M&S

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Marks and Spencer Group Plc
Full Year Results For 52 Weeks Ended 28 March 2020
"Securing the future... accelerating change"

52 weeks ended	28 Mar 20	30 Mar 19 Restated[1]	*Change %*
Group revenue	£10,181.9m	£10,377.3m	*-1.9*
Profit before tax & adjusting items	£403.1m	£511.7m	*-21.2*
Adjusting items	£(335.9)m	£(427.5)m	*21.4*
Profit before tax	£67.2m	£84.2m	*-20.2*
Profit after tax	£27.4m	£45.3m	*-39.5*
Adjusted basic earnings per share	16.7p	23.7p	*-29.5*
Basic earnings per share	1.3p	2.5p	*-48.0*
Free cash flow[2]	£225.0m	£580.8m	*-61.3*
Net debt	£4.03bn	£4.08bn	*-1.2*
Net debt excluding lease liabilities	£1.46bn	£1.50bn	*-2.6*
Dividend per share	3.9p	13.3p	*-70.7*

Steve Rowe, Marks & Spencer CEO said: "Last year's results reflect a year of substantial progress and change including the transformative investment in Ocado Retail, outperformance in Food and some green shoots in Clothing in the second half. However, they now seem like ancient history as the trauma of the Covid crisis has galvanised our colleagues to secure the future of the business. The way our people have rallied to support our customers and communities has been awe-inspiring. From the outset we recognised that we were facing a crisis whose effects and aftershocks will endure for the coming year and beyond: Whilst some customer habits will return to normal others have changed forever, the trend towards digital has been accelerated, and changes to the shape of the high street brought forward. Most importantly working habits have been transformed and we have discovered we can work in a faster, leaner, more effective way. I am determined to act now to capture this and deliver a renewed, more agile business in a world that will never be the same again."

[1]Prior year comparatives restated for the adoption of IFRS 16 'Leases' and for the effects of the rights issue completed in June.
[2]Free cash flow is cash generated from operating activities less capital expenditure, cash lease payments and interest paid.
There are a number of non-GAAP measures and alternative profit measures "APM", discussed with this announcement and a glossary and reconciliation to statutory measures is provided at the end of this report. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. Refer to adjusting items table below for further details.

- Profit before tax & adjusting items £403.1m, including an adverse profit impact of c.£52m in March which we largely attribute to Covid-19
- Profit before tax of £67.2m including adjusting items of £335.9m, with £212.8m for costs and stock write downs for Covid-19
- Strong Food LFL revenue of 1.9% and operating profit up 11.2%. Volume outperforming the market
- Clothing LFL revenue decline of 6.2% and operating profit down 37.0%, adversely impacted by availability in H1. Reengineering of ranges accelerating during the year
- Acquired 50% of Ocado Retail, a valuable investment in online grocery which transforms the growth potential of M&S Food. Ocado Retail delivered 40.4% revenue growth for the 9 weeks to 3 May. Switchover and synergy plans on track
- Progress against transformation priorities, helping the business to withstand the crisis
- Over £1bn of actions, including c.£500m of planned cost reductions and further actions to manage cash under scenario planning for Covid-19
- Liquidity secured including removal or substantial relaxation of covenants on the £1.1bn revolving credit facility (RCF). Eligibility to the UK Government's Covid Corporate Financing Facility (CCFF) confirmed and £300m allocated
- Outperformance against Covid-19 scenario, with cashflow over £150m better than scenario after six weeks, largely driven by trading
- Launched the Never the Same Again programme to draw on learnings from the crisis and capitalise on the opportunities to drive the transformation plan in a changed consumer environment.

Good progress on transformation in 2019/20

Prior to the Covid-19 impact, both major businesses were making good progress in implementing the transformation programme with Food outperforming the market and despite teething issues in changes to men's clothing ranges, kids, womens, and lingerie starting to show sustained, improved performance.

In recent years we have made a number of structural changes to the basic infrastructure of the business including closing 54 of our legacy shared stores, migrating off mainframe infrastructure to cloud based systems and implementing new warehouse management systems. These changes have been instrumental in helping the business to react effectively in the early weeks of the crisis.

To illustrate more clearly our new more decentralised model, we are for the first-time introducing segmental profit reporting in our family of businesses: UK Food, UK Clothing & Home and International. This demonstrates the strength and balance of the combined businesses, which has been a major source of resilience in the crisis.

Outperformance in Food

The UK Food business outperformed the market and saw strengthening sales performance as changes to range, value, and customer communication took effect: revenue increased 2.1%, with LFL sales up 1.9%, strengthening throughout the year, including an estimated 0.3% benefit from the effects of Covid-19 in March. Operating profit before adjusting items increased 11.2%. Value perception has improved resulting in growth in volume ahead of value at 3.3%.

We set out the strategy for Food 18 months ago, rebuilt the leadership team and started the repositioning of the business to broaden its appeal and move to 'trusted value'. The programme was picking up momentum prior to the crisis:

- Price investment was further strengthened through the launch of 'Remarksable' value and 'Fresh Market Special' lines, many at 65 pence. The level of promotions also continued to reduce. As a result, the price index of comparable product baskets has improved compared with key competitors, resulting in better price perceptions
- A new programme of range innovation was brought forward including significant launches in healthy, Plant Kitchen, made without, and family product to broaden appeal. This was combined with innovative new marketing including Little Shop and Britain's Got Talent sponsorship
- 5 'test and learn' renewal Food stores were opened showcasing more of the full M&S range in a modern engaging environment and testing new product innovations with encouraging results. We expect to move towards extension of these formats in the coming year
- Through Project Vangarde, which has now been rolled out to 90 stores, the leadership team has demonstrated scope for reducing waste, improving availability and running stores more efficiently.

Ocado Retail positioned strongly for growth

During the year we completed the purchase of 50% of Ocado Retail providing M&S with a profitable, scalable presence in online grocery, the UK's fastest growing channel. We reported a first time net income contribution for Ocado Retail to group profit of £2.6m for the 7 months to 1 March 2020, with the early contribution reflecting the limited period since completion. This is the contribution to group results prior to switchover to M&S supply on 1 September, which we expect to drive volume growth for M&S Food.

We have been working closely with Ocado Retail to create a 'one business' mentality which includes common operating procedures, business plan, and shared talent. Switchover and synergy plans are on track. The value of the investment we have made has been further reinforced by the strong growth reported by Ocado Retail since lockdown, with growth for the most recent 9 week period of 40.4% reported at its AGM on 6 May.

Reengineering Clothing & Home

The UK Clothing & Home business experienced a year of substantial reshaping under new leadership, resulting in some encouraging performance indicators in the second half. However, revenue declined 8.3% overall, with LFL revenue down 6.2%, including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue was level. Operating profit before adjusting items declined 37.0%, largely driven by lower sales, gross margin headwinds related to sourcing and promotional mix and the impact of the crisis.

Trading in the first half was affected by availability issues in Womenswear and in the second half by teething issues with the move of Menswear towards a more contemporary style and fit. However, towards the end of the year, prior to the effects of Covid-19, performance in Womenswear and Kids was encouraging, Menswear saw improving sales trends and Lingerie held its market leading share.

- In Womenswear, reshaping the buy and more contemporary style resulted in improving performance up until the onset of the crisis. Recent range proliferation has been reversed by 11% in Autumn/Winter and the focus on core strengths and hero categories resulted in some strong uplifts. In denim the market leading position was extended with a sales uplift of over 10% over two years
- The successful launch of Goodmove resulted in increases in share of activewear and growth in sales in this category of 16% in the three months post launch
- Kidswear under a new leadership team started to reduce the breadth of range and focused on stronger casual basics at better value resulting in LFL sales growth in the second half
- Menswear experienced initial problems with size and fit as the range migrated towards a more contemporary style and look, in order to address issues in the shape of buy. However, these issues should be non-recurring and we saw encouraging uplifts for instance in knitwear, the standout category, with LFL sales growth of 5.6%
- Lingerie market share held at 27%, and strong performances from 'Collection' as option count was marginally reduced
- Online performance improved prior to the adverse impact of Covid-19 on trading in March, but not as fast as expected and is being reorganised under new leadership as part of the post Covid-19 programme.

Changing the model in International

The first phase of transforming the International business has been the move away from direct ownership to a franchise and joint venture model, working with strong partners in high potential territories. The focus now is on localising ranges, reducing prices and will be increasingly on developing sales online globally.

International revenue at constant currency decreased 2.5%. Operating profit before adjusting items declined 15.2% to £110.7m, largely as a result of trading conditions in March.

The International online operation brings together operations in 44 markets including direct shipments from the UK, sales on third party marketplaces and sales fulfilled by franchise partners on their own websites. Online retail sales increased 26% to £103m, supported by the launch of 5 new transactional websites and an expansion of ranges on marketplaces.

Over £1bn of actions to reduce costs and manage cash under scenario planning for Covid-19

The Covid-19 crisis started to have an impact on the business in the first week of March with reductions in UK Clothing & Home sales which declined by 6.2% and 26.9% the week after. With the onset of lockdown, the effect on sales, colleagues and customers in both businesses has been dramatic. Clothing sales at the low point dropped to 16% of their level a year ago. Without the resilience of the combined Food and Clothing business model and extraordinary loyalty of colleagues the impact on the business would have been even more profound.

