INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

IN OUR OPINION:

the financial statements of Marks and Spencer Group plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 March 2019 and of the Group's profit for the 52 weeks then ended;

the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- → the Consolidated income statement;
- → the Consolidated statement of comprehensive income;
- → the Consolidated and Company statements of financial position;
- → the Consolidated and Company statements of changes in equity;
- → the Consolidated and Company statements of cash flows;
- → the Reconciliations of movement in net debt and net debt to the Consolidated statement of financial position; and
- → the related notes 1 to 30 and C1 to C6.

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

BASIS FOR OPINION

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

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

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

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

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

- → Disclosure of adjusting items;
- → Accounting for the UK store rationalisation programme;
- → Impairment of UK store assets;
- → Inventory provisioning for UK Clothing & Home;
- → Valuation of UK defined benefit obligation; and
- → IFRS 16 *Leases* disclosures.

Within this report

Any new key audit matters are identified with

Any key audit matters which are the same as the prior year identified with

MATERIALITY

The materiality that we used for the Group financial statements was £20.0m (2018: £24.5m) using a benchmark of adjusted profit before tax but excluding the impact of certain adjusting items, as set out on page 88 of this report.

SCOPING

We performed a full scope audit on three components of the business (UK, India and Ireland) representing 99% of the Group's revenue, 95% of the Group's adjusted profit before tax, 92% of the Group's profit before tax, 80% of the Group's total assets, and 99% of the Group's total liabilities.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

- → Manual adjustments to reported revenue has been removed as a key audit matter on account of the quantum of adjustments applied and the limited scope of judgement involved; and
- → IFRS 16 *Leases* disclosures has been included as a key audit matter due to the inherent level of judgement involved in determining the quantum of the impact and the level of audit effort required in evaluating the appropriateness of the supporting disclosures.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

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

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

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

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

PRINCIPAL RISKS AND VIABILITY STATEMENT

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

- The disclosures on pages 29-33 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- The directors' explanation on page 28 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

KEY AUDIT MATTERS

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

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

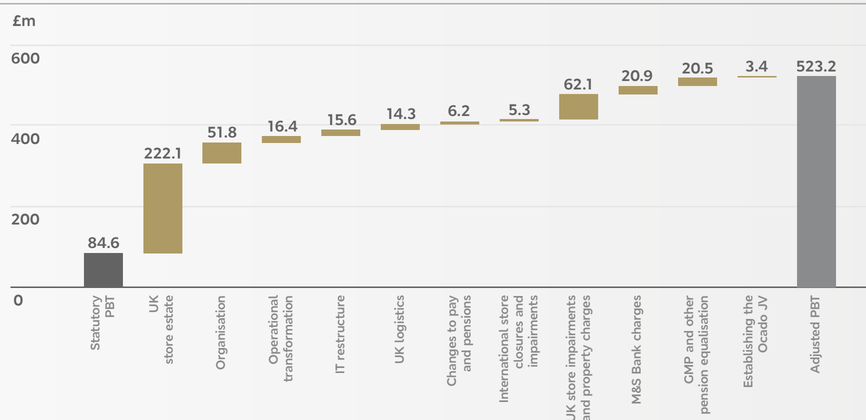
KEY AUDIT MATTER

1 DISCLOSURE OF ADJUSTING ITEMS

KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profit before tax of £523.2m, which is derived from statutory profit before tax of £84.6m adjusted for a number of items which the Group considers meet their definition of an "adjusting item". Judgement is exercised by management in determining the classification of such items. This represents a significant matter considered by the Audit Committee on page 50.

Explanations of each adjusting item are set out in note 5 to the financial statements and are summarised in the graphic opposite:



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

- The identification and classification of items as "adjusting" may be inappropriate, distorting the reported results;
- The omission of items which are considered material, one-off or significant in nature, distorting the reported results; and
- The clarity and detail of disclosures in respect of adjusting items may be insufficient, precluding investors from obtaining a clear understanding of the Group's results and performance.

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

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

- Assessed the design and implementation of key controls pertaining to the identification and disclosure of adjusting items;
- Performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature;
- Assessed the identification and consistency of items reported as adjusting year on year in light of the latest guidance published by the European Securities and Markets Authority ('ESMA') and the FRC;
- Performed tests over a representative sample of adjusting items through agreement to supporting evidence;
- Used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which displayed characteristics of being material, significant or one-off in nature; and
- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations
We are satisfied that the items included in arriving at adjusted profit and the related disclosures within the financial statements are appropriate.

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KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME

KEY AUDIT MATTER DESCRIPTION

In February 2018 the Board approved a list of stores marked for closure as part of the UK store rationalisation programme, with a total charge of £321.1m recorded in the prior year in respect of impairment, accelerated depreciation and property exit costs. In the current year, a further charge of £222.1m has been recognised as a result of:

- Management revisiting its assessment of stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market;
- Further accelerated depreciation of stores identified for closure in the prior year (as they approach their planned closure dates); and
- Accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme.

Further information is set out in notes 1 and 5 to the financial statements.

This represents a significant matter considered by the Audit Committee on page 50.

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

- Provisions encompassing onerous contracts, store strip-out costs, restructuring and dilapidations are incomplete or inaccurate;
- Specific assumptions applied in management's discounted cash flow analysis, including the discount rate, sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs are inappropriate; and
- Significant property transactions such as disposals and lease surrenders are accounted for incorrectly.

We consider this to represent a key audit matter reflecting the level of judgement applied by management. Our audit work focused on assessing the Group's UK store exit model and evaluating the continued appropriateness of the key assumptions used in determining the extent of provisioning required.

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

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

- Assessed the design and implementation of key controls pertaining to the review and approval of the Group's UK store exit model;
- Performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings;
- Understood and challenged the basis of the Group's decisions where stores previously marked for closure are no longer expected to close;
- Evaluated the appropriateness of the Group's judgements for a representative sample of properties in consultation with our internal real estate specialists and with reference to external benchmarking data;
- Assessed the mechanical accuracy of discounted cash flow models and other key provision calculations;
- Assessed the integrity of key inputs including lease data, agent valuations, surveyor plans and rental payments through agreement to supporting documentation;
- Recalculated the closing provision for a representative sample of stores and agreed any movement to the income statement;
- Evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and
- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

We are satisfied with the Group's estimate of the impairments and store exit charges recorded. Further, the disclosure of amounts recorded in the financial statements is appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

3 IMPAIRMENT OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

As at 30 March 2019 the Group held £2,859.9m of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 *Impairment of Assets*, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £52.8m has been recognised within adjusting items as set out in notes 5 and 15 to the financial statements.

This represents a significant matter considered by the Audit Committee on page 50.

As described in note 15 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period, all of which involve a high degree of estimation uncertainty (as disclosed in note 1), particularly in light of current retail market conditions and the impact of wider economic uncertainty.

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

- Future revenue growth and changes in gross margin;
- Long-term growth rates; and
- Discount rates.

The Group considers that each retail store constitutes its own cash-generating unit ("CGU"), with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to represent one CGU in aggregate.

The Group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during the first two years of trading to enable stores to establish themselves within the market.

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

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

- Assessed the design and implementation of key controls pertaining to the impairment review process;
- Evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter periods;
- Assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirement of IAS 36;
- Assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data;
- Assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data;
- Evaluated the appropriateness and completeness of information included in the impairment models based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and
- Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations

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

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KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

4 INVENTORY PROVISIONING FOR UK CLOTHING & HOME

KEY AUDIT MATTER DESCRIPTION

As at 30 March 2019, the Group held UK Clothing & Home inventories of £496.1m (2018: £591.5m). As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value. As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale.

We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the quantum of gross inventory.

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

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

- → Assessed the design and implementation of key controls pertaining to inventory management and the review and approval of the UK's inventory provision;
- → Assessed the validity, accuracy and completeness of the information used by management in computing the provision;
- → Assessed the mechanical accuracy and logic of the models underpinning the respective provisions;
- → Understood any changes in the provisioning methodology and challenged the appropriateness thereof;
- → Challenged and validated the key assumptions applied by management in estimating the provision by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, and by using audit analytics; and
- → Tested the validity and completeness of the inventory flags and season codes applied to a representative sample of individual product lines.

Key observations
We concur that the judgements taken by management are appropriate and that the resultant level of inventory provisioning recorded in respect of UK Clothing & Home is acceptable.

KEY AUDIT MATTER

5 VALUATION OF UK DEFINED BENEFIT OBLIGATION

KEY AUDIT MATTER DESCRIPTION

As described in the Accounting Policies in note 1 and in note 11 to the financial statements, the Group has a defined benefit pension plan for its UK employees. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred membership on 1 April 2017.

As at 30 March 2019, the Group recorded a total (including the UK) net funded retirement benefit asset of £923.4m (2018: £959.7m), being the net of scheme assets of £10,224.7m (2018: £9,989.3m) and scheme liabilities of £9,301.3m (2018: £9,029.6m). £9,175.1m of this liability relates to the UK scheme (2018: £8,907.6m).

Our key audit matter related to the valuation of UK scheme liabilities on account of the sensitivity to changes in key assumptions such as the discount rate, inflation and mortality estimates.

This represents a significant matter considered by the Audit Committee on page 50.

The setting of the assumptions identified above is complex and an area of significant judgement whereby changes in any of these assumptions could lead to a material movement in the net surplus. The increase/(decrease) in scheme surplus caused by a change in each of the key assumptions is set out in note 11 to the financial statements.

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

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

- → Assessed the design and implementation of relevant controls pertaining to the estimation and valuation of the pension liability;
- → Evaluated the appropriateness of the assumptions applied in the valuation of scheme liabilities, and the information contained within the supporting actuarial valuation reports for each scheme in conjunction with our internal pension specialist team;
- → Assessed the integrity of key inputs through agreement of a representative sample of membership scheme records;
- → Performed sensitivity analysis on the key variables within the valuation model in accordance with external benchmarking data; and
- → Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations
We are satisfied that the assumptions applied in determining the valuation of the defined benefit obligation are appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

6 IFRS 16 *LEASES* DISCLOSURES

KEY AUDIT MATTER DESCRIPTION

In advance of adopting IFRS 16 *Leases* from 31 March 2019, the Group has finalised its assessment of the impact that the new accounting standard will have on its statement of financial position. The expected impact of IFRS 16 as at 30 March 2019 is disclosed in note 1 to the financial statements. A number of judgements have been applied and estimates made in determining the impact of the standard.

This represents a significant matter considered by the Audit Committee on pages 50-51.

In order to compute the transition impact of IFRS 16, a significant data extraction exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management's model. The incremental borrowing rate ("IBR") method has been adopted where the implicit rate of interest in a lease is not readily determinable.

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

- Leasing arrangements within the scope of IFRS 16 are not identified or appropriately included in the calculation of the transitional impact;
- Specific assumptions applied to determine the discount rates for each lease are inappropriate;
- The underlying lease data used to calculate the transitional impact is incomplete and/or inaccurate;
- The mechanical accuracy of lease calculations is flawed; and
- The disclosures in the financial statements are insufficient, precluding investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard.

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

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

- Assessed the design and implementation of key controls pertaining to the determination of the IFRS 16 transition impact disclosures;
- Assessed the appropriateness of the discount rates applied in determining lease liabilities with input from our valuation specialists;
- Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;
- Considered completeness by testing the reconciliation to the Group's operating lease commitments (disclosed per note 25 to the financial statements), and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and
- Assessed whether the disclosures within the financial statements are appropriate in light of the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Key observations

We are satisfied that the disclosure of the expected impact of IFRS 16 is in accordance with the Group's stated accounting policy and the related disclosure of these items per note 1 to the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OUR APPLICATION OF MATERIALITY

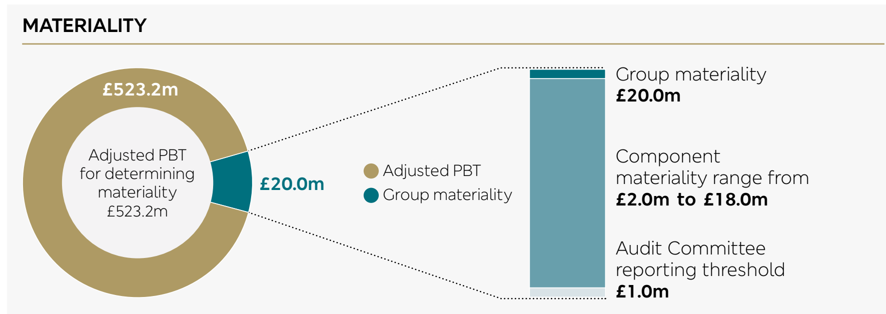
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

The materiality applied by component auditors for full scope audits ranged from £2.0m to £18.0m (2018: £2.2m to £22.1m) depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2018: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

	Group financial statements	Parent company financial statements
Materiality	£20.0m (2018: £24.5m)	£18.0m (2018: £22.1m)
Basis for determining materiality	The principal measure considered in both the current and prior year was a benchmark of 5% of adjusted profit before tax but excluding the impact of certain adjusting items, which would give a materiality of £21.5m. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: → M&S Bank charges (PPI) – £20.9m → UK logistics – £14.3m → UK store impairments and associated charges within £62.1m adjusting item in note 5 – £52.8m In light of recent trading performance, the continued challenging market conditions in which the Group operates, and the broader level of uncertainty associated with the UK's exit from the European Union we applied professional judgement to reduce materiality to £20.0m.	We used 3% of net assets as the basis of materiality and then further capped this at 90% of Group materiality.
Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the Group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	The Parent Company acts principally as a holding company and therefore net assets is deemed a key measure.



