retail Limited.</p>		2021/22 £m	2020/21 £m	<i>UK Food</i>			Like-for-like	6,414.1	5,831.1	Net new space ¹	225.5	163.7	Week 53	-	143.7	Total UK Food revenue	6,639.6	6,138.5	<i>UK Clothing & Home</i>			Like-for-like	3,218.3	2,164.5	Net new space	90.0	34.1	Week 53	-	40.4	Total UK Clothing & Home revenue	3,308.3	2,239.0
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Food ex hospitality and franchise	Movement in revenue per the income statement	Revenue from hospitality and franchise categories and sales to Ocado Retail Limited	<p>The period-on-period change in Food revenue (before sales to Ocado Retail Limited) excluding the hospitality and franchise categories' revenue (excluding VAT). The hospitality category includes cafes, counters and marketplace. This measure is based on Food total revenue rather than like-for-like revenue which was presented in the 2020/21 annual report. This measure is used to provide consistency with other measures provided within this report.</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="4">UK Food</td> </tr> <tr> <td>Revenue</td> <td>6,639.6</td> <td>6,138.5</td> <td>8.2</td> </tr> <tr> <td>Sales to Ocado Retail</td> <td>(32.1)</td> <td>(24.2)</td> <td>32.6</td> </tr> <tr> <td>Hospitality</td> <td>(167.0)</td> <td>(54.0)</td> <td>209.3</td> </tr> <tr> <td>Franchise</td> <td>(586.6)</td> <td>(438.4)</td> <td>33.8</td> </tr> <tr> <td>Food ex hospitality and franchise</td> <td>5,853.9</td> <td>5,621.9</td> <td>4.1</td> </tr> </tbody> </table>		2021/22 £m	2020/21 £m	%	UK Food				Revenue	6,639.6	6,138.5	8.2	Sales to Ocado Retail	(32.1)	(24.2)	32.6	Hospitality	(167.0)	(54.0)	209.3	Franchise	(586.6)	(438.4)	33.8	Food ex hospitality and franchise	5,853.9	5,621.9	4.1					
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M&S.com revenue / Online revenue	None	Not applicable	<p>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</p>																																	
International online	None	Not applicable	<p>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. This measure has been introduced given the Group's focus on online sales.</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="4">International revenue</td> </tr> <tr> <td>Stores</td> <td>764.7</td> <td>613.6</td> <td>24.6</td> </tr> <tr> <td>Online</td> <td>172.5</td> <td>165.7</td> <td>4.1</td> </tr> <tr> <td>Week 53</td> <td>-</td> <td>10.1</td> <td></td> </tr> <tr> <td>At reported currency</td> <td>937.2</td> <td>789.4</td> <td>18.7</td> </tr> </tbody> </table>		2021/22 £m	2020/21 £m	%	International revenue				Stores	764.7	613.6	24.6	Online	172.5	165.7	4.1	Week 53	-	10.1		At reported currency	937.2	789.4	18.7									
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Revenue growth at constant currency	None	Not applicable	<p>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.</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> <th>%</th> </tr> </thead> <tbody> <tr> <td colspan="4">International revenue</td> </tr> <tr> <td>At constant currency</td> <td>937.2</td> <td>761.8</td> <td>23.0</td> </tr> <tr> <td>Impact of FX retranslation</td> <td>-</td> <td>17.5</td> <td></td> </tr> <tr> <td colspan="4">International revenue – 52-week basis</td> </tr> <tr> <td>Week 53</td> <td>937.2</td> <td>779.3</td> <td>20.3</td> </tr> <tr> <td>At reported currency</td> <td>937.2</td> <td>789.4</td> <td>18.7</td> </tr> </tbody> </table>		2021/22 £m	2020/21 £m	%	International revenue				At constant currency	937.2	761.8	23.0	Impact of FX retranslation	-	17.5		International revenue – 52-week basis				Week 53	937.2	779.3	20.3	At reported currency	937.2	789.4	18.7
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Adjusting items	None	Not applicable	<p>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.</p>																												
Revenue before adjusting items	Revenue	Adjusting items (See note 3)	<p>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. This measure has been introduced as certain adjustments have been made to revenue for the first time in accordance with the Group's policy for adjusting items.</p>																												
Operating profit before adjusting items	Operating profit	Adjusting items (See note 3)	<p>Operating 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.</p>																												