Covid-19 scenario

Our belief has been from the outset that the direct impact of the crisis on sales and stock flow will last through the year and that subsequent demand may be depressed. In a challenging environment to forecast accurately the business is being managed against a 'Covid-19 scenario' created in the early weeks of lockdown, which reflects a very substantial reduction in sales, particularly in Clothing & Home and volatile Food trading in the early months of the crisis. This scenario has been stress tested and even in the event of a longer and deeper impact on trading, the group maintains sufficient liquidity. Although we will be drawing on our available credit facilities in the coming year, under the scenario the business will have significant liquidity headroom throughout the next 18 months. We are pleased to note that in the first 6 weeks of the new year, sales and cash have substantially outperformed the scenario.

The scenario has the following core assumptions relative to our original FY 2020/21 budget:

- UK Clothing & Home, 70% decline in revenue for the four months to July and only a gradual return to original budgeted levels by February 2021 impacting annual revenue by c.£1.5bn
- UK Food, 20% decline in revenue for the four months to July, with revenue level thereafter, impacting annual revenue by c.£0.4bn
- International – Clothing & Home revenue to follow a similar pattern to UK Clothing & Home with a significant decline in April due to closures, impacting annual revenue by c.£0.2bn.

The table below sets out the revenue assumptions in the scenario by quarter showing variance to original budget.

% change to budget	Q1	Q2	Q3	Q4	FY
UK Clothing & Home	-74	-61	-40	-6	**-46**
Food	-20	-6	-	-	**-6**
International	-51	-20	-9	-9	**-22**

In the light of the prolonged partial or total lockdown envisaged in our Covid-19 scenario, we have taken actions totalling c.£1bn relative to original budget to reduce costs and manage cash, while protecting our transformation plans and trading potential.

Substantial cost reduction of c.£500m in FY 2020/21

- Non-essential spending has been reduced at all levels. For instance, we expect Clothing & Home marketing to be down c.£50m for the year, pay levels and recruitment have been frozen saving c.£40m and technology costs will be down c.£40m
- Costs which are largely related to sales volume are being managed down, for instance Clothing & Home logistics down c.£60m, colleague costs post lockdown saving c.£40m and International costs saving c.£30m
- Fixed property related charges are expected to decline with service charge reductions, rent costs and other occupancy cost savings down by c.£20m before any more far reaching changes to the store portfolio
- Government support measures including business rates relief of c.£172m and the job retention scheme of c.£50m will further support this year's outcome.

In addition to these savings we are exploring the potential for other changes, including a more streamlined support centre, changes to leadership structure and negotiations with landlords on commercial terms on lease contracts.

Actions to stabilise cashflow exceeding £500m

In view of the steep increase in working capital resulting from unsold stocks we are experiencing a cash outflow during the lockdown period and expect to draw on our credit facilities in the months ahead. Under the Covid-19 scenario, drawings are estimated to peak in early Autumn at c.£600m, although our current performance would suggest a lower figure. To reduce risk, maximise liquidity, and enable a return to growth in the future steps have been taken to underpin cash flow and reduce working capital.

- Capital expenditure for the year has at this stage been reduced to c.£140m, saving c.£195m in cash outflow in the current year against budget. Only essential and short payback investment focused on growth has been retained such as the new ambient food depot, investment in online fulfilment and site development and the digital & data programme
- Cash management initiatives including in-year deferral of corporation tax, VAT and duty payments and likely savings from lower corporation tax paid for 2020/21
- As previously reported, there will be no final dividend for 2019/20 and the board does not expect to pay a dividend for the current financial year, using the funds instead for balance sheet support in the region of £340m.

Liquidity and additional headroom secured for 2020 and 2021

It was an immediate priority for the company to secure its debt facilities to provide for the cash requirements modelled under the Covid-19 scenario described above and given the risk in an uncertain market to ensure there is downside protection under even more adverse sensitivities. Therefore:

- Formal agreement has been reached with the syndicate of banks providing the £1.1bn revolving facility to remove or substantially relax covenant conditions for the tests arising in September 2020, March 2021, and September 2021
- We have confirmed that we are eligible to access funding under the Government's Covid Corporate Financing Facility and been allocated an issuer limit of £300m
- As a result of these actions we expect to have considerable headroom under our available facilities in FY20/21. While we will experience a cash outflow in the first half of the year as sales reduce and we pay for our previous stock commitments, we would expect this to partly reverse in the second half of the year
- Under the Covid-19 scenario, drawings against our available facilities would be in the range of £300m-£350m by the end of 2020/21
- The cancellation of the final dividend of c.£130m will generate further cash savings after year end.

Experience to date has been ahead of the Covid-19 scenario against which we set strong cost and cash management plans and has outperformed the scenario by over £150m year to date, with actions planned to further improve our cash flow. If sustained, under the Covid-19 scenario we consider the Group well positioned to exit the crisis with limited drawdown against its facilities in 2020/21, with a further saving of the final dividend in the early months of next year. We intend to adopt a dynamic approach to investment using sustained cashflow outperformance to capitalise on strong investment opportunities under our 'never the same again' agenda.

Management of excess Clothing & Home stock

Like all fashion businesses one of the biggest challenges arising from the crisis is the mounting backlog of unsold stock for Spring/Summer 2020 and the forward pipeline of stock already ordered for Autumn/Winter. We closed 2019/20 with Clothing & Home stock of c.£500m and at that time had committed forward orders of £560m scheduled to arrive in the following six months. As the lockdown eases a large proportion of current season stock will remain unsold and demand for many categories is likely to be weak. We have acted quickly to improve this position.

- We have cancelled late summer stock which will no longer be required reducing forward commitment at cost by £100m
- Of the balance of stock and forward orders c.£400m is year-round basic product where M&S trades strongly and which will be carried forward at low risk, albeit creating a short-term increase in stock carrying levels
- Of the unsold seasonal stock, we have made arrangements to hibernate around £200m until Spring 2021, secured storage facilities and planned for the cost of these actions
- We have therefore taken a charge of £145.3m in adjusting items to reflect the cumulative impact of the combined handling, clearance, hibernation and write-off of the stock bulge described above.

The combined impact of lockdown, social distancing and depressed demand is therefore likely to continue through the year.

Never the Same Again

During the crisis we have all had to work differently and customers have rapidly changed habits and may never shop the same way again. We intend to use the learning from the crisis and have drawn up our '*never the same again*' agenda to accelerate transformation.

What we are learning in the crisis

The crisis illustrated how differently we can use technology, run stores, and make decisions fast. In a business with a history of slow cultural change we intend to use these lessons, to ensure that as lockdown eases, we are never the same again in culture, organisation and work habits. For instance:

- A smaller top team has made decisions faster and more efficiently delegating trading and operating management to business unit heads. Numerous working groups, committees and elaborate management processes have been disbanded
- Support colleagues have learnt to improvise their routines at lower cost with no detriment to trading standards
- Our strategic relationship with Microsoft has been highly effective, supported by Teams
- In stores given the need to furlough and redeploy colleagues, valuable lessons have been learnt about our ability to multi-task and increase the pace of work with no adverse impact on service
- Online has for a period been our only significant Clothing business and has illustrated the need to be leaner and more integrated to compete with online pure plays
- The reduction in forward order volumes in Clothing has forced the need to change ranges to buy more of less from fewer core suppliers.

What will never be the same again

Steps have already been taken to ensure that the change of gear of the last few weeks endures, including the following:

- Steve Rowe has already announced changes to the business leadership structure with the formation of a small executive board consisting of the operating MDs together with Katie Bickerstaffe who has now started as Chief Strategy & Transformation Officer, and Eoin Tonge Chief Finance Officer who is arriving in early June
- Central support costs and headcount will be examined at all levels, delegating decisions to business unit and category heads
- In stores, multi-tasking and more flexible management structures will be integrated into the way the business works and manages
- Digital is being consolidated under a single transformation team bringing together data, online development and technology
- The direct to the front-line tech enabled communication combined with increased flexibility in working patterns will become permanent.

Accelerating the transformation programme

- The move to 'trusted value' in Clothing & Home will be accelerated and option count reduction and supplier concentration brought forward
- The reduction in range and shift towards fast moving product at great value necessitated by the crisis will result in a permanent reduction of 20% in Autumn/Winter store option count
- The role of the sourcing offices will be increased so that sampling, ordering and quality issues are dealt with offshore
- A faster, 'near-sourcing' supply chain will be developed, to enable the test and re-order of seasonal fashion lines particularly for the online business
- The replacement of ageing stores already underway and shift in relationships with property providers will accelerate
- The longstanding issues with availability and waste in the Food supply chain will be tackled with the roll out of the Vangarde programme and addressing the contract and relationship with Gist.

Becoming an Online winner in C&H and Food

Customers may never shop the same way again. The sharp growth of online grocery during the crisis is evidence of this as is the strengthening performance of our online Clothing & Home.

The Ocado joint venture relationship is an integral part of our strategy to bring M&S Food into the online and home delivery market which we expect to be even more vibrant as a result of the crisis. Since the formation of the joint venture Ocado Retail has performed strongly and following lockdown, revenue in its most recently reported 9 weeks to 3 May was up 40.4%.

The Food business is now working closely with Ocado Retail to ensure that it has a compelling offer at the switchover from the Waitrose supply contract on September 1st.