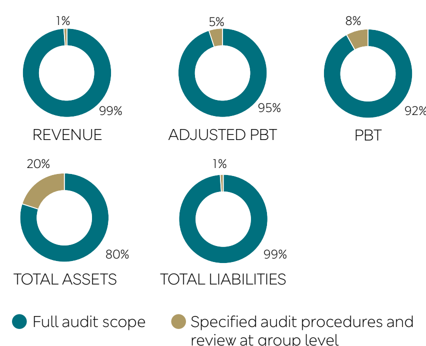
AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

Based on our assessment, and consistent with the prior year, we focused our group audit scope on the retail businesses in the UK, India and Ireland, which were subject to a full audit. We also performed audit procedures on specific balances for the remaining store exit provisions in France. This work was performed by the group audit team.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. While we audit the revenues received by the Group from franchise operations, which account for 4% (2018: 3%) of the Group's revenue, we do not audit the underlying franchise operations as part of our group audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



The most significant component of the Group is its retail business in the UK, which accounts for 91% (2018: 90%) of the Group's reported revenue of £10,377.3m (2018: £10,698.2m, and generates operating profit of £52.8m (2018: £23.2m). The group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the group audit team conducted 10 distribution centre and 25 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

We operate a programme of planned visits to overseas locations such that a senior member of the group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT CONTINUED

The programme of visits in the current and prior year is set out below.

Component	2018 (Last year)	2019 (This year)
India	✔	✔
Republic of Ireland		✔

In addition to our programme of planned visits, we issue detailed referral instructions to our component audit teams, engage regularly with them in our audit team briefings, consider and discuss the appropriateness of their local risk assessment, attend closing meetings with them and component management teams, and review their component reporting. A dedicated member of the group audit team is assigned to facilitate an effective and consistent approach to component oversight.

OTHER INFORMATION

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

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

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

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

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

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

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

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

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

IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

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

- Enquiring of management, Internal Audit, internal legal counsel, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

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

- Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to Groceries Supply Code of Practice ("GSCOP") requirements;

- Discussing among the engagement team, including significant component audit teams and involving relevant internal specialists, including tax, valuations, real estate, pensions and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the disclosure of adjusting items; and
- Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, the Listing Rules, UK Corporate Governance Code, pensions legislation and UK and overseas tax legislation. The key laws and regulations which had a fundamental effect on the operations of the Group included GSCOP, employment law and health and safety legislation.

AUDIT RESPONSE TO RISKS IDENTIFIED

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

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

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect;
- Enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing Internal Audit reports and reviewing correspondence with HMRC; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

OTHER MATTERS

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the periods ending 28 March 2015 to 30 March 2019.

Consistency of the audit report with the additional report to the audit committee

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

USE OF OUR REPORT

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

IAN WALLER (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
STATUTORY AUDITOR, LONDON, UNITED KINGDOM
21 May 2019

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 30 March 2019 Profit before adjusting items £m	52 weeks ended 30 March 2019 Adjusting items £m	52 weeks ended 30 March 2019 Total £m	52 weeks ended 31 March 2018 Profit before adjusting items £m	52 weeks ended 31 March 2018 Adjusting items £m	52 weeks ended 31 March 2018 Total £m
Revenue	2, 3	**10,377.3**	**–**	**10,377.3**	10,698.2	–	10,698.2
Operating profit	2, 3, 5	**601.0**	**(438.6)**	**162.4**	670.6	(514.1)	156.5
Finance income	6	**33.8**	**–**	**33.8**	24.1	–	24.1
Finance costs	6	**(111.6)**	**–**	**(111.6)**	(113.8)	–	(113.8)
Profit before tax	4, 5	**523.2**	**(438.6)**	**84.6**	580.9	(514.1)	66.8
Income tax expense	7	**(106.0)**	**58.7**	**(47.3)**	(125.4)	87.7	(37.7)
Profit for the year		**417.2**	**(379.9)**	**37.3**	455.5	(426.4)	29.1
Attributable to:							
Owners of the parent		**413.4**	**(379.9)**	**33.5**	452.1	(426.4)	25.7
Non-controlling interests		**3.8**	**–**	**3.8**	3.4	–	3.4
		417.2	**(379.9)**	**37.3**	455.5	(426.4)	29.1
Basic earnings per share	8	**25.4p**		**2.1p**	27.8p		1.6p
Diluted earnings per share	8	**25.4p**		**2.1p**	27.8p		1.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Profit for the year		**37.3**	29.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	11	**(79.9)**	200.9
Tax credit/(charge) on items that will not be reclassified		**14.0**	(39.0)
		(65.9)	161.9
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(15.4)**	(23.4)
– reclassified and reported in profit and loss		**–**	(36.2)
Revaluation of available for sale asset		**–**	6.9
Cash flow hedges and net investment hedges			
– fair value movements in other comprehensive income		**132.0**	(208.7)
– reclassified and reported in profit or loss		**(16.0)**	85.0
– amount recognised in inventories		**–**	57.5
Tax (charge)/credit on cash flow hedges and net investment hedges		**(19.0)**	19.7
		81.6	(99.2)
Other comprehensive income for the year, net of tax		**15.7**	62.7
Total comprehensive income for the year		**53.0**	91.8
Attributable to:			
Owners of the parent		**49.2**	88.4
Non-controlling interests		**3.8**	3.4
		53.0	91.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 March 2019 £m	As at 31 March 2018 £m
Assets			
Non-current assets			
Intangible assets	14	**499.9**	599.2
Property, plant and equipment	15	**4,028.5**	4,393.9
Investment property		**15.5**	15.5
Investment in joint ventures		**4.0**	7.0
Other financial assets	16	**9.9**	9.9
Retirement benefit asset	11	**931.5**	970.7
Trade and other receivables	17	**200.7**	209.0
Derivative financial instruments	21	**19.8**	27.1
		5,709.8	6,232.3
Current assets			
Inventories		**700.4**	781.0
Other financial assets	16	**141.8**	13.7
Trade and other receivables	17	**322.5**	308.4
Derivative financial instruments	21	**40.3**	7.1
Cash and cash equivalents	18	**285.4**	207.7
		1,490.4	1,317.9
Total assets		**7,200.2**	7,550.2
Liabilities			
Current liabilities			
Trade and other payables	19	**1,461.3**	1,405.9
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**513.1**	125.6
Derivative financial instruments	21	**7.3**	73.8
Provisions	22	**148.6**	98.8
Current tax liabilities		**26.2**	50.0
		2,228.4	1,826.0
Non-current liabilities			
Retirement benefit deficit	11	**17.2**	22.5
Trade and other payables	19	**322.4**	333.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**200.5**	263.6
Borrowings and other financial liabilities	20	**1,279.5**	1,670.6
Derivative financial instruments	21	**2.8**	30.7
Provisions	22	**250.1**	193.1
Deferred tax liabilities	23	**218.4**	255.7
		2,290.9	2,770.0
Total liabilities		**4,519.3**	4,596.0
Net assets		**2,680.9**	2,954.2
Equity			
Issued share capital	24	**406.3**	406.2
Share premium account		**416.9**	416.4
Capital redemption reserve		**2,210.5**	2,210.5
Hedging reserves		**(2.9)**	(65.3)
Other reserve		**(6,542.2)**	(6,542.2)
Foreign exchange reserve		**(44.7)**	(29.3)
Retained earnings		**6,237.1**	6,560.4
Total shareholders' equity		**2,681.0**	2,956.7
Non-controlling interests in equity		**(0.1)**	(2.5)
Total equity		**2,680.9**	2,954.2

The financial statements were approved by the Board and authorised for issue on 21 May 2019. The financial statements also comprises notes 1 to 30.

Steve Rowe Chief Executive Officer

Humphrey Singer Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve[2] £m	Cost of hedging £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[3] £m	Total £m	Non-controlling interest £m	Total £m
As at 2 April 2017	406.2	416.4	2,210.5	17.3	–	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4
Profit for the year	–	–	–	–	–	–	–	25.7	25.7	3.4	29.1
Other comprehensive (expense)/income:											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	0.2	–	–	(23.6)	–	(23.4)	–	(23.4)
– reclassified and reported in profit or loss	–	–	–	–	–	–	(36.2)	–	(36.2)	–	(36.2)
Revaluation of available for sale asset	–	–	–	–	–	–	–	6.9	6.9	–	6.9
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	200.9	200.9	–	200.9
Tax charge on items that will not be reclassified	–	–	–	–	–	–	–	(39.0)	(39.0)	–	(39.0)
Cash flow hedges and net investment hedges											
– fair value movements in other comprehensive income	–	–	–	(211.0)	–	–	–	2.3	(208.7)	–	(208.7)
– reclassified and reported in profit or loss	–	–	–	51.0	–	–	–	34.0	85.0	–	85.0
– amount recognised in inventories	–	–	–	57.5	–	–	–	–	57.5	–	57.5
Tax on cash flow hedges and net investment hedges	–	–	–	19.7	–	–	–	–	19.7	–	19.7
Other comprehensive income/(expense)	–	–	–	(82.6)	–	–	(59.8)	205.1	62.7	–	62.7
Total comprehensive income/(expense)	–	–	–	(82.6)	–	–	(59.8)	230.8	88.4	3.4	91.8
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(303.4)	(303.4)	–	(303.4)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–
Shares issued on exercise of employee share options	–	–	–	–	–	–	–	–	–	–	–
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(3.1)	(3.1)	–	(3.1)
Credit for share-based payments	–	–	–	–	–	–	–	18.5	18.5	–	18.5
Deferred tax on share schemes	–	–	–	–	–	–	–	–	–	–	–
As at 31 March 2018	406.2	416.4	2,210.5	(65.3)	–	(6,542.2)	(29.3)	6,560.4	2,956.7	(2.5)	2,954.2
As at 1 April 2018	**406.2**	**416.4**	**2,210.5**	**(65.3)**	**–**	**(6,542.2)**	**(29.3)**	**6,560.4**	**2,956.7**	**(2.5)**	**2,954.2**
Adjustment on initial application of IFRS 9 (note 29)	**–**	**–**	**–**	**(10.7)**	**10.7**	**–**	**–**	**(0.5)**	**(0.5)**	**–**	**(0.5)**
Adjusted opening shareholders equity	**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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33.5**	**33.5**	**3.8**	**37.3**
Other comprehensive (expense)/income:											
Foreign currency translation											
– movements recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(15.4)**	**–**	**(15.4)**	**–**	**(15.4)**
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 and net investment hedges											
– fair value movement 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 and net investment hedges	**–**	**–**	**–**	**(18.5)**	**(0.5)**	**–**	**–**	**–**	**(19.0)**	**–**	**(19.0)**
Other comprehensive income/(expense)	**–**	**–**	**–**	**96.0**	**1.0**	**–**	**(15.4)**	**(65.9)**	**15.7**	**–**	**15.7**
Total comprehensive income/(expense)	**–**	**–**	**–**	**96.0**	**1.0**	**–**	**(15.4)**	**(32.4)**	**49.2**	**3.8**	**53.0**
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	**406.3**	**416.9**	**2,210.5**	**(14.6)**	**11.7**	**(6,542.2)**	**(44.7)**	**6,237.1**	**2,681.0**	**(0.1)**	**2,680.9**

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. Amounts "reclassified and reported in profit or loss" in 2017/18 includes the revaluation of the cross currency swaps, offsetting the revaluation of the USD hedged bonds within finance costs.
3. Included within Retained Earnings is the fair value through other comprehensive income reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,041.0**	944.1
Income tax paid		**(105.7)**	(94.3)
Net cash inflow from operating activities		**935.3**	849.8
Cash flows from investing activities			
Proceeds on property disposals		**48.1**	3.2
Purchase of property, plant and equipment		**(217.8)**	(274.9)
Proceeds on disposal of Hong Kong business		**–**	22.9
Purchase of intangible assets		**(95.1)**	(74.3)
(Purchase)/sale of current financial assets		**(128.1)**	0.8
Interest received		**7.4**	6.0
Purchase of investment in joint venture		**(2.5)**	–
Net cash used in investing activities		**(388.0)**	(316.3)
Cash flows from financing activities			
Interest paid[1]		**(86.4)**	(112.2)
Cash outflow from borrowings		**(46.7)**	–
Cash inflow from borrowings		**–**	43.8
Payment of obligations under finance leases		**(3.3)**	(2.6)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(61.6)**	(59.6)
Equity dividends paid		**(303.5)**	(303.4)
Shares issued on exercise of employee share options		**0.6**	0.1
Purchase of own shares by employee trust		**(5.5)**	(3.1)
Issuance/(redemption) of Medium Term Notes		**1.4**	(328.2)
Net cash used in financing activities		**(505.0)**	(765.2)
Net cash inflow/(outflow) from activities		**42.3**	(231.7)
Effects of exchange rate changes		**(0.2)**	(3.5)
Opening net cash		**171.0**	406.2
Closing net cash	27	**213.1**	171.0

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(1,827.5)**	(1,934.7)
Net cash inflow/(outflow) from activities		**42.3**	(231.7)
Increase/(decrease) in current financial assets		**128.1**	(0.8)
Decrease in debt financing		**110.2**	346.6
Exchange and other non-cash movements		**1.8**	(6.9)
Movement in net debt		**282.4**	107.2
Closing net debt	27	**(1,545.1)**	(1,827.5)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

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

The principal activities of the Group and the nature of the Group's operations is as a Clothing and Home and Food retailer.