Finance income before adjusting items	Finance income	Adjusting items (See note 3)	<p>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.</p>																												
Finance costs before adjusting items	Finance costs	Adjusting items (See note 3)	<p>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.</p>																												
Net interest payable on leases	Finance income/costs	Finance income/costs (See note 4)	<p>The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.</p>																												
Net financial interest	Finance income/costs	Finance income/costs (See note 4)	<p>Calculated as net finance costs, excluding interest on leases and 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.</p>																												

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
EBIT before adjusting items	EBIT ¹	Adjusting items (See note 3)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT ¹	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 3)	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 for an explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 3)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 3)	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 profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																												
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	<p>The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 52 weeks ended 2 April 2022 with the comparative financial year being for the 53 weeks ended 3 April 2021. In order to provide comparability with the prior year results, adjustments have been made to the 2020/21 53-week income statement to remove sales, operating costs and other items relating to the last trading week of the 2020/21 financial year. In determining the week 53 adjustment, revenue and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53.</p> <table border="1"> <thead> <tr> <th></th> <th>2020/21 £m</th> <th>Exclude week 53 £m</th> <th>2020/21 52-week basis</th> </tr> </thead> <tbody> <tr> <td colspan="4">Revenue</td> </tr> <tr> <td>UK Food</td> <td>6,138.5</td> <td>(143.7)</td> <td>5,994.8</td> </tr> <tr> <td>UK Clothing & Home</td> <td>2,239.0</td> <td>(40.4)</td> <td>2,198.6</td> </tr> <tr> <td><i>Total UK Retail</i></td> <td><i>8,377.5</i></td> <td><i>(184.1)</i></td> <td><i>8,193.4</i></td> </tr> <tr> <td>International</td> <td>789.4</td> <td>(10.1)</td> <td>779.3</td> </tr> <tr> <td><i>Total Group</i></td> <td><i>9,166.9</i></td> <td><i>(194.2)</i></td> <td><i>8,972.7</i></td> </tr> <tr> <td colspan="4">Operating profit/(loss) before adjusting items</td> </tr> <tr> <td>UK Food</td> <td>228.6</td> <td>(15.0)</td> <td>213.6</td> </tr> <tr> <td>UK Clothing & Home</td> <td>(130.8)</td> <td>1.4</td> <td>(129.4)</td> </tr> <tr> <td>International</td> <td>44.1</td> <td>1.0</td> <td>45.1</td> </tr> <tr> <td colspan="4">Adjusted profit before tax</td> </tr> <tr> <td><i>Total Group</i></td> <td><i>50.3</i></td> <td><i>(8.7)</i></td> <td><i>41.6</i></td> </tr> <tr> <td colspan="4">Loss before tax</td> </tr> <tr> <td><i>Total Group</i></td> <td><i>(209.4)</i></td> <td><i>8.2</i></td> <td><i>(201.2)</i></td> </tr> </tbody> </table>		2020/21 £m	Exclude week 53 £m	2020/21 52-week basis	Revenue				UK Food	6,138.5	(143.7)	5,994.8	UK Clothing & Home	2,239.0	(40.4)	2,198.6	<i>Total UK Retail</i>	<i>8,377.5</i>	<i>(184.1)</i>	<i>8,193.4</i>	International	789.4	(10.1)	779.3	<i>Total Group</i>	<i>9,166.9</i>	<i>(194.2)</i>	<i>8,972.7</i>	Operating profit/(loss) before adjusting items				UK Food	228.6	(15.0)	213.6	UK Clothing & Home	(130.8)	1.4	(129.4)	International	44.1	1.0	45.1	Adjusted profit before tax				<i>Total Group</i>	<i>50.3</i>	<i>(8.7)</i>	<i>41.6</i>	Loss before tax				<i>Total Group</i>	<i>(209.4)</i>	<i>8.2</i>	<i>(201.2)</i>
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Balance sheet measures																																																															
Net debt	None	Reconciliation of net debt (see note 15)	<p>Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), the spot foreign exchange component of 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.</p> <p>This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 15)	<p>Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.</p>																																																												