- Adding over 6,000 M&S lines to Ocado from September compared with just c.4,000 Waitrose lines which will be removed from the site. We believe M&S has substitutes at the same price or lower, and of the same quality or better, for the majority of the current offer

- Finalising product data sets for online trading, supply chain processes for direct to Customer Fulfilment Centre deliveries and switchover procedures for September
- Negotiating supplier terms and other working arrangements to deliver synergies for M&S starting this year and building to not less than £70m in 36 months from inception of supply
- Agreeing through Ocado new supply agreements with major branded suppliers to improve M&S competitiveness in branded sourcing
- Bringing onto the Ocado Retail platform around 1,600 core Clothing & Home lines per year to be available on the site, providing a further route to market and a customer acquisition channel. The Autumn range will be launched in September with c.850 lines made available.

In addition, in Clothing & Home, the M&S.com and large stores platforms will be opened to complementary guest brands to broaden appeal and increase online growth.

Further strengthening the management team

We have created a significantly renewed management team, to implement the "never the same again" agenda. In the coming weeks the new team will finally take shape with a number of important new arrivals:

- Katie Bickerstaffe has joined as Chief Strategy and Transformation officer
- Eoin Tonge joins as CFO in June
- Richard Price joins as Managing Director, Clothing & Home in July
- Will Smith joins as Property Director in May
- Stephen Langford joins as Head of Clothing & Home online in May
- Helen Milford joins as Store Operations Director in June
- Paul Babbs joins as Head of Clothing & Home supply chain in May
- Craig Lovelace joins as Finance Director of Food in June

Recent trading performance

The first six weeks trading has been ahead of the Covid-19 scenario particularly in Food and online.

- Store sales in UK Clothing & Home were reduced to a trickle due to the closure of space running down (98.8%) year on year at the low point. In store sales of essentials increased from £252k per week in the first week of lockdown to £1.4m per week by week six
- Although online Clothing & Home has traded throughout, demand in the initial weeks for clothing was very low with a gradual uplift since. In the last 3 weeks online sales have been running c.20% up year on year
- Standalone Simply Food stores have traded strongly, up 17% with a positive trend in many Retail park stores which typically have direct access from car parks. In the earliest weeks of lockdown this was offset by lower sales in travel franchise units (c.5% of revenue) and the closure of in-store hospitality and cafes (c.4% of revenue). In the last three weeks overall Food sales have on average been level.
- We also experienced an initial adverse margin mix as demand shifted towards ambient grocery sales, although this is now diminishing.

% change to LY*	6 weeks to 9 May 20[1]
Clothing & Home	-75.0
Food	-8.8
International	-51.3
Group	**-32.7**
Clothing & Home.com	*6.4*
M&S.com	*19.9*
Food ex hospitality	*-4.6*

1. unaudited revenue for the 6 week period from 29 March 2020 to 9 May 2020
*At constant currency

- 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 8.30am on 20 May 2020.

Steve Rowe and David Surdeau will host a Q&A session at 9.30am on 20 May 2020:

Dial in number: +44 (0)20 3695 9267 Room Number: 264382 Pin: 6028

Fixed Income Investor Conference Call:
This will be hosted by David Surdeau, Interim Chief Finance Officer, at 2pm on 20 May 2020:

Dial in number: +44 (0)20 8089 4223 Access code: 748331

A recording of this call will be available until pm on 5pm on 30th May 2020:

Dial in number: +44 (0)20 7660 0134 Access code: 3811201

FINANCIAL REVIEW

Group revenue in growth in Q4, prior to Covid-19 effect in March

Q4 group revenue declined 2.6% at constant currency largely reflecting the increasingly adverse impact of Covid-19 on revenue in March relative to forecast. For the 8 weeks ended 22 February group revenue increased 2.8% with UK Food LFL revenue up 3.7% with strengthening volume growth and UK C&H LFL revenue up 0.3%, driven by stronger trends at M&S.com. International growth in the 8-week period largely reflected the timing of shipments as franchise partners called summer product earlier than last year.

% change at constant currency	FY	Q1	Q2	Q3	Q4	Jan/Feb
Food	2.1	0.8	1.5	1.5	4.8	4.1
Like-for-like	1.9	0.4	1.4	1.4	4.6	3.7
- Clothing & Home	-8.3	-7.8	-8.2	-3.8	-15.7	-1.7
Like-for-like	-6.2	-5.5	-5.9	-1.8	-13.8	0.3
- Total UK sales	-1.8	-2.3	-2.2	-0.6	-2.2	2.2
Like-for-like	-1.1	-1.8	-1.4	0.1	-1.6	2.6
- International	-2.5	2.8	-4.4	-1.8	-6.4	8.9
Total Group	**-1.8**	**-1.9**	**-2.5**	**-0.7**	**-2.6**	**2.8**
Total M&S.com (Memo only)	1.2	0.8	-0.4	2.5	1.3	11.1
UK Clothing & Home online (Memo only)	(0.2)	(0.5)	(0.6)	1.1	(1.3)	12.1

See glossary for definitions. Prior year revenue has been restated for the reclassification of localised websites from Clothing & Home to International.

Full Year Financial Summary

52 weeks ended	28 March 20 £m	30 March 19 Restated[1] £m	*Change* %
Group revenue	**10,181.9**	**10,377.3**	***-1.9***
UK Food	6,028.2	5,903.4	*2.1*
UK Clothing and Home	3,209.1	3,499.8	*-8.3*
International	944.6	*974.1*	*-3.0*
Group operating profit before adjusting items[2]	**590.7**	**725.6**	***-18.6***
UK Food	236.7	212.9	*11.2*
UK Clothing and Home	223.9	355.2	*-37.0*
International	110.7	130.5	*-15.2*
Other	19.4	27.0	*-28.1*
Interest on leases	(133.4)	(147.2)	*9.4*
Net financial Interest	(54.2)	(66.7)	*18.7*
Profit before tax & adjusting items	**403.1**	**511.7**	***-21.2***
Adjusting items	(335.9)	(427.5)	*21.4*
Profit before tax	**67.2**	**84.2**	***-20.2***
Profit after tax	27.4	45.3	*-39.5*
Adjusted basic earnings per share[2]	16.7p	23.7p	*-29.5*
Basic earnings per share[2]	1.3p	2.5p	*-48.0*
Dividend per share[2]	3.9p	13.3p	*-70.7*
Net debt	**£4.03bn**	**£4.08bn**	***-1.2***

Notes

1. Prior year comparatives have been restated for the adoption of IFRS 16 'Leases'. Refer to note 17 of the financial statements for detailed restatement tables and associated commentary.

2. Earnings per share and Dividend per share have been restated to reflect the bonus factor adjustment resulting from the rights issue (refer to notes 1 and 6 of the financial statements for further information).

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

Covid-19 Impact

Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales, including an adverse revenue impact of c.£83.5m in March which we largely attribute to Covid-19. Group statutory profit before tax declined 20.2% to £67.2m. This was largely driven by a decline in Clothing & Home operating profit as a result of lower sales. Statutory profit before tax includes an estimated total impact of £264.7m for Covid-19. This comprises a trading impact of £51.9m in March which we largely attribute to the pandemic, in addition to £212.8m of charges in adjusting items which includes the recognition of additional inventory provisions of £157.0m and the impairment of stores and goodwill of £49.2m.

As part of its scenario planning to mitigate the effects of Covid-19 the Group is planning a significant reduction in costs and a number of cash management initiatives, which are detailed in the Covid-19 Scenario section of this report.

Reporting of accountable businesses

During the year, the Group completed a comprehensive review of the way operating costs are allocated, allowing management to review the operating profit of each business. As a result, the Group now recognises three operating segments, being UK Clothing & Home, UK Food and International (previously UK and International). This allows the financial information to align to the way the business is managed and holds leadership appropriately to account. The review has resulted in a reallocation of £13.3m of central costs from the previous UK segment to International (£12.6m) and M&S Bank (£0.7m). In addition, certain M&S.com flagship websites, which last year generated £37.5m of revenue and £2.9m of operating profit before adjusting items have been reclassified from UK Clothing & Home to International.

UK: Food

52 weeks ended	28 March 20 £m	30 March 19 Restated £m	*Change* *%*
Revenue	6,028.2	5,903.4	*2.1*
Operating profit before adjusting items	**236.7**	**212.9**	***11.2***
Operating profit margin	*3.9%*	*3.6%*	

UK Food revenue increased 2.1% and operating profit before adjusting items increased 11.2%, due to lower costs. We estimate a positive effect on March revenue of £17.7m and operating profit of £3.7m, largely related to Covid-19.

Like-for-like revenue was up 1.9%. Performance was particularly strong in quarter four with growth of 3.7% in the two months to February before increased demand related to Covid-19 in March. As we executed our strategy to broaden appeal and make M&S more accessible to more customers by removing promotions and lowering prices, total full year volumes were up 3.3%. As expected, the contribution from new space was largely offset by full line store closures.

The table below sets out the drivers of the movement in operating profit margin before adjusting items, which increased 0.3%:

	%
1819 operating profit margin	**3.6**
Gross margin	-0.5
Store staffing	0.3
Other store costs	0.3
Distribution and warehousing	-0.2
Central costs	0.4
1920 operating profit margin	**3.9**

Gross margin decreased 50bps which was more than expected, as continued investment in price and inflationary headwinds were not fully offset by reduced promotions and the programme to lower costs.