These financial statements are presented in Sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest million. Foreign operations are included in accordance with the policies set out within this note.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 30 March 2019.

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

New accounting standards adopted by the Group

There have been significant changes to accounting under IFRS which have affected the Group's financial statements. New standards and interpretations effective for periods commencing on or after 1 January 2018 and therefore applicable to the Group's financial statements for the 52 weeks ended 30 March 2019 are listed below:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 4 Insurance Contracts regarding the implementation of IFRS 9 Financial Instruments.
- Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- Amendments to IAS 40 Transfer of Investment Property.
- Amendments to IFRS 2 Share-Based Payments, on clarifying how to account for certain types of share-based payment transactions.
- Annual improvements to IFRS Standards 2014-2016 Cycle (certain items effective from 1 January 2017).

With the exception of the adoption of IFRS 9 and IFRS 15, the adoption of the above standards and interpretations 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.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard is effective for periods commencing on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard introduces changes to three key areas:

- New requirements for the classification and measurement of financial instruments.
- A new impairment model based on expected credit losses for recognising provisions.
- Simplified hedge accounting through closer alignment with an entity's risk management methodology.

The adoption of IFRS 9 has not had a material impact on either the Consolidated Income Statement or the Consolidated Statement of Financial Position. The Group has adopted IFRS 9 using the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives. The impact of the adoption of the new standard is shown in note 29 which includes additional disclosures relating to hedge accounting (including a new cost of hedging reserve), credit risk management and impairment of financial assets.

The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group's share of profits for the prior period includes the post-implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9 which had an immaterial impact in the prior period.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018 and therefore has been implemented with effect from 1 April 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the previous accounting standard. Due to the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 has not had a material impact on the timing or nature of the Group's revenue recognition.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset representing the right to recover products from the customer is also recognised. There is no change to the Group's revenue recognition under IFRS 15. However, the refund provision was previously recorded on a net basis within Current Liabilities and therefore on adoption of IFRS 15 the Group was required to adjust inventories and the refund provision to a gross basis.

The Group has adopted IFRS 15 using the modified transition approach and has therefore not restated the prior period comparatives for the separate recognition of the refund asset and the increase in the refund provision.

In addition to the changes to the accounting policies, the Group is required to disclose how the adoption of the new accounting standard has affected the financial statements. There is no impact on the Consolidated Income Statement, however the impact on the Consolidated Statement of Financial Position for the change in accounting for the refund provision is as follows:

At 30 March 2019, the refund provision on the balance sheet was accounted for on the gross basis under IFRS 15. There is a liability of £22.2m and a related refund asset of £8.9m. If accounted for on a net basis, the refund provision on the balance sheet would be £13.3m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

New accounting standards in issue but not yet effective
New standards and interpretations effective for periods commencing on or after 1 January 2019 and therefore applicable to the Group for the 52 weeks ending 28 March 2020 are listed below:

- Annual improvements to IFRS Standards 2015-2017 Cycle.
- Amendments to IFRS 9 Financial Instruments, on prepayment features with negative compensation.
- Amendments to IAS 28 Investments in Associates, on long term interests in associates and joint ventures.
- Amendments to IAS 19 Employee Benefits on plan amendment, curtailment or settlement.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- IFRS 16 Leases.

With the exception of the adoption of IFRS 16, the adoption of the above standards and interpretations will not 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.

IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The Group will adopt the new financial reporting standard from 31 March 2019. The financial statements for the 52 weeks ending 28 March 2020 will be the first prepared under IFRS 16. The Group has decided to adopt using the fully retrospective transition approach meaning the comparative period will also be restated at this time.

Impact of application of IFRS 16 Leases
As a lessee, IFRS 16 removes distinctions between operating and finance leases and requires the recognition of a right of use asset and corresponding liability for future lease payables. The right of use asset will be subsequently depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability. This will result in earlier recognition of expense for leases currently classified as operating leases, although over the life of a lease the total expense recognised will not change.

Right of use assets recognised by the Group comprise of property, motor vehicles and equipment, including those in scope under certain logistics contracts. The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets, and lease payments associated with those assets will be recognised as an expense on a straight-line basis. In addition, amounts for leases with variable consideration, such as turnover leases, will continue to be recognised on a straight-line basis.

As a lessor, subleases previously classified as operating must be reassessed in consideration of the remaining contractual term and conditions with reference to the right of use asset arising from the head lease. The Group will reclassify certain sublease agreements as finance leases and recognise a net investment in lease, resulting in a change in timing of recognition of sublease income.

There will be a significant impact on the balance sheet as at 31 March 2019. It is expected on a pre-tax basis that a right of use asset of approximately £1.7bn and lease liability of approximately £2.6bn will be recognised, along with the derecognition of onerous lease provisions of approximately £0.2bn and other working capital balances (including lease incentives) of approximately £0.4bn, which results in an overall adjustment to retained earnings of approximately £0.3bn.

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the relative maturity of the lease portfolio. Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

- Profit before tax when applying IFRS 16 is c.£10m higher than that reported in these financial statements under current accounting standards, including IAS 17 Leases.
- Profit before tax excluding adjusting items is c.£10m lower.
- Operating profit before tax and adjusting items is c.£130m higher.

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral.

The Group has had in place a working group and steering committee to assess the impact and oversee the implementation of the new standard. The adoption of the new standard is nearing completion, including the implementation of appropriate internal controls and a governance framework to ensure the requirements of the new standard continue to be met including an assessment of new contracts requiring judgement as to whether they are in scope of the standard.

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; like-for-like revenue growth adjusted for Easter; management gross margin; 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 to be significant in both 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 30 March 2019:

- 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 previous year's 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.

Alternative Performance Measures continued

- Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (GMP) and other pension equalisation.
- Significant costs arising from establishing the new joint venture with Ocado.
- 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.
- Other adjusting items, in the prior year, including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

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

A summary of the Company's and the Group's accounting policies is given below.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, except for the revaluation of financial instruments (including derivative instruments) and defined benefit pension schemes which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the period end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Company has control. Control is achieved when the Company has the power over the subsidiary; is exposed, or has rights to, variable returns from its involvement with the subsidiary; and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

2018 (IAS 18): Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered to our franchise partners or the customer and the significant risks and rewards of ownership have been transferred to the buyer.

2019 (IFRS 15): Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer.

Under IFRS 15 a right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

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

Supplier income

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

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

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

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

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

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

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

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

1 ACCOUNTING POLICIES CONTINUED

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

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

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

Dividends
Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions
Funded pension plans are in place for the Group's UK employees and some employees overseas.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method. An asset can be recognised as in the event of a plan wind up, the pension scheme rules provide the Group with an unconditional right to a refund of surplus assets assuming a full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind-up or change the benefits due to the members of the scheme. As a result, any net surplus in the UK Defined Benefit (DB) scheme is recognised in full.

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

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

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

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

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

Intangible assets
A. Goodwill Goodwill arising on consolidation represents the excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

B. Brands Acquired brand values are held on the statement of financial position initially at cost. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Brands are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 10 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

Property, plant and equipment
The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values on a straight line basis as follows:

- → Freehold land – not depreciated.
- → Freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives.
- → Leasehold buildings with a remaining lease term of less than 50 years – depreciated over the shorter of their useful economic lives or the remaining period of the lease.
- → Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is recognised within the income statement.

Leasing
Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent-free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments
Payments made to acquire leasehold land and buildings are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents
Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours.

Inventories
Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that the cost is initially established by reference to the hedged exchange rate and not the spot rate at the day of purchase.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed at each reporting period and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies
The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

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

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments
Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade and other receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts was recognised under an "incurred loss" model until 1 April 2018 and therefore it was dependent upon the existence of an impairment event. From 1 April 2018, the allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments with a maturity date of over 90 days and are classified as either "fair value through other comprehensive income" ("available for sale" for periods before 1 April 2018) or "fair value through profit and loss". Financial assets held at fair value through other comprehensive income or available for sale for the periods before 1 April 2018 are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

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

For equity investments at "fair value through comprehensive income", gains or losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of, at which time the cumulative gain or loss previously recognised in other comprehensive income is included directly in retained earnings and is not recycled to the income statement. For the periods before 1 April 2018, the gains or losses accumulated at the time of sale or impairment are recycled to the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Financial instruments continued
For debt instruments at "fair value through comprehensive income" or "available for sale" in the periods before 1 April 2018, gains and losses arising from changes in fair value are recognised in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the income statement for the period. Until 1 April 2018, debt securities were deemed impaired based on whether an impairment trigger happened and it resulted in an incurred loss. From 1 April 2018, impairments in debt securities are recognised based on management's expectation of losses in each investment ("expected credit loss" model).

Until 1 April 2018, equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost. From 1 April 2018, all equity investments must be measured at fair value under IFRS 9.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities
The Group primarily uses interest rate swaps, cross-currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge).
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).
- A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

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

During the life of the hedging relationship, prospective effectiveness testing is performed (before 1 April 2018, both prospective and retrospective tests were required) to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income. From 1 April 2018, the element of the change in fair value which relates to the currency spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve (in the period before 1 April 2018, the entire change in fair value was recognised in the hedging reserve) and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability.

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

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

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur. From 1 April 2018 the Group cannot voluntarily de-designate a hedging relationship.

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

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

1 ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation uncertainty
When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment.

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

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.

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

UK Defined Benefit pension surplus
Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group obtaining a refund of that surplus in the future are considered in determining whether it is necessary to restrict the amount of the surplus that is recognised. The UK Defined Benefit scheme is in surplus at 30 March 2019. The directors have made the judgement that these amounts meet the requirements of recoverability and a surplus of £931.5m has been recognised.

Key sources of estimation uncertainty
UK store estate The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £222.1m (last year £321.1m) 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.

→ 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.

→ Estimation of future contractual lease costs to be incurred including uncertainty with regards to the cost of termination, potential sub-let (including estimation of nature, timing and value including any potential void periods and based on assessment of location specific retail property market factors).

See notes 5 and 15 for further detail.

Property provision The Group has a number of property provisions totalling £345.8m at 30 March 2019 (last year: £233.3m), which include amounts in respect of onerous leases and sublet shortfalls. The net present value of the future onerous leases and sublet shortfalls has been provided for based on the contracted future cash flows, assumptions related to sublet income (including periods where properties are not sublet) and lease incentives, and discounted to reflect the time value of money, with adjustments for credit risk where it is not included in the underlying cash flows.

Included within these provisions is a sublet shortfall of £89.2m for surplus office space in the Merchant Square building in London, which is sublet for the remaining duration of the lease. The valuation of the provision is sensitive to movements in the discount rate, or to an event of default by the subtenant. If an event of default had occurred at 30 March 2019 and no alternative sublet income was assumed, the provision would have increased by £65.2m. In this event, the Group would seek alternative subtenants for the property.

Across all property provisions, an increase in the discount rate of 25bps would decrease the provision by £5.6m.

Useful lives and residual values of property, plant and equipment and intangibles Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate section above for specific sources of estimation uncertainty in relation to the useful lives and residual values of property, plant and equipment for stores identified as part of the UK store estate programme.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Key sources of estimation uncertainty continued

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 lived 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 calculating the discount rate the Group has taken into account volatility in the inputs to the calculation that are reflective of the market uncertainty for Brexit.

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

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, pensionable salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates.

2 SEGMENTAL INFORMATION

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

The chief operating decision maker has been identified as the Operating Committee. The Operating Committee reviews the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the Operating Committee.