Cash flow measures																																																															
Free cash flow after shareholder returns	Net cash inflow from operating activities	See Financial Review	<p>The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid.</p> <p>This measure shows the cash retained by the Group in the year.</p>																																																												
Free cash flow	Net cash inflow from operating activities	See Financial Review	<p>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).</p> <p>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.</p>																																																												
Other measures																																																															

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose																																																												
Covid-19 scenario	None	Not applicable	<p>As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan.</p> <p>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.</p> <p>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 in the Group's 2020 Annual Report and Financial Statements.</p> <p>This downside scenario was approved by the directors and is defined as the Covid-19 scenario.</p>																																																												
Capital expenditure	None	Not applicable	<p>Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.</p>																																																												
Return on capital employed ("ROCE")	None	Not applicable	<p>Calculated as being EBIT¹ before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £m</th> <th>2020/21 £m</th> </tr> </thead> <tbody> <tr> <td>EBIT before adjusting items</td> <td>709.0</td> <td>222.2</td> </tr> <tr> <td>Net assets</td> <td>2,917.9</td> <td>2,285.8</td> </tr> <tr> <td>Add back:</td> <td></td> <td></td> </tr> <tr> <td>Partnership liability to the Marks & Spencer UK Pension Scheme</td> <td>192.3</td> <td>193.5</td> </tr> <tr> <td>Deferred tax liabilities</td> <td>187.2</td> <td>42.3</td> </tr> <tr> <td>Non-current borrowings and other financial liabilities</td> <td>3,561.0</td> <td>3,659.9</td> </tr> <tr> <td>Retirement benefit deficit</td> <td>5.7</td> <td>7.8</td> </tr> <tr> <td>Derivative financial instruments</td> <td>-</td> <td>73.6</td> </tr> <tr> <td>Current tax liabilities</td> <td>34.0</td> <td>-</td> </tr> <tr> <td>Less:</td> <td></td> <td></td> </tr> <tr> <td>Investment property</td> <td>(15.0)</td> <td>(15.2)</td> </tr> <tr> <td>Derivative financial instruments</td> <td>(61.4)</td> <td>-</td> </tr> <tr> <td>Retirement benefit asset</td> <td>(1,043.9)</td> <td>(639.2)</td> </tr> <tr> <td>Current tax assets</td> <td>-</td> <td>(35.4)</td> </tr> <tr> <td>Net operating assets</td> <td>5,777.8</td> <td>5,573.1</td> </tr> <tr> <td>Add back: Provisions related to adjusting items</td> <td>124.9</td> <td>100.8</td> </tr> <tr> <td>Capital employed</td> <td>5,902.7</td> <td>5,673.9</td> </tr> <tr> <td>Average capital employed</td> <td>5,788.3</td> <td>5,874.8</td> </tr> <tr> <td>ROCE %</td> <td>12.2%</td> <td>3.8%</td> </tr> </tbody> </table> <p>This measure is used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</p>		2021/22 £m	2020/21 £m	EBIT before adjusting items	709.0	222.2	Net assets	2,917.9	2,285.8	Add back:			Partnership liability to the Marks & Spencer UK Pension Scheme	192.3	193.5	Deferred tax liabilities	187.2	42.3	Non-current borrowings and other financial liabilities	3,561.0	3,659.9	Retirement benefit deficit	5.7	7.8	Derivative financial instruments	-	73.6	Current tax liabilities	34.0	-	Less:			Investment property	(15.0)	(15.2)	Derivative financial instruments	(61.4)	-	Retirement benefit asset	(1,043.9)	(639.2)	Current tax assets	-	(35.4)	Net operating assets	5,777.8	5,573.1	Add back: Provisions related to adjusting items	124.9	100.8	Capital employed	5,902.7	5,673.9	Average capital employed	5,788.3	5,874.8	ROCE %	12.2%	3.8%
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¹ EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.