The reduction in gross margin was more than offset by operating costs, which reduced overall and as a percent of sales. Store staffing and other store costs were slightly down as efficiencies more than offset the pay review and cost inflation. Distribution costs increased largely due to cost inflation, impacting margin. The reduction in central costs was largely driven by lower depreciation, partly due to a system write off in the prior year.

UK: Clothing & Home

52 weeks ended	28 March 20 £m	30 March 19 Restated £m	*Change* *%*
Revenue	3,209.1	3,499.8	*-8.3*
Operating profit before adjusting items	**223.9**	**355.2**	***-37.0***
Operating profit margin	*7.0%*	*10.1%*	

UK Clothing & Home revenue declined 8.3% and operating profit before adjusting items was down 37.0%. We estimate an adverse effect on March revenue of £78.1m and operating profit of £43.8m, largely related to Covid-19.

Like for like revenue declined 6.2%, of which an estimated 2.2% related to the adverse movement in March, largely due to Covid-19. After a disappointing first half, revenue performance both in store and online began to improve in the second half, supported by better availability and growth in key categories in Womenswear and Kidswear. Menswear experienced some initial problems as the range moved towards a more contemporary style and fit.

The table below sets out the drivers of the movement in Clothing & Home operating profit margin before adjusting items which was down 3.1%:

	%
1819 operating profit margin	**10.1**
Gross margin	-1.2
Store staffing	-0.5
Other store costs	-0.6
Distribution and warehousing	-0.3
Central costs	-0.5
1920 operating profit margin	**7.0**

Gross margin decreased 120bps which was more than planned, as a result of sourcing headwinds including raw materials and labour and the adverse impact of higher than expected promotional sales and shorter clearance periods.

Operating costs were down in all areas, although increased as a percent of sales. The decline in store staffing costs was largely driven by efficiency programmes, which more than offset the pay review. Other store costs were driven by lower depreciation and cost savings such as the move to a single maintenance vendor. In distribution, reduced costs from the move to a single tier network and in our online operations more than offset inflation and channel shift. Central cost declines were largely driven by lower depreciation with efficiencies reinvested in increased marketing and the build out of digital operations.

M&S Bank and services

M&S Bank and services income before adjusting items was down £10.2m to £16.8m. This was predominantly the result of an increase in bad debt provisioning due to a higher risk of customer default. M&S Bank income after adjusting items decreased £1.9m to £4.2m.

Ocado Retail

On 5 August 2019, the acquisition of 50% of Ocado Retail was completed. Ocado Retail Limited is 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.

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

The M&S share of Ocado Retail Limited profit for the period from acquisition to 1 March 2020 is £2.6m. Summarised financial information in respect of Ocado Retail Limited is below:

	7 months to 1 March 20 £m
Revenue	979.7
EBITDA before exceptional items	25.7
Operating profit	10.9
Profit after tax	5.1
M&S 50% share of profit	**2.6**

On 6 May 2020, Ocado Retail Limited reported 40.4% revenue growth for the 9 weeks to 3 May 2020. For further detail on Ocado Retail Limited please see note 18 to the financial information.

International

52 weeks ended Revenue	28 March 20 £m	30 March 19 Restated £m	*Change* *%*	*Change* *CC %*
Franchise	392.6	409.2	*-4.1*	-3.8
Owned	552.0	564.9	*-2.3*	*-1.6*
Total	**944.6**	**974.1**	*-3.0*	*-2.5*
Operating profit before adjusting items				
Franchise	64.9	72.3	*-10.2*	
Owned	56.7	70.8	*-19.9*	
Corporate costs	(10.9)	(12.6)	*13.5*	
Total	**110.7**	**130.5**	***-15.2***	

International revenue decreased 2.5% at constant currency with operating profit before adjusting items down 15.2%. We estimate an adverse effect on March revenue of £23.1m and operating profit of £11.8m, largely related to Covid-19.

In owned markets, a weak trading performance in the Republic of Ireland was partly offset by continued growth in India driven by 17 new store openings, although opening costs impacted profit. Franchise shipments declined as a result of investment in lower prices, partner driven stock efficiencies and political unrest in Hong Kong, although trends improved in the second half.

Net finance cost

52 weeks ended	28 Mar 20 £m	30 Mar 19 Restated £m	Change £m
Interest payable	(80.5)	(80.3)	(0.2)
Interest income	8.6	8.0	0.6
Net interest payable	**(71.9)**	**(72.3)**	**0.4**
Pension net finance income	23.6	25.8	(2.2)
Unwind of discount on Scottish Limited Partnership liability	(6.9)	(8.8)	1.9
Unwind of discount on provisions	(4.9)	(7.9)	3.0
Ineffectiveness on financial instruments	5.9	(3.5)	9.4
Net financial interest	**(54.2)**	**(66.7)**	**12.5**
Net interest payable on lease liabilities	**(133.4)**	**(147.2)**	**13.8**
Net finance costs	**(187.6)**	**(213.9)**	**26.3**

Net finance costs decreased £26.3m to £187.6m. This was primarily due a reduction in net lease financing costs and the reversal of ineffectiveness on a currency swap. In July we issued a £250m bond partially refinancing a £400m redemption in December. In March 2020, in response to Covid-19 the group's long-term credit rating was lowered by Moody's and Standard & Poor's to Ba1/BB+ respectively. This should result in an additional c.£15m of annual interest costs, payable following the next coupon payment, on bonds issued under the Group's EMTN programme.

Group profit before tax

Group profit before tax declined 20.2% to £67.2m. This includes adjusting items of £335.9m.

Group profit before tax & adjusting items

Group profit before tax and adjusting items was £403.1m, down 21.2% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March. The profit decrease was largely due to the decline in Clothing & Home operating profit.

Adjustments to profit before tax

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

52 weeks ended	*Covid -19 related**	**28 Mar 20**	**30 Mar 19 Restated**	**Change**
		£m	**£m**	**£m**
Strategic programmes				
– UK store estate	*(11.6)*	(29.3)	(216.5)	187.2
– Organisation	-	(13.8)	(4.9)	(8.9)
– Operational transformation	-	(11.6)	(16.4)	4.8
– UK logistics	-	(10.2)	(14.3)	4.1
– Changes to pay and pensions	-	(2.9)	(6.2)	3.3
– International store closures and impairments	-	(2.2)	(5.3)	3.1
– IT restructure	-	(0.4)	(15.6)	15.2
Directly attributable to Covid-19	*(163.6)*	(163.6)	-	(163.6)
Store impairments and other property charges	*(24.2)*	(78.5)	(103.5)	25.0
Goodwill impairment – per una	*(13.4)*	(13.4)	-	(13.4)
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	-	(12.6)	(20.9)	8.3
Amortisation and fair value arising from the investment in Ocado Retail	-	(16.8)	-	(16.8)
Establishing the Ocado JV	-	(1.2)	(3.4)	2.2
Remeasurement of contingent consideration including discount unwind	-	(2.9)	-	(2.9)
Other	-	23.5	-	23.5
GMP and other pension equalisation	-	-	(20.5)	20.5
Adjusting items	*(212.8)*	**(335.9)**	**(427.5)**	91.6

*Included within the total

A number of charges have been recognised in the period relating to the implementation of previously announced strategic programmes including:

- A charge of £29.3m (of which £11.6m represents the directly attributable incremental impairment due to Covid-19) in relation to store closures identified as part of transformation plans reflecting an updated view of latest store closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years
- A charge of £13.8m in relation to the redundancy costs associated with the review of the support centre organisational structure and an updated view of ongoing costs associated with centralising the Group's London support centres
- A charge of £11.6m in relation to the transformation and simplification of supply chain and operations across Clothing & Home and Food
- A net charge of £10.2m as we continue to transition to a single tier Clothing & Home UK distribution network, including the cost of closure of two distribution centres. In February 2020 next steps were announced with a further two sites expected to close in the next two years, resulting in an expected additional charge of c.£13m.

Store impairment and other property charges of £78.5m (including £24.2m representing the directly attributable incremental impairment due to Covid-19) were recognised. In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme).

Charges of £12.6m have been incurred relating to M&S Bank, primarily relating to the insurance mis-selling provision, as well as further charges recognised in relation to forward economic guidance provisions recognised as a result of Covid-19. The Group's share of the total insurance mis-selling provisions of £327.6m exceeds the total offset against profit share of £242.7m to date. Further costs of c.£100m, predominantly relating to the estimated mis-selling liability are expected and will be deducted from the Group's future profit share from M&S Bank.

A charge of £16.8m has been recognised predominantly related to the amortisation of intangible assets acquired on the purchase of our share in Ocado Retail.

A credit of £23.5m has been recognised in the period relating to the release of a provision for employee related matters recognised in FY 17/18 following settlement in the period for £0.6m.