The UK segment consists of the UK retail business, UK franchise operations, M&S Bank and M&S Energy. The International segment consists of Marks & Spencer owned businesses in Europe and Asia and the international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit referred to as management group operating profit. This measurement basis excludes the effects of adjusting items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

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

	52 weeks ended 30 March 2019				52 weeks ended 31 March 2018 (restated[3])			
	Management[1] £m	Logistics Adjustment[2] £m	Adjusting items £m	Statutory £m	Management[1] £m	Logistics Adjustment[2] £m	Adjusting items £m	Statutory £m
Food revenue	**5,903.4**	–	–	**5,903.4**	5,940.0	–	–	5,940.0
Clothing & Home revenue	**3,537.3**	–	–	**3,537.3**	3,671.0	–	–	3,671.0
UK revenue	**9,440.7**	–	–	**9,440.7**	9,611.0	–	–	9,611.0
Franchised	**409.1**	–	–	**409.1**	360.6	–	–	360.6
Owned	**527.5**	–	–	**527.5**	726.6	–	–	726.6
International revenue	**936.6**	–	–	**936.6**	1,087.2	–	–	1,087.2
Group revenue	**10,377.3**	–	–	**10,377.3**	10,698.2	–	–	10,698.2
Food gross profit[3]	**1,834.7**				1,854.8			
Clothing & Home gross profit[3]	**2,021.2**				2,090.6			
UK gross profit[3]	**3,855.9**	**(384.9)**	–	**3,471.0**	3,945.4	(370.0)	–	3,575.4
UK operating costs	**(3,409.6)**	**384.9**	**(400.3)**	**(3,425.0)**	(3,450.3)	370.0	(477.5)	(3,557.8)
M&S Bank	**27.6**	–	**(20.9)**	**6.7**	40.3	–	(34.7)	5.6
M&S Energy	**0.1**	–	–	**0.1**	–	–	–	–
UK operating profit	**474.0**	–	**(421.2)**	**52.8**	535.4	–	(512.2)	23.2
International operating profit	**127.0**	–	**(17.4)**	**109.6**	135.2	–	(1.9)	133.3
Group operating profit	**601.0**	–	**(438.6)**	**162.4**	670.6	–	(514.1)	156.5
Finance income	**33.8**	–	–	**33.8**	24.1	–	–	24.1
Finance costs	**(111.6)**	–	–	**(111.6)**	(113.8)	–	–	(113.8)
Profit before tax	**523.2**	–	**(438.6)**	**84.6**	580.9	–	(514.1)	66.8

1. Management profit excludes the adjustments (income and charges) made to reported profit before tax that are significant in value and/or nature (see note 5 – adjusting items). Refer to the accounting policy in note 1 and the glossary for more details on these adjustments.
2. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £384.9m (last year: £370.0m).
3. During the year, as a result of a change to internal management reporting, the reporting of cards and gift-wrap has been transferred from Clothing & Home to Food for both revenue and gross profit. The prior period comparatives have been restated to reflect this, £70.1m of revenue has been transferred from Clothing & Home to Food with a corresponding transfer of gross profit of £26.1m.

Other segmental information

	2019			2018		
	UK[1] £m	International £m	Total £m	UK[1] £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**283.1**	**13.9**	**297.0**	322.4	13.2	335.6
Depreciation and amortisation	**613.0**	**13.1**	**626.1**	615.7	24.6	640.3
Impairment and asset write-offs	**126.3**	**1.6**	**127.9**	228.3	5.3	233.6
Total assets	**6,900.1**	**300.1**	**7,200.2**	7,242.4	307.8	7,550.2
Non-current assets	**4,558.9**	**199.7**	**4.758.6**	5,024.5	210.0	5,234.5

1. UK assets include centrally held assets largely relating to IT systems that support the International business of £20.9m (last year: £24.9m).

3 EXPENSE ANALYSIS

	2019 Total £m	2018 Total £m
Revenue	**10,377.3**	10,698.2
Cost of sales	**(6,547.2)**	(6,650.9)
Gross profit	**3,830.1**	4,047.3
Selling and administrative expenses	**(3,271.1)**	(3,426.2)
Other operating income	**42.0**	49.5
Operating profit before adjusting items	**601.0**	670.6
Adjusting items (see note 5)	**(438.6)**	(514.1)
Operating profit	**162.4**	156.5

The selling and administrative expenses are further analysed below:

	2019 Total £m	2018 Total £m
Employee costs[1]	**1,450.0**	1,521.0
Occupancy costs	**652.7**	705.6
Repairs, renewals and maintenance of property	**87.6**	94.7
Depreciation, amortisation and asset impairments and write-offs before adjusting items	**544.9**	580.6
Other costs	**535.9**	524.3
Selling and administrative expenses before adjusting items	**3,271.1**	3,426.2

1. There are an additional £61.0m (last year: £57.9m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. The £438.6m adjusting items charges for the year are further analysed against the categories of selling and administrative expense £418.8m (last year: £485.2m) and other operating income £19.8m (last year: £28.9m) accordingly; employee costs £64.9m (last year: £47.9m); occupancy costs £113.6m (last year: £124.7m); depreciation, amortisation and asset impairments and write-offs £209.1m (last year: £293.3m); other expenses £31.2m (last year: £18.5m); and other operating income £19.8m (last year: £28.9m).

4 PROFIT BEFORE TAXATION

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

	2019 £m	2018 £m
Net foreign exchange (gains)/losses	**(3.4)**	0.8
Cost of inventories recognised as an expense	**5,765.4**	5,904.1
Write down of inventories recognised as an expense	**214.1**	220.5
Depreciation of property, plant and equipment		
– owned assets	**440.0**	459.1
– under finance leases	**1.7**	0.5
Amortisation of intangible assets	**184.4**	180.7
Impairments and write-offs of intangible assets and property, plant and equipment	**127.9**	233.6
Operating lease rentals payable		
– property	**302.5**	329.9
– fixtures, fittings and equipment	**11.8**	7.4

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

	2019 £m	2018 £m
Annual audit of the Company and the consolidated financial statements	**1.3**	1.3
Audit of subsidiary companies	**0.6**	0.6
Total audit fees	**1.9**	1.9
Audit-related assurance services	**0.2**	0.2
Transaction related services	**0.2**	–
Total non-audit services fees	**0.4**	0.2
Total audit and non-audit services fees	**2.3**	2.1

Transaction related services provided by the auditor relate to establishing the Ocado joint venture (see note 5).

5 ADJUSTING ITEMS

The total adjusting items reported for the 52 week period ended 30 March 2019 is a net charge of £438.6m (last year: £514.1m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2019 £m	2018 £m
Strategic programmes – UK store estate	15, 22	**222.1**	321.1
Strategic programmes – Organisation	15, 22	**51.8**	30.7
Strategic programmes – Operational transformation		**16.4**	–
Strategic programmes – IT restructure	22	**15.6**	15.5
Strategic programmes – UK logistics	15, 22	**14.3**	13.1
Strategic programmes – Changes to pay and pensions	22	**6.2**	12.9
Strategic programmes – International store closures and impairments	22	**5.3**	5.0
UK store impairments and other property charges	15, 22	**62.1**	63.4
M&S Bank charges incurred in relation to the insurance mis-selling provision		**20.9**	34.7
GMP and other pension equalisation	11, 22	**20.5**	–
Establishing the Ocado joint venture		**3.4**	–
Other		**–**	17.7
Adjustments to profit before tax		**438.6**	514.1

Strategic programmes – UK store estate (£222.1m)

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 £222.1m in the year which relates in part to the accelerated and expanded store closure programme which now includes a number of Simply Foods stores. The charge primarily relates to accelerated depreciation (due to shortening the useful economic life) and impairment of buildings and fixtures and fittings. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges (before restatement to reflect the impact of the adoption of IFRS 16) are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m.

Strategic programmes – Organisation (£51.8m)

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.

The Group has now conducted a review of the retail field and management team organisational structure. The proposals will result in a net reduction of c.700 retail roles achieved through a combination of natural attrition and redundancies. A charge of £18.6m has been recognised in the period for redundancy costs associated with these changes.

In addition, a further £33.2m of costs have been recognised in the period associated with centralising the Group's London Head Office functions and rationalisation of Head Office functions.

As the Group executes the three phases of the transformation strategy further material organisational 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 value, and are consistent with the disclosure of other similar charges in prior years.

Strategic programmes – Operational transformation (£16.4m)

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 Clothing & Home and Food end-to-end processes. A charge of £16.4m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across Clothing & Home and Food.

These costs are considered to be adjusting items as they relate to a strategic programme and the total costs are significant in quantum and as a result not considered to be normal operating costs of the business. Further operational transformation initiatives are planned for 2019/20 which will result in additional related charges within adjusting items.

Strategic programmes – IT restructure (£15.6m)

In 2017/18 as part of the five-year transformation strategy, the Group announced a technology transformation programme to create a faster, more agile and more commercial technology function. A charge of £15.6m has been recognised in the year relating primarily to transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group is retiring early as a result of the transformation strategy. Further charges of c.£2m are expected in 2019/20 and 2019/20 is expected to be 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 and are significant in value, both in the year and in total for the programme.

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5 ADJUSTING ITEMS CONTINUED

Strategic programmes – UK logistics (£14.3m)
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 £14.3m has been recognised in the year for redundancy, accelerated depreciation and project costs.

The Group considers these costs to be adjusting items as they are significant in value 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. Further charges are expected in 2019/20 of c.£12m.

Strategic programmes – Changes to pay and pensions (£6.2m)
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 defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to affected employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. The charge in the year in relation to these transition payments to employees is £6.2m.

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 year within adjusting items is consistent with disclosure of the same costs in 2017/18 and the original disclosure of the UK DB scheme closure costs in 2016/17.

Strategic programmes – International store closures and impairments (£5.3m)
In 2016/17 the Group announced its intention to close its owned stores in 10 international markets. A net charge of £5.3m 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.

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 value and nature to the results of the Group. No further significant charges are expected.

UK store impairments and property charges (£62.1m)
The Group has recognised a number of charges in the year 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, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

In addition, the Group has entered in to property arrangements impacting 10 stores. The Group has recognised a net charge of £9.3m associated with the sale and leaseback or lease surrender costs for these stores.

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

M&S Bank charges incurred in relation to the insurance mis-selling provision (£20.9m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any 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 fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the year is £20.9m. 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 year to the results of the Group. The estimated liability for redress will continue to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

GMP and other pension equalisation (£20.5m)
The Group has recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of GMP following a high court ruling in October 2018 and other pension equalisation charges. Additional detail on the Group's GMP assessment is detailed in note 11.

The amounts recognised in relation to GMP and other pension equalisation charges are considered to be adjusting items as they are significant in nature and value to the results of the Group in the current period.

Establishing the Ocado joint venture (£3.4m)
In February 2019 the Group announced the creation of a new 50/50 joint venture (JV) with Ocado Group Plc (Ocado), the UK's leading pure play digital grocer, that will transform online grocery shopping for UK consumers. Transaction costs of £3.4m were incurred during the period.

The Group considers the costs directly associated with the Ocado transaction to be an adjusting item on the basis that they relate to a major transaction and as a result are not considered to be normal operating costs of the Group. Further costs of c.£30.0m will be incurred in 2019/20, the majority of which will be capitalised within the cost of investment upon completion or included within the cost of equity as part of the rights-issue.

5 ADJUSTING ITEMS CONTINUED

Other (£nil)

Other in the prior year included the profit on the disposal of our retail business in Hong Kong and charges for probable liabilities for certain employee related matters in the prior period. These amounts were considered to be adjusting items as they were significant in nature and value to the results of the Group in the prior period.

The prior year profit on disposal is analysed as follows:

	2019 £m	2018 £m
Proceeds	–	33.9
Disposal costs	–	(0.9)
Net disposal proceeds	–	33.0
Fair value of net assets disposed	–	(28.6)
Provision for IT transition services	–	(0.8)
Net foreign exchange amounts recycled from reserves	–	2.2
Profit on disposal	–	5.8

6 FINANCE INCOME/COSTS

	2019 £m	2018 £m
Bank and other interest receivable	**7.6**	6.0
Other finance income	**0.4**	0.4
Pension net finance income (see note 11F)	**25.8**	17.7
Finance income	**33.8**	24.1
Interest on bank borrowings	**(0.6)**	(1.2)
Interest payable on syndicated bank facility	**(2.3)**	(2.3)
Interest payable on Medium Term Notes	**(77.4)**	(90.0)
Interest payable on finance leases	**(1.7)**	(1.9)
Ineffectiveness on financial instruments	**(3.5)**	(2.3)
Unwind of discount on provisions	**(17.3)**	(5.2)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(8.8)**	(10.9)
Finance costs	**(111.6)**	(113.8)
Net finance costs	**(77.8)**	(89.7)

7 INCOME TAX EXPENSE

A. Taxation charge

	2019 £m	2018 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	**78.4**	65.4
– adjustments in respect of prior years	**(4.6)**	7.5
UK current tax	**73.8**	72.9
Overseas current taxation		
– current year	**8.9**	10.3
– adjustments in respect of prior years	**(0.8)**	(0.2)
Total current taxation	**81.9**	83.0
Deferred tax		
– origination and reversal of temporary differences	**(36.1)**	(37.3)
– recognition of previously unrecognised tax losses	**–**	(1.4)
– adjustments in respect of prior years	**2.3**	(3.1)
– changes in tax rate	**(0.8)**	(3.5)
Total deferred tax (see note 23)	**(34.6)**	(45.3)
Total income tax expense	**47.3**	37.7

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 55.9% (last year: 56.4%) and is explained below.