Covid-19 adjusting items

Following the declaration by the World Health Organisation of the Covid-19 global pandemic and the subsequent UK and International government restrictions, Clothing and Home has been unable to trade from full line stores, M&S outlet stores and a number of Food franchises have temporarily closed and trade in Food has had to continue with social distancing measures in place. As a result, charges of £212.8m have been recognised relating to the Covid-19 pandemic. The charges relate to stock provisioning, impairments of intangible assets, property, plant and equipment and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

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

- Stock provisioning £157.0m
- Incremental impairments of intangibles and PP&E £49.2m
- Onerous contract provisions, cancellations, one-off costs £6.6m

Following a detailed assessment of all retail inventory, a charge of £157.0m has been recognised (C&H: £145.3m; Food: £6.0m and International: £5.7m). The provision relates to items from previous seasons which are unlikely to be saleable when stores reopen; items in the summer sale that are likely to be cleared below cost and the cost associated with hibernating stock to Spring/Summer 2021. The provision in Food includes charges related to unsaleable seasonal goods as a result of the lockdown of activity in late March.

As a direct result of the Covid-19 pandemic, following a reperformance of all impairment assessments using the cash flows in the Covid-19 scenario, incremental impairment charges have been recognised of £49.2m (Store impairments: £24.2m, per una: £13.4m and UK store estate programme: £11.6m).

£6.6m of charges have been recognised relating to onerous contracts and other provisions, cancellation charges and impairment and write-off of intangible assets in the course of construction following project cancellations.

Taxation

The effective tax rate on profit before tax and adjusting items was 20.7% (last year 20.7%). This was lower than the expected effective tax rate due to an increase in the estimated deferred tax assets of the Group which resulted from a change to the previously enacted UK corporate tax rate of 17% back to 19%. The effect of this increase is not expected to impact future years. The effective tax rate is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 59.3% (last year 46.2%) due to the impact of disallowable adjusting items.

Earnings per share

Basic earnings per share were 1.3p (last year 2.5p), due to the decrease in profit year-on-year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,894.9m (last year restated for the bonus factor related to the rights issue (1,698.1m), reflecting the issuance of 325m shares following the completion of the rights issue.

Adjusted basic earnings per share decreased 29.5% to 16.7p largely due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

Capital expenditure

52 weeks ended	28 Mar 20 £m	30 Mar 19 £m	Change £m
UK store remodelling	60.3	26.0	34.3
New UK stores	33.3	40.1	(6.8)
International	12.3	11.0	1.3
Supply chain	39.2	48.7	(9.5)
IT & M&S.com	84.5	88.2	(3.7)
Property asset replacement	102.4	69.0	33.4
Capital expenditure before disposals	**332.0**	**283.0**	**49.0**
Proceeds from property disposals	(2.7)	(48.1)	45.4
Capital expenditure	**329.3**	**234.9**	**94.4**

Group capital expenditure before disposals increased £49.0m to £332.0m.

UK store remodelling spend increased £34.3m largely reflecting the investment in five 'test and learn' trial stores. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Supply chain expenditure reflects investment in the expansion of the Bradford distribution centre. Spend has reduced due to the significant prior year investment in the Welham Green national distribution centre.

IT and M&S.com spend decreased largely due to the completion of the technology transformation programme. Property asset replacement increased £33.4m due to the initiation of an asset replacement programme in stores.

Statement of financial position

Net assets were £3,708.5m at the year end, an increase of 50.2% on last year largely due to the investment in Ocado and the increase in the net retirement benefit surplus.

Cash flow & net debt

52 weeks ended	28 Mar 20 £m	30 Mar 19 Restated £m	Change £m
Adjusted operating profit	**590.7**	**725.6**	**(134.9)**
Depreciation and amortisation before adjusting items	632.5	702.6	(70.1)
Cash lease payments	(335.7)	(312.7)	(23.0)
Working capital	(48.5)	61.1	(109.6)
Defined benefit scheme pension funding	(37.9)	(37.9)	-
Capex and disposals	(325.9)	(264.8)	(61.1)
Financial interest and taxation	(171.1)	(184.7)	13.6
Investment in associate Ocado	(577.8)	-	(577.8)
Investment in Joint Venture	(2.5)	(2.5)	-
Employee related share transactions	9.7	14.3	(4.6)
Proceeds from rights issue net of costs	574.4	-	574.4
Share of profit from associate	(2.6)	-	(2.6)
Cash received on refinancing of derivatives	7.7	-	7.7
Adjusting items outflow	(88.0)	(120.2)	32.2
Free cash flow	**225.0**	**580.8**	**(355.8)**
Dividends paid	(191.1)	(303.5)	112.4
Free cash flow after shareholder returns	**33.9**	**277.3**	**(243.4)**
Decrease in lease obligations	201.4	170.1	31.3
New lease commitments	(204.1)	(150.4)	(53.7)
Opening net debt	**(4,075.4)**	**(4,369.4)**	**294.0**
Exchange and other non-cash movements	19.0	(3.0)	22.0
Closing net debt	**(4,025.2)**	**(4,075.4)**	**50.2**

The business generated free cash flow before shareholder returns of £225.0m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure. The working capital outflow relative to last year was largely a result of the timing of payments and increased inventory. This follows a planned reduction in inventories in the prior year, and higher than normal year-end inventory levels as a result of additional Food to meet stockpiling demand and lower than expected Clothing & Home sales in March.

Higher capital expenditure reflects the spend on 'test and learn' stores and the asset replacement programme in stores.

Defined benefit scheme pension funding of £37.9m largely reflects the second limited partnership interest distribution to the pension scheme.

Adjusting items in cash flow during the year were £88.0m. These included £22.7m in relation to the store closure programme, £20.9m for organisational change, £15.4m for operational transformation, £12.6m for M&S Bank, £4.3m for the technology transformation programme and £3.7m relating to distribution and warehousing.

During the year, a Rights Issue was completed, raising proceeds net of costs of £574.4m, for the purpose of funding the acquisition of 50% of Ocado Retail which completed on 5 August 2019. The cash paid for the investment in Ocado Retail and associated transaction costs of £577.8m does not include the

adjustment to the consideration on the finalisation of the completion statement currently held as a receivable of £11.5m.
After the payment of the final dividend from 2018/19, the interim dividend for 2019/20 and the reduction in outstanding discounted lease commitments due to capital repayments, net debt was down £50.2m from the start of the financial year.

Dividend

We paid an interim dividend 3.9p on 10 January 2020. The board has announced the decision not to pay a final dividend for 2019/20 and that it does not anticipate paying a dividend for the 2020/21 financial year.

Pension

At 28 March 2020, the IAS 19 net retirement benefit surplus was £1,902.6m (£914.3m at 30 March 2019). The increase in the surplus is mainly due to a significant increase in longer dated credit spreads driven by market changes linked to Covid-19 resulting in a reduction in scheme liabilities. Additionally, the return on scheme assets increased due to a fall in gilt yields. It is currently anticipated that the increase in surplus will give rise to an increased pension credit next year.

In April 2019, the Scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Scheme has now, in total, hedged its longevity exposure for around two thirds of the 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 Company's exposure to changes in longevity, interest rates, inflation and other factors.

COVID-19 Response

The Covid-19 crisis started to impact the business in the first week of March with reductions in Clothing & Home sales across all our markets. While Food sales were resilient, we did not experience the stockpiling performance of the supermarkets. With the onset of lockdown, the effect on sales, costs, colleagues and customers in both businesses has been dramatic. Clothing sales at the low point dropped to 16% of their level a year ago.

Without the resilience of the combined food and clothing business model and extraordinary loyalty of colleagues for which we are grateful, the impact on the business could have threatened its existence.

Supporting colleagues

M&S has a longstanding deeply embedded colleague culture and loyal workforce and we have been deeply grateful to our hard-working colleagues who have supported the business throughout. Meanwhile we have taken measures to ensure safe working and support vulnerable colleagues some of which has resulted in higher operating costs:

- Colleagues needing to self-isolate, including c.3,000 required to shield themselves for 12 weeks, have been able to do so on full pay. Prior to the furlough scheme absenteeism increased to nearly 20% as schools closed and colleagues opted to stay home mostly to look after family members
- Circa 27,000 colleagues have been furloughed with pay topped up by the company through a largely voluntary approach to enable colleagues with caring commitments to step away from the business. This includes c.1,000 support centre colleagues who have been furloughed

- Store colleagues remaining at work supporting the business have been rewarded with 15% bonus pay for the duration of the lockdown period
- Colleague safety has been enhanced with time allocated in shifts for handwashing, sneeze guards installed at all tills, hand sanitiser in colleague areas, social distancing measures introduced at all sites and voluntary provision of visors, although take up on these has been low
- Based on anecdotal evidence we do not believe there has been a higher incidence of infection amongst our colleagues than the national average. However over twenty colleagues have been hospitalised and at least two have died from Covid-19 related disease.

Supporting customers

From the onset of lockdown our Clothing areas in stores have been closed although we have been able to sell a trickle of clothing essentials as part of the Food store trading. We have been able to maintain online trading throughout and kept the vast majority of our food halls open to support families and maintain trade.

- 560 out of 566 of our food halls have remained open throughout the lockdown period with the closed stores being office work locations. In addition, many transport franchise stores have been closed and office work locations together with a few shopping centre stores have been closed because of minimal customer flow

- Online Clothing & Home has traded throughout, following implementation of extra safe working procedures at our automated fulfilment facility at Castle Donington supplying families at home with essential clothing, bed linen and household equipment

- Social distancing in stores has been successfully implemented, supported through extra signage and queue greeters, and in the main customer compliance has been excellent. Extra safety precautions include additional deep cleaning of stores, regular cleaning of baskets and trolleys, expansion of Mobile Pay Go and encouragement to pay via contactless

- M&S was one of the first retailers to launch special shopping hours for health and social care workers plus separate shopping hours for elderly and vulnerable customers and first to market with an e-card to allow volunteers to shop for people required to shield at home

- The temporary "food boxes" have been launched online, prioritised for elderly and emergency care customers with rapid customer take up. In addition, we launched dedicated access to M&S Banking lines for time pressed NHS workers.