	2019 £m	2018 £m
Profit before tax	**84.6**	66.8
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**16.1**	12.7
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**1.2**	3.0
Other income and expenses that are not taxable or allowable for tax purposes	**15.0**	14.8
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(1.1)**	(3.5)
Overseas profits taxed at rates different to those of the UK	**0.8**	(3.4)
Recognition of overseas deferred tax assets	**(6.2)**	–
Adjustments to the current and deferred tax charges in respect of prior periods	**(3.1)**	4.2
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**–**	8.0
– UK store and strategic programme impairments where no tax relief is available	**14.9**	6.6
– International store closures and impairments	**0.8**	(8.3)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**8.9**	3.4
– other	**–**	0.2
Total income tax expense	**47.3**	37.7

After excluding adjustments to profit before tax the adjusted effective tax rate was 20.3% (last year: 21.6%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.6m (last year: £12.7m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £0.8m in the income statement and the recognition of a deferred tax charge of £2.3m in other comprehensive income.

C. Current tax reconciliation

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

	2019 £m	2018 £m
Profit before tax	**84.6**	66.8
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**16.1**	12.7
Disallowable accounting depreciation and other similar items	**68.0**	78.7
Deductible capital allowances	**(59.4)**	(70.6)
Adjustments in relation to employee share schemes	**2.7**	2.8
Adjustments in relation to employee pension schemes	**10.7**	9.2
Overseas profits taxed at rates different to those of the UK	**0.8**	(3.4)
Utilisation of unrecognised losses	**(1.4)**	–
Other income and expenses that are not taxable or allowable	**4.4**	0.5
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**–**	9.5
– UK store and strategic programme impairments where no tax relief is available	**32.0**	44.0
– International store closures and impairments	**0.8**	(16.2)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**12.6**	5.1
– other	**–**	3.4
Current year current tax charge	**87.3**	75.7
Represented by:		
UK current year current tax	**78.4**	65.4
Overseas current year current tax	**8.9**	10.3
	87.3	75.7
UK adjustments in respect of prior years	**(4.6)**	7.5
Overseas adjustments in respect of prior years	**(0.8)**	(0.2)
Total current taxation (note 7A)	**81.9**	83.0

8 EARNINGS PER SHARE

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

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

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

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

	2019 £m	2018 £m
Profit attributable to equity shareholders of the Company	**33.5**	25.7
Add/(less) (net of tax):		
Strategic programmes – UK store estate	**194.6**	264.7
Strategic programmes – Organisation	**46.3**	28.0
Strategic programmes – Operational transformation	**13.2**	–
Strategic programmes – IT restructure	**12.7**	12.5
Strategic programmes – UK logistics	**11.8**	10.7
Strategic programmes – Changes to pay and pensions	**5.1**	10.4
Strategic programmes – International store closures and impairments	**5.1**	(4.1)
UK store impairments and property charges	**54.2**	61.6
M&S Bank charges incurred in relation to the insurance mis-selling provision	**16.9**	28.1
GMP and other equalisation	**16.6**	–
Establishing the Ocado joint venture	**3.4**	–
Other	**–**	14.5
Profit before adjusting items attributable to equity shareholders of the Company	**413.4**	452.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,624.1**	1,624.0
Potentially dilutive share options under Group's share option schemes	**3.8**	5.4
Weighted average number of diluted ordinary shares	**1,627.9**	1,629.4

	Pence	Pence
Basic earnings per share	**2.1**	1.6
Diluted earnings per share	**2.1**	1.6
Adjusted basic earnings per share	**25.4**	27.8
Adjusted diluted earnings per share	**25.4**	27.8

9 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.9p	**193.1**	193.1
Paid interim dividend	**6.8p**	6.8p	**110.4**	110.3
	18.7p	18.7p	**303.5**	303.4

The directors have approved a final dividend of 7.1p per share (last year: 11.9p per share), which, in line with the requirements of IAS 10 Events after the Reporting Period, has not been recognised within these results. This final dividend of c.£115.4m (last year: £193.1m) will be paid on 12 July 2019 to shareholders whose names are on the Register of Members at the close of business on 31 May 2019. The ordinary shares will be quoted ex dividend on 30 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 21 June 2019.

10 EMPLOYEES

A. Aggregate remuneration

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

	2019 Total £m	2018 Total £m
Wages and salaries	**1,293.2**	1,359.7
Social security costs	**85.0**	91.7
Pension costs	**77.4**	76.7
Share-based payments (see note 13)	**19.2**	18.9
Employee welfare and other personnel costs	**53.8**	56.6
Capitalised staffing costs	**(17.6)**	(24.7)
Total aggregate remuneration[1]	**1,511.0**	1,578.9

1. Excludes amounts recognised within adjusting items of £64.9m (last year: £47.9m) (see notes 3 and 5) such as the transition payments the Group has committed to in respect of removal of premia, redundancy costs associated with the UK and International strategic programmes and GMP and other pension equalisation costs.

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2019	2018
UK stores		
– management and supervisory categories	**5,480**	6,004
– other	**63,957**	66,540
UK head office		
– management and supervisory categories	**2,968**	3,088
– other	**832**	856
UK operations		
– management and supervisory categories	**81**	89
– other	**1,066**	1,153
Overseas	**5,713**	6,891
Total average number of employees	**80,097**	84,621

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 55,440 (last year: 58,928).

11 RETIREMENT BENEFITS

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

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. On closure of the UK DB scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m in 2016/17. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end the UK DB pension scheme had no active members (last year: nil), 58,079 deferred members (last year: 60,402) and 52,217 pensioners (last year: 51,802).

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

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 53,536 active members (last year: 54,001) and some 26,709 deferred members (last year: 19,984).

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

The total Group retirement benefit cost was £69.5m (last year: £58.9m). Of this, income of £4.5m (last year: income of £14.7m) relates to the UK DB pension scheme, costs of £68.7m (last year: costs of £68.8m) to the UK DC plan and costs of £5.3m (last year: costs of £4.8m) to other retirement benefit schemes.

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one-third of the pensioner portfolio. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

11 RETIREMENT BENEFITS CONTINUED

On 26 October 2018, the High Court issued a judgement in a claim involving Lloyds Banking Group's DB pension schemes. This judgement concluded 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 have resulted in an increase in the liabilities of the Marks & Spencer UK DB Pension Scheme of £18.0m. This increase has been reflected in the results as a past service cost.

A. Pensions and other post-retirement liabilities

	2019 £m	2018 £m
Total market value of assets	**10,224.7**	9,989.3
Present value of scheme liabilities	**(9,301.3)**	(9,029.6)
Net funded pension plan asset	**923.4**	959.7
Unfunded retirement benefits	**(3.5)**	(3.6)
Post-retirement healthcare	**(5.6)**	(7.9)
Net retirement benefit surplus	**914.3**	948.2
Analysed in the statement of financial position as:		
Retirement benefit asset	**931.5**	970.7
Retirement benefit deficit	**(17.2)**	(22.5)
Net retirement benefit surplus	**914.3**	948.2

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

B. Financial assumptions

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

	2019 %	2018 %
Rate of increase in pensions in payment for service	**2.1-3.3**	2.0-3.2
Discount rate	**2.45**	2.65
Inflation rate	**3.25**	3.15
Long-term healthcare cost increases	**7.25**	7.15

C. Demographic assumptions

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

		2019	2018
Current pensioners (at age 65)	– male	**22.0**	22.3
	– female	**24.9**	25.2
Future pensioners – currently in deferred status (at age 65)	– male	**23.8**	24.1
	– female	**26.7**	27.0

D. Sensitivity analysis

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

	2019 £m	2018 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(70.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(25.0)**	(25.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**315.0**	305.0

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

11 RETIREMENT BENEFITS CONTINUED

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 96% of interest rate movements and 94% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

→ Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.

→ The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.

→ Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.

→ Legislative changes could also lead to an increase in the schemes' liabilities.

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

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

	2019			2018		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	**4,373.9**	**367.2**	**4,741.1**	4,472.9	369.4	4,842.3
– Corporate Bonds	**6.1**	**731.8**	**737.9**	5.9	685.4	691.3
– Asset backed securities and structured debt	**–**	**296.6**	**296.6**	–	339.2	339.2
Scottish Limited Partnership Interest (see note 12)	**–**	**278.5**	**278.5**	–	345.4	345.4
Equity investments						
– Developed markets	**398.0**	**57.9**	**455.9**	460.8	102.8	563.6
– Emerging markets	**103.7**	**–**	**103.7**	151.7	–	151.7
Growth Asset Funds						
– Global Property	**–**	**328.4**	**328.4**	–	274.0	274.0
– Hedge and Reinsurance	**24.3**	**412.4**	**436.7**	18.2	406.2	424.4
– Private Equity and Infrastructure	**–**	**223.3**	**223.3**	–	222.5	222.5
Derivatives						
– Interest and inflation rate swaps	**15.9**	**148.4**	**164.3**	7.7	6.4	14.1
– Foreign exchange contracts and other derivatives	**0.1**	**127.5**	**127.6**	0.1	154.8	154.9
Cash and cash equivalents	**51.1**	**122.2**	**173.3**	41.8	92.5	134.3
Other						
– Buy-in insurance	**–**	**1,273.7**	**1,273.7**	–	1,277.9	1,277.9
– Secure Income Asset Funds	**–**	**842.2**	**842.2**	–	466.7	466.7
– Other	**41.5**	**–**	**41.5**	87.0	–	87.0
	5,014.6	**5,210.1**	**10,224.7**	5,246.1	4,743.2	9,989.3

1. Repurchase agreements were £1,025.1m (last year: £920.2m).

The fair values of the above equity and debt investments are based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The fair value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the scheme to hedge a proportion of interest rate and inflation risk. The scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 41,841 (last year: 41,046) ordinary shares in the Company through its investment in UK Equity Index Funds.

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

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

	2019 £m	2018 £m
Current service cost	**0.2**	0.3
Administration costs	**3.9**	3.5
Past service costs	**18.0**	–
Net interest income	**(25.8)**	(17.7)
Total	**(3.7)**	(13.9)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**(283.8)**	88.2
Actuarial gain – demographic assumptions	**(90.2)**	(85.1)
Actuarial loss – experience	**19.2**	26.3
Actuarial loss/(gain) – financial assumptions	**434.7**	(230.3)
Components of defined benefit expense/(income) recognised in other comprehensive income	**79.9**	(200.9)

G. Scheme assets

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

	2019 £m	2018 £m
Fair value of scheme assets at start of year	**9,989.3**	10,135.1
Interest income based on discount rate	**259.5**	253.4
Actual return on scheme assets excluding amounts included in net interest income[1]	**283.8**	(88.2)
Employer contributions	**42.0**	40.7
Benefits paid	**(346.2)**	(353.9)
Administration costs	**(3.7)**	(3.3)
Exchange movement	**–**	5.5
Fair value of scheme assets at end of year	**10,224.7**	9,989.3

1. The actual return on scheme assets was a gain of £543.3m (last year: gain of £164.6m).

H. Pensions and other post-retirement liabilities

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

	2019 £m	2018 £m
Present value of obligation at start of year	**9,041.1**	9,442.3
Current service cost	**0.2**	0.3
Administration costs	**0.2**	0.2
Past service cost	**18.0**	–
Interest cost	**233.7**	235.7
Benefits paid	**(346.2)**	(353.9)
Actuarial loss – experience	**19.2**	26.3
Actuarial (gain) – demographic assumptions	**(90.2)**	(85.1)
Actuarial loss/(gain) – financial assumptions	**434.7**	(230.3)
Exchange movement	**(0.3)**	5.6
Present value of obligation at end of year	**9,310.4**	9,041.1
Analysed as:		
Present value of pension scheme liabilities	**9,301.3**	9,029.6
Unfunded pension plans	**3.5**	3.6
Post-retirement healthcare	**5.6**	7.9
Present value of obligation at end of year	**9,310.4**	9,041.1

The average duration of the defined benefit obligation at 30 March 2019 is 19 years (last year: 19 years).

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

The Partnership holds £1.4bn (last year: £1.5bn) 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 £272.4m (last year: £335.5m) 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 30 March 2019 an interest charge of £8.8m (last year: £10.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £278.5m (last year: £345.4m).

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

13 SHARE-BASED PAYMENTS

This year a charge of £19.2m was recognised for share-based payments (last year: charge of £18.9m). Of the total share-based payments charge, £9.2m (last year: £11.0m) relates to the Save As You Earn share option scheme and a charge of £4.1m (last year: £2.3m) relates to the Performance Share Plan. The remaining charge of £5.9m (last year: £5.6m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn Scheme

The Save As You Earn (SAYE) scheme was approved by shareholders for a further 10 years at the 2017 Annual General Meeting (AGM). Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC approved schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2019		2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**43,731,657**	**285.4p**	43,294,094	310.6p
Granted	**10,337,468**	**247.0p**	13,351,790	261.0p
Exercised	**(241,813)**	**260.1p**	(29,500)	269.7p
Forfeited	**(10,455,905)**	**274.0p**	(7,758,295)	307.1p
Expired	**(5,347,906)**	**358.7p**	(5,126,432)	402.5p
Outstanding at end of year	**38,023,501**	**267.9p**	43,731,657	285.4p
Exercisable at end of year	**2,542,320**	**421.0p**	4,976,777	362.3p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 290.8p (last year: 314.8p).

13 SHARE-BASED PAYMENTS CONTINUED

A. Save As You Earn Scheme continued

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2019	2018	2018
	3-year plan	3-year plan	3-year plan 2016 modified[1]
Grant date	**Nov 18**	Nov 17	Nov 17
Share price at grant date	**309p**	298p	298p
Exercise price	**247p**	261p	432p
Option life in years	**3 years**	3 years	3 years
Risk-free rate	**0.8%**	0.5%	0.5%
Expected volatility	**27.9%**	27.8%	27.8%
Expected dividend yield	**6.1%**	6.3%	6.3%
Fair value of option	**54p**	42p	32p
Incremental fair value of option	**n/a**	n/a	10p

1. In the prior year, there was a modification to the 2016 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2018 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2018 options, being 42p, and the fair value of the repriced previous awards being 32p, calculated using 2018 award assumptions, keeping the initial exercise price consistent. The incremental fair value of the modified options, being 10p for the 2016 modified options, is already recognised in operating profit.

Volatility has been estimated by taking the historic volatility in the Company's share price over a three-year period.

The resulting fair value is expensed over the service period of three years on the assumption that 10% (last year: 10%) of options will lapse over the service period as employees leave the Group.

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	**2019**	2018	**2019**	2018	Option price
January 2015	**–**	4,703,165	**–**	0.2	369p
January 2016	**2,436,408**	3,397,156	**0.3**	1.2	432p
January 2017	**17,140,666**	22,925,562	**1.3**	2.3	260p
January 2018	**8,711,023**	12,705,774	**2.3**	3.3	261p
January 2019	**9,735,404**	–	**3.3**	–	247p
	38,023,501	43,731,657	**1.9**	2.2	268p

1. For the purpose of the above table the option granted date is the contract start date.

B. Performance Share Plan*

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2018/19 included Earnings Per Share (EPS), Return on Capital Employed (ROCE), and Total Shareholder Return (TSR). The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report. Awards under this plan have been made in each year since 2005. More information is available in relation to this scheme within the Remuneration Report.

During the year, 8,006,094 shares (last year: 7,880,779) were awarded under the plan. The weighted average fair value of the shares awarded was 264.2p (last year: 268.4p). As at 30 March 2019 17,296,405 shares (last year: 17,624,385) were outstanding under the plan.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme. It is now operated for approximately 40 (last year: 500) of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period will also be paid on vesting. More information is available in relation to this scheme within the Remuneration Report.

During the year, no shares (last year: 1,892,215) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded last year was 343.3p. As at 30 March 2019, 2,595,337 shares (last year: 4,248,291) were outstanding under the plan.

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for senior managers below executive director level. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period will also be paid on vesting. More information is available in relation to this scheme within the Remuneration Report.

During the year, 1,710,368 shares (last year: 1,105,428) have been awarded under the plan. The weighted average fair value of the shares awarded was 295.2p (last year: 314.0p). As at 30 March 2019, 2,364,783 shares (last year: 1,555,748) were outstanding under the plan.

13 SHARE-BASED PAYMENTS CONTINUED

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn scheme was introduced in 2009 to all employees in the Republic of Ireland for a 10 year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract. The Company will be seeking shareholder reapproval of this scheme on similar terms to those outlined above at this year's AGM.

During the year, 169,422 options (last year: 210,486) were granted, at a fair value of 53.6p (last year: 41.5p). As at 30 March 2019, 672,203 options (last year: 644,325) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 1,712,922 (last year: 2,247,837) shares with a book value of £5.1m (last year: £9.8m) and a market value of £4.8m (last year: £6.1m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

* All awards this year were conditional shares, last year all DSBP and 297,114 RSP awards were awarded as nil-cost options with the remainder being awarded as conditional shares. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 1 April 2017					
Cost	137.4	112.3	1,368.3	82.5	1,700.5
Accumulated amortisation and impairments	(59.0)	(98.9)	(809.9)	(23.7)	(991.5)
Net book value	78.4	13.4	558.4	58.8	709.0
Year ended 31 March 2018					
Opening net book value	78.4	13.4	558.4	58.8	709.0
Additions	–	–	0.2	74.1	74.3
Transfers and reclassifications	–	–	94.2	(89.2)	5.0
Asset write-offs	–	–	(5.8)	(1.7)	(7.5)
Amortisation charge	–	(5.3)	(175.4)	–	(180.7)
Exchange difference	(1.0)	–	0.3	(0.2)	(0.9)
Closing net book value	77.4	8.1	471.9	41.8	599.2
At 31 March 2018					
Cost	136.4	112.3	1,400.0	65.6	1,714.3
Accumulated amortisation, impairments and write-offs	(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 and 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**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Goodwill related to the following assets and groups of Cash Generating Units (CGU's):

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 31 March 2018	69.5	7.2	0.7	77.4
Exchange difference	–	0.1	–	0.1
Net book value at 30 March 2019	69.5	7.3	0.7	77.5

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 and the UK is monitored by management at a country level, including the combined retail and wholesale businesses for each location, and have 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 £2.8m (last year: £8.1m). 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 historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. The latest budget and three-year plan reflect a more conservative view of the short-term future performance of the UK and per una businesses.

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 the UK and per una is 2.3%, which combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The Group's current view of achievable long-term growth for India is 6.6%.

Management estimates discount rates using pre-tax 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 adjusted for the specific risks relating to each asset or CGU, and were 9.1% for the UK and per una (last year: 8.6%) and 17.3% for India (last year: 14.8%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonable 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 and the UK, 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 assumptions applied to the impairment test for per una give rise to a key source of estimation uncertainty, and the management's sensitivity analysis has identified a reasonably possible change in key assumptions that would lead to a material impairment charge.

The future cashflows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years. The success of these plans will determine the strategic role of the brand within the Group.

In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. The model assumes growth into perpetuity, as set out above which, given uncertain market conditions is considered sensitive. If a shorter trading period was assumed then this could result in an impairment.

The outcome of the value in use calculation supports the carrying value of the asset, with a headroom of £39.0m.

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, given the level of headroom, could lead to an impairment.

The following key assumptions would have to change in order to eliminate the headroom within the impairment test:

- → The cash flow forecasts in each of the years covered by the three-year forecast would have to be 35% below forecast;
- → The long-term growth rate of cash flows would have to decline to -2.2% per annum; or
- → The pre-tax discount rate would have to increase to 12.9%.

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonable possible changes in these key assumptions, such as assuming that forecast growth is not achieved.

- → In the scenario where per una sales declined by 2.5% in each of the 3 years forecast, combined with no growth into perpetuity, headroom would reduce to nil.
- → In the scenario where per una sales declined by 15% in each of the 3 years forecast, combined with no growth into perpetuity an impairment of £22.7m would result.

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 1 April 2017				
Cost	3,008.4	7,750.3	96.0	10,854.7
Accumulated depreciation, impairments and write-offs	(420.6)	(5,578.4)	(17.9)	(6,016.9)
Net book value	2,587.8	2,171.9	78.1	4,837.8
Year ended 31 March 2018				
Opening net book value	2,587.8	2,171.9	78.1	4,837.8
Additions	0.2	56.5	204.6	261.3
Transfers and reclassifications	10.2	186.6	(200.8)	(4.0)
Disposals	(2.1)	(15.4)	–	(17.5)
Asset impairments	(104.8)	(103.3)	–	(208.1)
Asset write-offs	(16.5)	1.5	(3.0)	(18.0)
Depreciation charge	(59.8)	(399.8)	–	(459.6)
Exchange difference	2.9	(0.8)	(0.1)	2.0
Closing net book value	2,417.9	1,897.2	78.8	4,393.9
At 31 March 2018				
Cost	2,963.4	7,059.0	96.8	10,119.2
Accumulated depreciation, impairments and write-offs	(545.5)	(5,161.8)	(18.0)	(5,725.3)
Net book value	2,417.9	1,897.2	78.8	4,393.9
Year ended 30 March 2019				
Opening net book value	**2,417.9**	**1,897.2**	**78.8**	**4,393.9**
Additions	**0.9**	**30.9**	**170.1**	**201.9**
Transfers and reclassifications	**(3.2)**	**166.7**	**(168.8)**	**(5.3)**
Disposals	**(2.5)**	**(0.4)**	**–**	**(2.9)**
Asset impairments	**(11.5)**	**(58.2)**	**–**	**(69.7)**
Asset write-offs	**(35.3)**	**(8.6)**	**–**	**(43.9)**
Depreciation charge	**(89.7)**	**(352.0)**	**–**	**(441.7)**
Exchange difference	**(2.7)**	**(1.1)**	**–**	**(3.8)**
Closing net book value	**2,273.9**	**1,674.5**	**80.1**	**4,028.5**
At 30 March 2019				
Cost	**2,923.9**	**5,729.1**	**98.1**	**8,751.1**
Accumulated depreciation, impairments and write-offs	**(650.0)**	**(4,054.6)**	**(18.0)**	**(4,722.6)**
Net book value	**2,273.9**	**1,674.5**	**80.1**	**4,028.5**

Asset write-offs in the year include assets with gross book value of £1,467.9m (last year: £784.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

The net book value above includes land and buildings of £31.1m (last year: £41.6m) and equipment of £nil (last year: £nil) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year: £nil) were financed by finance leases.

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of outlet stores, which are considered together as one CGU. Shop Your Way (SYW) sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5).

The 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 future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment of property, plant and equipment continued

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, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 9% to 21% (last year: 8% to 15%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

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

During the year the Group has recognised an impairment charge of £52.8m and no impairment reversals as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £11.9m). These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.3%, adjusted to 0% where management believe the current trading performance and future expectations of the store do not support the growth rate of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The rate used to discount the forecast cash flows for UK stores is 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 2% from the three-year plan would result in an increase in the impairment charge of £7.1m and a 20 basis point reduction in gross profit margin would increase the impairment charge by £2.2m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. Reasonably possible changes of the other key assumptions, including reducing the long term growth rate to 0% across all stores, would not result in an increase to the impairment charge.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £16.9m relating to the on-going UK store estate programme (last year: £196.2m). The impairment charge relates to the accelerated and expanded store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 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 £31.4m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £4.9m. Neither a 25 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.

16 OTHER FINANCIAL ASSETS

	2019 £m	2018 £m
Non-current		
Unlisted investments	**9.9**	9.9
Current		
Short-term investments[1]	**141.8**	13.7

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

Non-current unlisted investments are carried as fair value through other comprehensive income (available for sale assets before 1 April 2018). Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Non-current		
Other receivables	**2.0**	2.3
Prepayments	**198.7**	206.7
	200.7	209.0
Current		
Trade receivables	**121.8**	114.3
Less: provision for impairment of receivables	**(3.2)**	(0.4)
Trade receivables – net	**118.6**	113.9
Other receivables	**31.5**	30.9
Prepayments	**144.1**	134.2
Accrued income	**28.3**	29.4
	322.5	308.4

Trade and other receivables that were past due but not impaired amounted to £7.2m (last year: £21.3m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit losses (see note 21). Included in accrued income is £21.9m (last year: £28.2m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £285.4m (last year: £207.7m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.74% (last year: 0.40%). These deposits have an average maturity of 9 days (last year: 23 days).

19 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Current		
Trade and other payables	**911.2**	872.9
Social security and other taxes	**43.7**	57.1
Accruals	**452.0**	425.9
Deferred income	**54.4**	50.0
	1,461.3	1,405.9
Non-current		
Other payables	**3.0**	4.6
Accruals	**43.9**	48.1
Deferred income	**275.5**	281.1
	322.4	333.8

Under IFRS 15, disclosure of contract liabilities held on the balance sheet at the start and end of the period and revenue recognised during the period which relates to the contract liabilities held at the start of the period is required. Gift card liabilities/voucher schemes are contract liabilities as payment has been received for a performance obligation which will be performed at a later point in time. Included within trade and other payables are gift card/voucher scheme liabilities:

	£m
Year ended 30 March 2019	
Opening balance	**199.4**
Issues	**413.6**
Released to the income statement	**(426.1)**
Closing balance	**186.9**

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. The Group settles these amounts in accordance with each suppliers agreed payment terms.

The Group's trade creditors balance includes £200.0m (last year: £212.0m) relating to payments due to M&S suppliers under these arrangements. During the year ended 30 March 2019 the arrangements were used by 183 suppliers, with a maximum facility available of £381.0m.

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2019 £m	2018 £m
Current		
Bank loans and overdrafts[1]	**72.3**	88.4
Finance lease liabilities	**0.3**	0.3
6.125% £400m Medium Term Notes 2019[2,5]	**399.8**	–
Interest accrued on Medium Term Notes	**37.0**	36.9
Revaluation of Medium Term Notes	**3.7**	–
	513.1	125.6
Non-current		
6.125% £400m Medium Term Notes 2019[2,5]	**–**	400.1
6.125% £300m Medium Term Notes 2021[2]	**298.7**	298.2
3.00% £300m Medium Term Notes 2023[2]	**297.4**	296.9
4.75% £400m Medium Term Notes 2025[2,5]	**399.3**	397.5
7.125% US$300m Medium Term Notes 2037[3,4]	**192.1**	192.0
Revaluation of Medium Term Notes	**45.8**	38.2
Finance lease liabilities	**46.2**	47.7
	1,279.5	1,670.6
Total	**1,792.6**	1,796.2

1. Bank loans and overdrafts in the prior year include a £5.0m loan from the Hedge End Park Limited joint venture that was repaid during the year (see note 28).
2. These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, £375m (last year: £425m) was swapped from fixed to floating rate.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page within note 21. The weighted average lease term for equipment is nil years (last year: two years) and 91 years (last year: 93 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 FINANCIAL INSTRUMENTS

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board-approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate swaps, cross-currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management

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

(a) Liquidity and funding risk

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

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

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023. The facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £100m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £45m) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year: £1.4bn) was in issuance as at the balance sheet date.