Supporting communities

Along with other national retailers M&S launched a wide-ranging suite of donations and services to the community focused on emergency workers and the most vulnerable. These included myriad local initiatives supporting hospitals and customers who could not access food together with national programmes including:

- The M&S Neighbourly Covid-19 Community fund with grants given to over 500 charities and community groups across the UK
- Supporting the National Emergencies Trust & NHS Charities with corporate and local donations
- Over a million meals donated through our Neighbourly food redistribution app in the first month of lockdown
- Patient packs delivered to NHS hospitals in cities across the UK and specific support packs for numerous hospitals such as scrubs to NHS Derbyshire, with thousands of partnerships between stores and their communities and NHS trusts

- Twice-weekly free food delivery service for the NHS workers at M&S's longstanding hospital partners at St Mary's and Great Ormond Street Hospital
- Over 65,000 t-shirts and over 400,000 bags for life sold in support of NHS Charities supported with online marketing and social media
- Numerous acts of personal kindness by store colleagues to help vulnerable customers unable to visit our stores.

Supporting suppliers

The M&S business model depends on very close and longstanding relationships with suppliers who in return support our quality requirements and fuel product development and innovation. It has therefore been important to invest where possible to ensure continuity of the critical supply base in some cases at the cost of working capital. We have therefore agreed to honour all outstanding commitments to product that has been manufactured or part manufactured and committed to pay for fabric commitments even though some will not be immediately required. In food we have moved to immediate payment to very small suppliers where needed and launched a campaign to back British farm suppliers.

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 or a downturn in the retail or financial services industries; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. For further information regarding risks to Marks & Spencer's business, please consult the risk management section of the 2020 Annual Report.

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.

Consolidated income statement

		52 weeks ended 28 March 2020			52 weeks ended 30 March 2019		
	Notes	Results before adjusting items £m	Adjusting items £m	Total £m	Results before adjusting items £m	Adjusting items £m	Total £m
Revenue	2	10,181.9	-	10,181.9	10,377.3	-	10,377.3
Share of result in associate - Ocado Retail	3	2.6	(16.8)	(14.2)	-	-	-
Operating profit	2, 3	590.7	(335.9)	254.8	725.6	(427.5)	298.1
Finance income	3, 4	44.0	2.9	46.9	34.8	-	34.8
Finance costs	3, 4	(231.6)	(2.9)	(234.5)	(248.7)	-	(248.7)
Profit before tax	3	403.1	(335.9)	67.2	511.7	(427.5)	84.2
Income tax expense	5	(83.4)	43.6	(39.8)	(106.0)	67.1	(38.9)
Profit for the year		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Attributable to:							
Owners of the parent		316.0	(292.3)	23.7	402.1	(360.4)	41.7
Non-controlling interests		3.7	-	3.7	3.6	-	3.6
		319.7	(292.3)	27.4	405.7	(360.4)	45.3
Basic earnings per share	6	16.7p		1.3p	23.7p		2.5p
Diluted earnings per	6	16.6p		1.2p	23.6p		2.4p

Comparative information has been restated for the impact of IFRS 16 (see note 17).

Consolidated statement of comprehensive income

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Profit for the year		27.4	45.3
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	8	927.9	(79.9)
Tax (charge)/credit on retirement benefit schemes		(196.7)	14.0
		731.2	(65.9)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		5.1	(14.6)
- reclassified and reported in profit and loss		2.9	-
Cash flow hedges			
- fair value movements recognised in other comprehensive income		140.3	132.0
- reclassified and reported in profit or loss		(18.4)	(16.0)
Tax charge on cash flow hedges		(27.0)	(19.0)
		102.9	82.4
Other comprehensive income for the year, net of tax		834.1	16.5
Total comprehensive income for the year		861.5	61.8
Attributable to:			
Owners of the parent		857.8	58.2
Non-controlling interests		3.7	3.6
		861.5	61.8

Comparative information has been restated for the impact of IFRS 16 (see note 17).

Consolidated statement of financial position

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

Comparative information has been restated for the impact of IFRS 16 (see note 17).

Consolidated statement of changes in equity

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

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

Comparative information has been restated for the impact of IFRS 16 (see note 17).

Consolidated statement of cash flows

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	14	1,064.7	1,350.4
Income tax paid		(91.6)	(105.7)
Net cash inflow from operating activities		973.1	1,244.7
Cash flows from investing activities			
Proceeds on property disposals		2.7	48.1
Purchase of property, plant and equipment		(251.0)	(217.8)
Purchase of intangible assets		(77.6)	(95.1)
Sale/(purchase) of current financial assets		130.1	(128.1)
Purchase of investments in associates and joint ventures[1]	18	(580.3)	(2.5)
Interest received		10.4	7.4
Net cash used in investing activities		(765.7)	(388.0)
Cash flows from financing activities			
Interest paid[2]		(224.2)	(229.0)
Repayment of borrowings		-	(46.7)
Issuance of Medium Term Notes		250.0	1.4
Redemption of Medium Term Notes		(400.0)	-
Repayment of lease liabilities		(201.4)	(170.1)
Payment of liability to the Marks & Spencer UK Pension Scheme		(63.5)	(61.6)
Equity dividends paid	7	(191.1)	(303.5)
Shares issued on exercise of employee share options		0.1	0.6
Proceeds from rights issue net of costs		574.4	-
Purchase of own shares by employee trust		(8.9)	(5.5)
Cash received from settlement of derivatives		7.7	-
Net cash used in financing activities		(256.9)	(814.4)
Net cash (outflow)/inflow from activities		(49.5)	42.3
Effects of exchange rate changes		0.5	(0.2)
Opening net cash		213.1	171.0
Closing net cash	15	164.1	213.1

[1]Includes investment in Ocado of £577.8m (last year: £nil) and Founders Factory £2.5m (last year: £2.5m). In addition to the £560.9m cash paid to Ocado per note 18, £11.5m is included within trade and other receivables as at 28 March 2020 following finalisation of the transaction. In addition, there are £5.4m transaction costs paid during the year.

[2]Includes interest paid on the partnership liability to the Marks and Spencer UK Pension Scheme of £8.4m (last year: £10.3m) and interest paid on lease liabilities of £134.3m (last year: £142.6m (restated)).

Comparative information has been restated for the impact of IFRS 16 (see note 17).

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 28 March 2020 or 30 March 2019. The financial information for the year ended 30 March 2019 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 audit of the statutory accounts for the year ended 28 March 2020 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and 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 International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. 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 30 March 2019. With the exception of the implementation of IFRS 16 Leases as explained below and in note 17, no changes have been made to the Group's accounting policies in the year ended 28 March 2020. The Company's full financial statements will be prepared in compliance with IFRS Standards.

Going concern basis
Based on the Group's cash flow forecasts and projections, including modelling a Covid-19 scenario, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing its financial statements.

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

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

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

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

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

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

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

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

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

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

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

1 Accounting Policies continued

New accounting standards adopted by the Group

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

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

The Group also elected to adopt the following amendments early:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is described in note 17. The impact of early adopting the amendments to IFRS 9 as a result of interest rate benchmark reform is described in note 12. The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

New accounting standards in issue but not yet effective

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

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

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

Alternative Performance Measures

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

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

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

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

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

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

1 Accounting Policies continued

- Directly attributable gains and expenses resulting from the Covid-19 pandemic. [2]
- Other adjusting items include credits recognised in relation to potential liabilities for employee-related matters previously recognised within adjusting items.

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

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

Note 3 provides further details on current year adjusting items and their adherence to Group policy.

UK defined benefit pension surplus

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

Assessment of control

The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate (see note 18). This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. These rights include determinative rights currently held by Ocado Group Plc, after agreed dispute-resolution procedures, in relation to the approval of the Ocado Retail Limited business plan and budget and the appointment and removal of Ocado Retail Limited's Chief Executive Officer. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

Determining the lease term

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

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

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

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

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

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

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

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

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

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

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

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

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 3 and 11 for further detail.

1 Accounting Policies continued

Useful lives and residual values of property, plant and equipment and intangibles
Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 10 and 11 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

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

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles particularly where the store carrying value exceeds fair value less cost to sell. See notes 10 and 11 for further details on the Group's assumptions and associated sensitivities.

Inventory provisioning
The Group sells Clothing & Home merchandise that are subject to changing consumer demands and seasonal trends. As a direct result of the restrictions on "non-essential" trade imposed in response to the Covid-19 pandemic, our ability to sell through existing Clothing & Home stock has been significantly impacted. Accordingly, the Group has had to review its inventory levels in light of future expectations of sell-through, impacting the recoverability of the cost of inventories and the level of provisioning required. When calculating inventory provisions, management has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. See note 3 for further details on the assumptions and associated sensitivities.

Post-retirement benefits
The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year-end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. Management has considered reasonably possible changes in these key sources of estimation uncertainty. A further change of 10% in private equity values would change asset values by £14.0m and a 0.5% change in secure income assets would change asset values by £3.0m. See note 8 for further details on the impact of changes in the key assumptions and estimates.