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 19) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium Term Notes £m	Finance lease liabilities[1] £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Derivative assets[2] £m	Derivative liabilities[2] £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(88.4)	–	(86.1)	(2.3)	(71.9)	(248.7)	30.0	(88.2)	(58.2)
Between one and two years	–	–	(486.1)	(2.3)	(71.9)	(560.3)	21.9	(18.1)	3.8
Between two and five years	–	–	(466.3)	(6.9)	(215.5)	(688.7)	270.0	(248.5)	21.5
More than five years	–	–	(1,207.2)	(168.9)	–	(1,376.1)	223.1	(198.5)	24.6
	(88.4)	–	(2,245.7)	(180.4)	(359.3)	(2,873.8)	545.0	(553.3)	(8.3)
Effect of discounting	–	–	585.9	132.4	23.8	742.1			
At 1 April 2018	(88.4)	–	(1,659.8)	(48.0)	(335.5)	(2,131.7)			
Timing of cash flows									
Within one year	**(72.3)**	**–**	**(487.2)**	**(2.3)**	**(71.9)**	**(633.7)**	**58.0**	**(20.6)**	**37.4**
Between one and two years	**–**	**–**	**(62.7)**	**(2.3)**	**(71.9)**	**(136.9)**	**24.2**	**(16.2)**	**8.0**
Between two and five years	**–**	**–**	**(751.3)**	**(6.8)**	**(143.6)**	**(901.7)**	**282.4**	**(241.4)**	**41.0**
More than five years	**–**	**–**	**(895.5)**	**(160.3)**	**–**	**(1,055.8)**	**230.8**	**(191.5)**	**39.3**
Total undiscounted cash flows	**(72.3)**	**–**	**(2,196.7)**	**(171.7)**	**(287.4)**	**(2,728.1)**	**595.4**	**(469.7)**	**125.7**
Effect of discounting	**–**	**–**	**572.4**	**125.2**	**15.0**	**712.6**			
At 30 March 2019	**(72.3)**	**–**	**(1,624.3)**	**(46.5)**	**(272.4)**	**(2,015.5)**			

1. The cash flows relating to finance lease liabilities reflect the remaining minimum lease payments which were fixed at inception and therefore are reflected within the present value of finance lease liabilities. At 30 March 2019 the total value of additional committed contingent rents are £382.6m which will be expensed as incurred. In the year ending 30 March 2019 contingent rents of £35.0m were recognised within the operating lease rentals payable in note 4.
2. Derivative cash flows are disclosed based on actual settlement. All derivatives are settled net, except for currency swaps.

The present value of finance lease liabilities is as follows:

	2019 £m	2018 £m
Within one year	**(0.3)**	(0.3)
Later than one year and not later than five years	**(1.1)**	(1.1)
Later than five years	**(45.1)**	(46.6)
Total	**(46.5)**	(48.0)

21 FINANCIAL INSTRUMENTS CONTINUED

(b) Counterparty risk

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

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

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	**Total £m**
Short-term investments[1]	–	–	2.6	9.8	33.6	7.9	2.7	1.5	58.1
Derivative assets[2]	–	–	–	–	–	8.0	–	2.9	10.9
At 31 March 2018	–	–	2.6	9.8	33.6	15.9	2.7	4.4	69.0
	AAA £m	**AA+ £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Short-term investments[1]	**–**	**–**	**–**	**16.4**	**168.3**	**83.9**	**–**	**0.7**	**269.3**
Derivative assets[2]	**–**	**–**	**–**	**16.9**	**21.0**	**11.8**	**–**	**0.3**	**50.0**
At 30 March 2019	**–**	**–**	**–**	**33.3**	**189.3**	**95.7**	**–**	**1.0**	**319.3**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit £157.9m (last year: £149.6m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £121.8m (last year: £114.3m), other receivables £33.5m (last year: £33.2m), cash and cash equivalents £285.4m (last year: £207.7m) and derivatives £60.1m (last year: £34.2m).

Impairment of financial assets

From 1 April 2018, the Group's financial assets subject to the expected credit loss (ECL) model are primarily trade and other receivables.

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

From 1 April 2018, the Group applies the IFRS 9 simplified approach in measuring expected credit losses which use a lifetime expected credit loss allowance for all trade receivables and contract assets.

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry as well as by geographical location and days past due.

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

The Group considers credit risk to have significantly increased for debts aged 180 days or over. The Group has incorporated this into the expected loss model through a uniform loss rate for ageing buckets below 180 days dependent on the revenue stream and country, and providing for 100% of debt aged over 180 days past due. Where the Group specifically holds insurance or holds the legal right of offset with debtors which are also creditors, the loss provision is applied only to the extent of the uninsured or net exposure.

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

21 FINANCIAL INSTRUMENTS CONTINUED

Impairment of financial assets continued

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

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

The closing loss allowances for trade receivables as at 30 March 2019 reconciles to the opening loss allowances as follows:

Trade receivables expected loss provision	£m
31 March 2018 – calculated under IAS 39	0.4
Amounts restated through opening retained earnings	0.6
Opening loss allowance as at 1 April 2018 calculated under IFRS 9	1.0
Increase in loss allowance recognised in profit and loss during the year	2.4
Receivables written off during the year as uncollectable	(0.2)
At 30 March 2019	3.2

In relation to other financial assets not forming part of trade receivables, a simplified approach is utilised where lifetime expected credit losses are calculated rather than 12 month expected credit losses. For ex-employee debt the average write-offs are divided by the average debtor balance to determine a write off rate, fees from collection agencies used to collect the balances are factored into the loss allowance based on the size of the individual debt and future unemployment rates are factored into the calculation of allowance as well as the impact of discounting of the aged debt.

The loss allowance for other receivables is recognised within provisions within current liabilities in the consolidated statement of financial position. The closing loss allowance as at 30 March 2019 reconciles to the opening loss allowance as follows:

Other receivables expected loss provision	£m
31 March 2018 – calculated under IAS 39	0.4
Amounts restated through opening retained earnings	(0.1)
Opening loss allowance as at 1 April 2018 calculated under IFRS 9	0.3
Increase in loan loss allowance recognised in profit and loss during the year	0.6
Receivables written off during the year as uncollectable	(0.6)
At 30 March 2019	0.3

In the prior year, the impairment of trade and other receivables was assessed on an incurred loss model basis. Individual receivables that were considered to be uncollectable were written off by reducing the carrying value directly. Individual receivables were assessed to determine if there was evidence of impairment, and losses were recognised in a separate provision for impairment. The Group considered the following to be indicators of evidence of impairment:

→ Significant financial difficulties of the debtor.

→ Probability that the debtor would enter bankruptcy.

→ Default of late payments, the extent to which they were overdue being determined on a case-by-case basis with reference to the knowledge and communication with the debtor and their relationship with the business.

The impairment loss provision in the prior year opened at £1.7m and closed at £0.4m. Where an impairment provision was recognised, receivables were written off against the provision when there was no expectation of recovering any further debt.

21 FINANCIAL INSTRUMENTS CONTINUED

(c) Foreign currency risk

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

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

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,755.6m (last year: £1,962.8m) with a weighted average maturity date of seven months (last year: six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 30 March 2019 will be released to the income statement at various dates over the following 17 months (last year: 17 months) from the balance sheet date.

The FX forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income (OCI) – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is retained in OCI and recycled to inventory as part of the "basis adjustment". This will be realised in the income statement once the hedged item is sold. There have been no discontinued or restarted hedges, and no ineffectiveness in the FX forwards has been reported this financial year or last.

The FX forwards are recognised at their fair value (IFRS 13 level 2 measurement). The Group has considered and elected not to apply credit/debit valuation adjustments, owing to their relatively short dated nature. The risks at the reporting date are representative of the financial year.

The Group previously used a combination of foreign currency debt and foreign exchange contracts to hedge its net balance sheet translation exposure by currency arising from investment in overseas operations. The treasury policy was changed during the previous financial year and the Group no longer hedges these and all contracts outstanding were terminated in the prior year.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

The change in the fair value of the hedging instrument, to the degree effective, is retained in OCI, segregated by cost and effect of hedging. Under IFRS 9 the currency basis on the cross-currency swaps are excluded from the hedge designation and recognised in OCI – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result.

The cross-currency swaps are recognised at their fair value (IFRS 13 level 2 measurement), the Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance resulted in a £3.9m gain (last year: £3.3m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £129.0m (last year: £217.2m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities, excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme, is set out below:

	2019			2018		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,339.6**	**447.0**	**1,786.6**	1,276.2	511.6	1,787.8
Euro	**6.0**	**–**	**6.0**	6.5	–	6.5
Other	**–**	**–**	**–**	0.1	1.8	1.9
	1,345.6	**447.0**	**1,792.6**	1,282.8	513.4	1,796.2

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

As at the balance sheet date and excluding finance leases, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 4.8% (last year: 4.7%) and the weighted average time for which the rate is fixed is five years (last year: six years).

Other than the termination of net investment hedges and the separation of the cost of hedging in the statement of changes in equity and statement of comprehensive income, there were no other significant changes in hedge accounting when compared with the prior year.

21 FINANCIAL INSTRUMENTS CONTINUED

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,345.6m (last year: £1,282.8m) representing the public bond issues and finance leases, amounting to 75% (last year: 71%) of the Group's gross borrowings.

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

	2019 %	2018 %
Committed and uncommitted borrowings	**–**	1.0
Medium Term Notes	**4.8**	4.7
Finance leases	**4.3**	4.3

The interest rate swaps are recognised at their fair value (IFRS 13 level 2 measurement). The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six monthly compared with twelve monthly on the receive fixed legs and related debt.

Derivative financial instruments

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

						30 March 2019
	Current			Non Current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,423.6	129.0	200.0	193.5	203.0	175.0
Carrying amount assets/(liabilities)	27.4	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%[1]	100%	100%	100%	100%[1]	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[2]	95.9	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness[2]	(95.9)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3%	GBP/EUR 1.12, GBP/USD 1.32	3.2%
Amounts recognised within finance costs in profit and loss[3]	–	3.9	–	(3.5)	–	0.1
Balance on cashflow hedge reserve at 30 March 2019	(12.8)	N/A	N/A	(8.4)	1.7	N/A
Balance on cost of hedging reserve at 30 March 2019	–	N/A	N/A	(14.6)	–	N/A

1. Percentage of the amount permitted under treasury policy in relation to layered hedges on a rolling basis.
2. The £1.5m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge certain intercompany loans/deposits which are represented in the £5.4m as the net foreign exchange gains and losses under this strategy.
3. Amount in relation to cross currency swaps represents ineffectiveness.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

		Notional Value Assets £m	Notional Value Liabilities £m	Fair Value Assets £m	Fair Value Liabilities £m
					31 March 2018
Current					
Forward foreign exchange contracts	– cash flow hedges	343.6	1,213.4	5.1	(73.6)
	– held for trading	149.8	67.4	2.0	(0.2)
Interest rate swaps	– fair value hedges	–	–	–	–
		493.4	1,280.8	7.1	(73.8)
Non-current					
Cross-currency swaps	– cash flow hedges	–	193.5	–	(26.7)
Forward foreign exchange contracts	– cash flow hedges	48.0	140.6	0.4	(4.0)
Interest rate swaps	– fair value hedges	425.0	–	26.7	–
		473.0	334.1	27.1	(30.7)

		Notional Value Assets £m	**Notional Value Liabilities £m**	**Fair Value Assets £m**	**Fair Value Liabilities £m**
					30 March 2019
Current					
Forward foreign exchange contracts	– cash flow hedges	**1,073.8**	**349.8**	**34.3**	**(6.9)**
	– held for trading	**53.9**	**75.1**	**0.7**	**(0.4)**
Interest rate swaps	– fair value hedges	**200.0**	**–**	**5.3**	**–**
		1,327.7	**424.9**	**40.3**	**(7.3)**
Non-current					
Cross-currency swaps	– cash flow hedges	**–**	**193.5**	**4.7**	**(0.7)**
Forward foreign exchange contracts	– cash flow hedges	**84.8**	**118.2**	**0.5**	**(2.1)**
Interest rate swaps	– fair value hedges	**175.0**	**–**	**14.6**	**–**
		259.8	**311.7**	**19.8**	**(2.8)**

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

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	**Total cost of hedging reserve £m**	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Hedge reserve 2037 debt £m	Deferred tax £m	**Total hedge reserve £m**
IAS 39 closing balance	–	–	–	**–**	58.3	(8.8)	0.4	30.8	(15.4)	**65.3**
Adjustment on adoption of IFRS 9	0.8	(13.9)	2.4	**(10.7)**	(0.8)	–	–	13.9	(2.4)	**10.7**
Opening Balance 1 April 2018 under IFRS 9	0.8	(13.9)	2.4	**(10.7)**	57.5	(8.8)	0.4	44.7	(17.8)	**76.0**
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	**–**	(111.3)	–	–	(19.2)	–	**(130.5)**
Add: Costs of hedging deferred and recognised in OCI	(0.8)	(0.7)	–	**(1.5)**	–	–	–	–	–	**–**
Less: Reclassified to the cost of inventory	–	–	–	**–**	42.7	–	–	–	–	**42.7**
Less: Reclassified from OCI to profit or loss	–	–	–	**–**	–	–	–	15.8	–	**15.8**
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	**–**	–	0.4	(0.2)	–	–	**0.2**
Less: Deferred tax	–	–	0.5	**0.5**	–	–	–	–	10.4	**10.4**
Closing Balance 30 March 2019	**–**	**(14.6)**	**2.9**	**(11.7)**	**(11.1)**	**(8.4)**	**0.2**	**41.3**	**(7.4)**	**14.6**

1. Cross-currency interest rate swaps.

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

There were no reclassifications from the cashflow hedge reserve to profit and loss during the period in relation to forward currency contracts.