Fair value of consideration and contingent consideration
As part of the investment in Ocado Retail Limited (see note 18), contingent consideration with an estimated fair value of £202.4m has been recognised in the period. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is £187.5m plus interest of 4%.

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

2 Segmental Information

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

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

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

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

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

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

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

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

2 Segmental Information continued

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

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

1 Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 17).
2 The reporting of results from certain international M&S.com websites has been transferred from UK Clothing & Home (previously UK) to International to align reporting with the day-to-day management of these operations, resulting in revenue of £37.5m and operating profit of £2.9m being transferred.
3 International operating profit was previously reported as £127.0m and has been restated to £130.5m due to the adoption of IFRS 16 (increased by £13.2m), a reallocation of central costs between the Group's reportable segments (decreased by £12.6m) and the impact of footnote 2 (increased by £2.9m).
4 Operating profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Other segmental information

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

1 Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 17).
2 These costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

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

3 Adjusting items

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

	Notes	2020 £m	2019 (Restated) £m
Strategic programmes - UK store estate[1]	11	29.3	216.5
Strategic programmes – Organisation	11	13.8	4.9
Strategic programmes - Operational transformation		11.6	16.4
Strategic programmes - UK logistics	11	10.2	14.3
Strategic programmes - Changes to pay and pensions		2.9	6.2
Strategic programmes - International store closures and impairments		2.2	5.3
Strategic programmes - IT restructure		0.4	15.6
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1]		163.6	-
Store impairments and other property charges[1]	11	78.5	103.5
Goodwill impairment - per una[1]	10	13.4	-
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		12.6	20.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		16.8	-
Establishing the investment in Ocado Retail Limited		1.2	3.4
Remeasurement of contingent consideration including discount unwind		2.9	-
Other		(23.5)	-
GMP and other pension equalisation	8	-	20.5
Adjustments to profit before tax[2]		**335.9**	427.5

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

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

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

Strategic programmes - UK store estate (£29.3m)

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

The Group has recognised a charge of £29.3m (of which, £11.6m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) in the period in relation to those stores identified as part of its transformation plans to make the store estate fit for the future. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs, as well as revised cash flows to reflect the impact of Covid-19. The charge primarily relates to impairment of buildings and fixtures and fittings and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to note 11 for further detail on these charges.

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

3 Adjusting items continued

Strategic programmes – Organisation (£13.8m)

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

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

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

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

Strategic programmes – Operational transformation (£11.6m)

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

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

Strategic programmes – IT restructure (£0.4m)

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

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

Strategic programmes – UK logistics (£10.2m)

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

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

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

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

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

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

3 Adjusting items continued

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

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

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

Store impairments and other property charges (£78.5m)

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

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 11 for further details on the impairments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In March 2020, following the declaration by the World Health Organisation of the Covid-19 global pandemic and subsequent UK government restrictions, while the Group has been able to continue to trade its Food business (albeit with social-distancing rules in place), Clothing & Home has been unable to trade from full-line stores, with any sales therefore predominantly coming from online sales and Click & Collect in stores. All M&S Outlet stores and a number of Food franchise stores have also closed. Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast paced changes taking place across the retail sector, the Group expects to see significant volatility and business disruption, reducing the expected performance in 2020/21. As set out in the basis of preparation in note 1, the Board has approved a Covid-19 scenario budget and three-year plan, which assumes that the current government guidelines continue in place for a period of at least four months, and results in a significant decline in sales for the remainder of 2020/21.

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

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

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

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

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

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

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

Refer to notes 10 and 11 for further details on the impairment charges relating to per una goodwill and stores.

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

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

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

3 Adjusting items continued

Other (£23.5m credit)

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

4 Finance income/costs

	2020 £m	2019 (Restated) £m
Bank and other interest receivable	8.6	7.6
Other finance income	5.9	0.4
Pension net finance income	23.6	25.8
Interest income of subleases	5.9	1.0
Finance income before adjusting items	44.0	34.8
Interest on bank borrowings	-	(0.6)
Interest payable on syndicated bank facility	(2.3)	(2.3)
Interest payable on Medium Term Notes	(78.2)	(77.4)
Interest payable on lease liabilities	(139.3)	(148.2)
Ineffectiveness on hedge accounting	-	(3.5)
Unwind of discount on provisions	(4.9)	(7.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(6.9)	(8.8)
Finance costs before adjusting items	(231.6)	(248.7)
Net finance costs before adjusting items	(187.6)	(213.9)

Additional finance costs of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind and additional finance income of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur have been incurred and included within adjusting items as detailed in note 3.

5 Income tax expense

The effective tax rate was 59.3% (last year: 46.2%) and the effective tax rate on profit before tax and adjusting items was 20.7% (last year: 20.7%).

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 to be distortive (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.

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

6 **Earnings per share** continued

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

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

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

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

7 Dividends

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

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

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

8 Retirement benefits

	2020 £m	2019 £m
Opening net retirement benefit surplus	914.3	948.2
Current service cost	(0.2)	(0.2)
Administration cost	(4.5)	(3.9)
Net interest income	23.6	25.8
Employer contributions	41.8	42.0
Past service cost	-	18.0
Remeasurements	927.9	(79.9)
Exchange movement	(0.3)	0.3
Closing net retirement benefit surplus	1,902.6	914.3

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

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 2.40% (last year: 2.45%) and 2.70% (last year: 3.25%). The inflation rate of 2.70% (last year: 3.25%) 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 increase by c.£50m. If the inflation rate decreased by 0.25%, the surplus would decrease by c.£50m.

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

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

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

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

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

10 Intangible assets

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

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

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

Impairment testing

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

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

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

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

10 Intangible assets continued

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

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

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

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

per una

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

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

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

11 Property, plant and equipment

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

Property, plant and equipment – owned

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

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

11 Property, plant and equipment continued

Right-of-use assets

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 17 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

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

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

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

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 3). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 3. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

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

11 Property, plant and equipment continued

Impairments – UK stores (excluding the UK store estate programme)
During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their 'value in use' recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 3).

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

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

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

Impairments – UK store estate programme
During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their 'value in use' recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 3).

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

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

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

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

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

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

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

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;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- 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:

				2020				2019
	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								
- trading derivatives	-	2.5	-	2.5	-	0.7	-	0.7
Derivatives used for hedging	-	183.4	-	183.4	-	59.5	-	59.5
Short-term investments	-	11.7	-	11.7	-	141.8	-	141.8
Unlisted investments[1]	-	-	9.7	9.7	-	-	9.9	9.9

Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- trading derivatives	-	(2.8)	-	(2.8)	-	(0.4)	-	(0.4)
- contingent consideration (see note 18)[2]	-	-	(202.4)	(202.4)	-	-	-	-
Derivatives used for hedging	-	(10.9)	-	(10.9)	-	(9.7)	-	(9.7)

[1]There were no transfers between the levels of the fair value hierarchy. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

[2]The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance targets are binary and, based on the latest five-year plan of Ocado Retail Limited, are expected to be met and therefore the full (discounted) amount has been recognised. The discount rates used ranged from 1.7% to 2.2% and a 0.5% change in the discount rates would result in a change in fair value of £4.5m.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,653.8m (last year: £10,224.7m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £6,328.7m (last year: £7,008.6m). Additionally, the scheme assets include £4,325.1m (last year: £3,216.1m) of Level 3 financial assets. See note 8 for information on the Group's retirement benefits.

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

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

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 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 Medium Term Notes (level 1 equivalent) was £1,579.4m (last year £1,673.8m), the fair value of this debt was £1,531.4m (last year £1,724.0m).

12 Financial instruments continued

Hedging activities

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

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

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

13 Contingencies and commitments

A. Capital commitments

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

B. Other material contracts

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

See note 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

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

[1]Excludes £11.3m of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.

[2] Adjusting items net cash outflows relate to the utilisation of the provisions for International store closures and impairments, strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, store impairments and property charges, GMP and other pension equalisation, and establishing the investment in Ocado Retail Limited.

[3] Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

15 Analysis of net debt

A. Reconciliation of movement in net debt

	At 1 April 2018 (Restated) £m	Cash flow (Restated) £m	Exchange and other non-cash movements (Restated) £m	At 30 March 2019 (Restated) £m
Net cash/(debt)				
Bank loans, overdrafts and syndicated bank facility	(88.4)	11.1	5.0	(72.3)
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	-
	(36.7)	(35.6)	-	(72.3)
Cash and cash equivalents	207.7	77.9	(0.2)	285.4
Net cash per statement of cash flows	171.0	42.3	(0.2)	213.1
Current financial assets	13.7	128.1	-	141.8
Liabilities from financing activities				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	-
Medium Term Notes	(1,622.9)	(1.4)	(12.5)	(1,636.8)
Lease liabilities	(2,589.9)	170.1	(157.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(327.8)	61.6	-	(266.2)
Derivatives held to hedge Medium Term Notes	-	-	23.9	23.9
Liabilities from financing activities	(4,592.3)	277.0	(140.6)	(4,455.9)
Less: Derivative instruments and cash flows related to interest	38.2	-	(12.6)	25.6
Net debt	(4,369.4)	447.4	(153.4)	(4,075.4)

	At 31 March 2019 (Restated) £m	Cash flow £m	Exchange and other non-cash movements £m	**At 28 March 2020 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility	(72.3)	(12.0)	-	**(84.3)**
	(72.3)	(12.0)	-	**(84.3)**
Cash and cash equivalents	285.4	(37.5)	0.5	**248.4**
Net cash per statement of cash flows	213.1	(49.5)	0.5	**164.1**
Current financial assets	141.8	(130.1)	-	**11.7**
Liabilities from financing activities				
Medium Term Notes	(1,636.8)	150.0	(14.3)	**(1,501.1)**
Lease liabilities	(2,576.8)	201.4	(186.6)	**(2,562.0)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(266.2)	63.5	-	**(202.7)**
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	**102.2**
Liabilities from financing activities	(4,455.9)	407.2	(114.9)	**(4,163.6)**
Less: Derivative instruments and cash flows related to interest	25.6	7.7	(70.7)	**(37.4)**
Net debt	(4,075.4)	235.3	(185.1)	**(4,025.2)**

15 Analysis of net debt continued

B. Reconciliation of net debt to statement of financial position

	2020 £m	2019 (Restated) £m
Statement of financial position and related notes		
Cash and cash equivalents	248.4	285.4
Current financial assets	11.7	141.8
Bank loans and overdrafts	(84.3)	(72.3)
Medium Term Notes – net of hedging derivatives	(1,471.4)	(1,624.3)
Lease liabilities	(2,562.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 9)	(207.4)	(272.4)
	(4,065.0)	(4,118.6)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	39.8	43.2
Total net debt	(4,025.2)	(4,075.4)

16 Related party transactions

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

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

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

17 Impact of new accounting standards adopted in the year

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

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

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

Consolidated income statement

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

17 Impact of new accounting standards adopted in the year continued

Consolidated statement of comprehensive income

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

17 Impact of new accounting standards adopted in the year continued

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

17 Impact of new accounting standards adopted in the year continued

Consolidated statement of cash flows

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

(i) Income statement

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

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

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

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

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

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

(ii) Right-of-use asset

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

(iii) Lease liability

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

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

(iv) Working capital

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

17 Impact of new accounting standards adopted in the year continued

(v) Taxation

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

(vi) Cash flow statement

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

18 Investments in joint ventures and associates

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

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

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

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

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

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

18 Investments in joint ventures and associates continued

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

	As at 1 March 2020 £m
Ocado Retail Limited	
Current assets	484.9
Non-current assets	206.6
Current liabilities	(489.7)
Non-current liabilities	(178.2)
Net assets	23.6
	5 August 2019 to 1 March 2020 £m
Revenue	979.7
Profit for the period	5.1
Other comprehensive income	-
Total comprehensive income	5.1

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

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

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

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

19 Subsequent events

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

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

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

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

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note 8 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

Principal risks & uncertainties

The Board monitors the principal risks and uncertainties which could have a material effect on the Group's results. The impact of the Covid-19 pandemic on the UK has triggered the need to consider both the specific consequences of the virus and its impact on the underlying principal risks being managed by the business. The updated principal risks and uncertainties for 2019/20 are listed below (including assessment of the potential risk implications of the Covid-19 pandemic). Full disclosure of the risks including the factors which mitigate them will be set out within the Strategic Report of the 2019/20 Annual Report and Accounts.

TRADING PERFORMANCE RECOVERY	A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including the impact of Covid-19, would adversely impact customer experience, operational efficiency and business performance.
BUSINESS TRANSFORMATION	A failure to execute our business transformation and cultural change initiatives with pace, consistency and cross-business buy-in will impede our ability to improve operational efficiency and competitiveness.
LIQUIDITY AND FUNDING	Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, could impact the business's ability to operate within and secure additional committed credit facilities.
BREXIT	An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.
FOOD ONLINE	A failure to effectively execute the launch of M&S products for Ocado Retail would significantly impact the achievement of our strategy to take our food online in a profitable, scalable and sustainable way.
FOOD SAFETY & INTEGRITY	Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.
CORPORATE COMPLIANCE & RESPONSIBILITY	A failure to deliver against our legal, regulatory, social and environmental 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.
BUSINESS CONTINUITY & RESILIENCE	Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders. More broadly, an inability to effectively respond to global events, such as pandemic or supply chain disruption, would significantly impact 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 stakeholder confidence, and/or loss of information for our customers, employees or business.
TECHNOLOGY CAPABILITY	A failure to improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably.
THIRD-PARTY MANAGEMENT	An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, could impact delivery of our transformation initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.
TALENT, CULTURE & CAPABILITY	An inability to maintain efficient processes and complete, accurate people metrics will impact our ability to effectively target our resources and people agenda to focus on attracting, engaging, developing and motivating colleagues and developing skills for the future. This will also impact the pace of operational and cultural transformation across the business.
BRAND, LOYALTY & CUSTOMER EXPERIENCE	An inability to evolve our brand appeal, customer experience and Sparks loyalty programme will impact our success in retaining and attracting customers and expanding the business.

Principal risks & uncertainties continued

Covid-19: The table below summarises the key potential risk implications of the pandemic and how these link to the core principal risks above.

Risk category	Risk description	Relevant principal risk
Protecting customers & colleagues	An inability to maintain, and where needed adapt, operational protocols to safeguard customers, colleagues and other partners involved in operating our business during extended lockdown or a period of transitional social distancing would impact the continued operation of stores and breach our responsibilities to all key stakeholders.	Legal & regulatory compliance
Clothing & Home Inventory management	A failure to effectively manage the implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management would adversely impact customer experience, trading performance, liquidity, operational efficiency and third-party relationships for an extended period.	Trading performance (Clothing & Home)
Liquidity	Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, would impact the business's ability to operate within committed credit facilities.	Liquidity & funding
Store portfolio management	An inability to increase the scale and pace of our plans to create a modern and appropriately shaped store estate during the retail property market downturn would impede our transformation objectives. An inability to secure favourable agreements with landlords would impede cost control initiatives.	Business transformation
Post-crisis recovery	An inability to successfully respond to the ending of lockdown (such as management of colleagues returning from furlough and re-establishing 'business as usual' process and control) would trigger operational challenges and inefficiencies for the business. A failure to evaluate, fund and implement initiatives to improve business operations would be a missed opportunity.	Multiple risk implications
Strategy realignment	An inability to define and successfully implement a revised strategy to rapidly respond to a post Covid-19 world and the associated changes in customer behaviours and operational requirements would significantly undermine the transformational imperatives of the business. This would include, although not be limited to, the operation of our online Clothing & Home business, International operations, management of operating and capital expenditure and the portfolio of business transformation initiatives under way.	Multiple risk implications

In addition to the Covid-19 related risks noted above, the pandemic has amplified many of the principal risks set out earlier – for example, our ability to effectively respond to Brexit, the transformational improvements needed to the supply chain, maintaining controls over food safety, the potential risk of disruption to critical third-party relationships or readiness to execute the launch of M&S products with Ocado Retail.

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.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income statement measures</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the income statement</td><td>Sales from non like-for-like stores</td><td>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.

<table>
<tr><th></th><th>52 weeks ending
28 March 2020
£m</th><th>52 weeks ending
30 March 2019
£m</th></tr>
<tr><td>UK Food</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>5,872.1</td><td>5,760.7</td></tr>
<tr><td>Net new space</td><td>156.1</td><td>142.7</td></tr>
<tr><td>Total UK Food revenue</td><td>6,028.2</td><td>5,903.4</td></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>3,196.9</td><td>3,407.0</td></tr>
<tr><td>Net new space</td><td>12.2</td><td>92.8</td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>3,209.1</td><td>3,499.8</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue / Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK 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.</td></tr>
<tr><td>Revenue growth at constant currency</td><td>None</td><td>Not applicable</td><td>The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.

<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th><th>%</th></tr>
<tr><td>International revenue</td><td></td><td></td><td></td></tr>
<tr><td>At constant currency</td><td>944.6</td><td>969.1</td><td>(2.5)</td></tr>
<tr><td>Impact of FX retranslation</td><td>-</td><td>5.0</td><td></td></tr>
<tr><td>At reported currency</td><td>944.6</td><td>974.1</td><td>(3.0)</td></tr>
</table></td></tr>
</table>

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Operating Committee.
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	Not applicable	Calculated as Ocado Retail Limited earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items.
Operating profit before adjusting items	Profit before tax	Adjusting items (See note 3)	Operating profit before the impact of adjusting items, financing income/costs and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 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 Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted earnings per share	Earnings per share	Adjusting items (See note 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
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 15)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed.
Cash flow measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			
Covid-19 scenario	None	Not applicable	As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan. As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario. The downside scenario assumes the current government guidelines continue for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation. This downside scenario was approved by the Directors and is defined as the Covid-19 scenario.
Capital expenditure	None	Not applicable	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.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td>Return on capital employed</td><td>None</td><td>Not applicable</td><td>Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:
<table>
<tr><th></th><th>2019/20
£m</th><th>2018/19
£m</th></tr>
<tr><td>EBIT before adjusting items</td><td>590.7</td><td>725.6</td></tr>
<tr><td>Average capital employed</td><td>5,887.5</td><td>6,140.2</td></tr>
</table>
This measure is used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</td></tr>
</table>

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