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a £0.1m gain (last year: £0.4m gain) as the gain on the hedged items was £4.6m (last year: £15.0m gain) and the movement on the hedging instruments was £4.5m loss (last year: £14.6m loss).

Movement in hedged items and hedging instruments

	2019 £m	2018 £m
Net gain/(loss) in fair value of interest rate swap	**(4.5)**	(14.6)
Net gain/(loss) on hedged items	**4.6**	15.0
Ineffectiveness	**0.1**	0.4

The Group holds a number of cross-currency interest rate swaps to re-designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in the profit and loss that arises from the cash flow hedges amounts to a £3.5m loss (last year: £2.3m loss) as the gain on the hedged items was £4.4m (last year: £24.9m gain) and the movement on the hedging instruments was £7.9m loss (last year: £27.2m loss).

Movement in hedged items and hedging instruments

	2019 £m	2018 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	**4.4**	24.9
Net gain/(loss) on hedged items	**(7.9)**	(27.2)
Ineffectiveness	**(3.5)**	(2.3)

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The directors consider that a 2%+/- (last year: 2%) movement in interest and a 20% +/- (last year: 20%) movement in sterling against the relevant currency represents a reasonably possible change. However this analysis is for illustrative purposes only.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such a risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

Interest rates The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's transactional foreign exchange cash flow hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2018				
Impact on income statement: gain/(loss)	8.9	(9.1)	–	–
Impact on other comprehensive income: (loss)/gain	(15.6)	10.6	215.7	(222.4)
At 30 March 2019				
Impact on income statement: gain/(loss)	**5.4**	**(4.0)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(4.3)**	**2.5**	**226.8**	**(226.8)**

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

To reconcile the amount shown in the tables below to the Statement of Financial Position, items which are not subject to offsetting should be included.

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/(liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 31 March 2018					
Trade and other receivables	31.3	(29.9)	1.4	–	1.4
Derivative financial assets	34.2	–	34.2	(34.2)	–
Cash and cash equivalents	46.3	(46.0)	0.3	–	0.3
	111.8	(75.9)	35.9	(34.2)	1.7
Trade and other payables	(276.4)	29.9	(246.5)	–	(246.5)
Derivative financial liabilities	(104.5)	–	(104.5)	34.2	(70.3)
Bank loans and overdrafts	(82.5)	46.0	(36.5)	–	(36.5)
	(463.4)	75.9	(387.5)	34.2	(353.3)

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

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

21 FINANCIAL INSTRUMENTS CONTINUED

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:

	2019				2018			
	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	**–**	**0.7**	**–**	**0.7**	–	2.0	–	2.0
Derivatives used for hedging	**–**	**59.4**	**–**	**59.4**	–	32.2	–	32.2
Short-term investments	**–**	**141.8**	**–**	**141.8**	–	13.7	–	13.7
Unlisted investments[1]	**–**	**–**	**9.9**	**9.9**	–	–	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	**–**	**(0.4)**	**–**	**(0.4)**	–	(0.2)	–	(0.2)
Derivatives used for hedging	**–**	**(9.7)**	**–**	**(9.7)**	–	(104.3)	–	(104.3)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.9m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m measured as available for sale) (see note 16) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,224.7m (last year: £9,989.3m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,008.6m (last year: £7,152.4m). Additionally, the scheme assets include £3,216.1m (last year: £2,836.9m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

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

	2019 £m	2018 £m
Opening balance	**2,836.9**	1,444.9
Fair value gain/(loss) recognised in other comprehensive income	**136.3**	(74.9)
Additional investment	**242.9**	1,466.9
Closing balance	**3,216.1**	2,836.9

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 12), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's Medium Term Notes was £1,673.8m (last year £1,659.9m), the fair value of this debt was £1,724.0m (last year £1,761.0m).

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was five years (last year: six years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (negative outlook (revised from stable during the year)) with Standard & Poor's.

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

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2019 £m	2018 £m
At 31 March 2018	**233.3**	**28.4**	**30.2**	**291.9**	260.7
Provided in the year	**181.5**	**29.2**	**3.6**	**214.3**	187.0
Released in the year	**(22.8)**	**(2.4)**	**(1.4)**	**(26.6)**	(28.8)
Utilised during the year	**(63.3)**	**(32.3)**	**(1.0)**	**(96.6)**	(133.0)
Exchange differences	**(0.1)**	**(0.3)**	**–**	**(0.4)**	2.2
Discount rate unwind	**17.3**	**–**	**–**	**17.3**	5.2
Reclassification to trade and other payables	**(0.1)**	**(1.1)**	**–**	**(1.2)**	(1.4)
At 30 March 2019	**345.8**	**21.5**	**31.4**	**398.7**	291.9
Analysed as:					
Current				**148.6**	98.8
Non-current				**250.1**	193.1

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

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

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia. These provisions are expected to be utilised within the next year.

See note 5 for further information on these provisions.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 17% as applicable (last year: 19% and 17%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12 Income Taxes) during the year are shown below.

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 2 April 2017	(43.3)	(62.4)	(169.4)	2.7	(272.4)	(9.4)	(281.8)
Credited/(charged) to income statement	8.0	33.1	1.2	1.3	43.6	1.7	45.3
Credited/(charged) to equity/ other comprehensive income	–	–	(39.8)	19.9	(19.9)	0.5	(19.4)
Other balance sheet movement	1.4	–	–	–	1.4	(1.2)	0.2
At 31 March 2018	(33.9)	(29.3)	(208.0)	23.9	(247.3)	(8.4)	(255.7)
At 1 April 2018	**(33.9)**	**(29.3)**	**(208.0)**	**23.9**	**(247.3)**	**(8.4)**	**(255.7)**
Credited/(charged) to income statement	**3.8**	**23.2**	**(1.6)**	**3.9**	**29.3**	**5.3**	**34.6**
Credited/(charged) to equity/ other comprehensive income	**–**	**–**	**14.4**	**(11.5)**	**2.9**	**(0.2)**	**2.7**
At 30 March 2019	**(30.1)**	**(6.1)**	**(195.2)**	**16.3**	**(215.1)**	**(3.3)**	**(218.4)**

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

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £321.7m (last year: £283.2m) and a tax value of £61.1m (last year: £53.8m). Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £70.5m (last year: £80.1m) and a tax value of £14.5m (last year: £16.9m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £44.5m (last year: £48.4m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.7m (last year: £11.5m), however, this has not been recognised on the basis that the distribution can be controlled by the Group.

24 ORDINARY SHARE CAPITAL

	2019		2018	
	Shares	**£m**	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,624,757,346**	**406.2**	1,624,727,846	406.2
Shares issued on exercise of share options	**242,884**	**0.1**	29,500	–
At end of year	**1,625,000,230**	**406.3**	1,624,757,346	406.2

Issue of new shares

242,884 (last year: 29,500) ordinary shares having a nominal value of £0.1m (last year: £0.0m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £0.6m (last year: £0.1m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2019 £m	2018 £m
Commitments in respect of properties in the course of construction	**90.1**	121.8
Software capital commitments	**6.8**	17.2
	96.9	139.0

B. Other material contracts

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

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

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2019 £m	2018 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**296.1**	288.5
– Later than one year and not later than five years	**1,053.7**	1,026.1
– Later than five years and not later than 10 years	**871.2**	896.8
– Later than 10 years and not later than 15 years	**499.5**	503.8
– Later than 15 years and not later than 20 years	**280.1**	304.6
– Later than 20 years and not later than 25 years	**124.8**	149.4
– Later than 25 years	**964.5**	1,026.8
Total	**4,089.9**	4,196.0

The total future sublease payments to be received are £214.6m (last year: £27.4m).

Of the total rental payable commitments under operating leases disclosed above, £308.5m (last year: £172.5m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme.

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

Cash flows from operating activities

	2019 £m	2018 £m
Profit on ordinary activities after taxation	**37.3**	29.1
Income tax expense	**47.3**	37.7
Finance costs	**111.6**	113.8
Finance income	**(33.8)**	(24.1)
Operating profit	**162.4**	156.5
Decrease/(increase) in inventories	**73.8**	(38.2)
(Increase)/decrease in receivables	**(1.0)**	28.8
Decrease in payables	**(13.7)**	(87.4)
Adjusting items net cash outflows	**(124.4)**	(153.1)
Non-cash share-based payment charges	**19.2**	18.9
Depreciation, amortisation and write-offs	**544.9**	580.6
Defined benefit pension funding	**(37.9)**	(41.4)
Adjusting items M&S Bank	**(20.9)**	(34.7)
Adjusting operating profit items	**438.6**	514.1
Cash generated from operations	**1,041.0**	944.1

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, UK store impairments and property charges, GMP and other pension equalisation and establishing the Ocado joint venture. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 2 April 2017 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2018 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(70.3)	(18.1)	–	**(88.4)**
Less: amounts treated as financing (see below)	7.9	43.8	–	**51.7**
	(62.4)	25.7	–	**(36.7)**
Cash and cash equivalents (see note18)	468.6	(257.4)	(3.5)	**207.7**
Net cash per statement of cash flows	406.2	(231.7)	(3.5)	**171.0**
Current financial assets (see note 16)	14.5	(0.8)	–	**13.7**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(7.9)	(43.8)	–	**(51.7)**
Medium Term Notes (see note 20)	(1,911.4)	328.2	(1.5)	**(1,584.7)**
Finance lease liabilities (see note 20)	(48.7)	2.6	(1.9)	**(48.0)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(387.4)	59.6	–	**(327.8)**
Debt financing	(2,355.4)	346.6	(3.4)	**(2,012.2)**
Net debt	(1,934.7)	114.1	(6.9)	**(1,827.5)**

27 ANALYSIS OF NET DEBT CONTINUED

A. Reconciliation of movement in net debt continued

	At 1 April 2018 £m	Cash flow £m	Exchange and other non-cash movements £m	**At 30 March 2019 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(88.4)	11.1	5.0	**(72.3)**
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	**–**
	(36.7)	(35.6)	–	**(72.3)**
Cash and cash equivalents (see note 18)	207.7	77.9	(0.2)	**285.4**
Net cash per statement of cash flows	171.0	42.3	(0.2)	**213.1**
Current financial assets (see note 16)	13.7	128.1	–	**141.8**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	**–**
Medium Term Notes (see note 20)	(1,584.7)	(1.4)	(1.2)	**(1,587.3)**
Finance lease liabilities (see note 20)	(48.0)	3.3	(1.8)	**(46.5)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(327.8)	61.6	–	**(266.2)**
Debt financing	(2,012.2)	110.2	2.0	**(1,900.0)**
Net debt	(1,827.5)	280.6	1.8	**(1,545.1)**

B. Reconciliation of net debt to statement of financial position

	2019 £m	2018 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**285.4**	207.7
Current financial assets (see note 16)	**141.8**	13.7
Bank loans and overdrafts (see note 20)	**(72.3)**	(88.4)
Medium Term Notes – net of hedging derivatives	**(1,624.3)**	(1,621.7)
Finance lease liabilities (see note 20)	**(46.5)**	(48.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	**(272.4)**	(335.5)
	(1,588.3)	(1,872.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**43.2**	44.7
Total net debt	**(1,545.1)**	(1,827.5)

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It was repayable on five business days notice and was renewed on 31 December 2017. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter. The loan was extinguished on 8 March 2019 through a capital reduction of the investment in the joint venture by £5.0m.

C. Marks & Spencer UK Pension Scheme

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

D. Key management compensation

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

	2019 £m	2018 £m
Salaries and short-term benefits	**8.0**	7.9
Share-based payments	**1.1**	0.4
Total	**9.1**	8.3

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

IFRS 9 and IFRS 15 were new accounting standards adopted in the year and effective for the Group from 1 April 2018. IFRS 15 has not had a material impact on the financial statements of the Group and the impact of adoption is disclosed within note 1. As IFRS 9 has a more extensive impact on the opening balances of the financial statements of the Group on adoption the impact has been disclosed in detail below.

IFRS 9

IFRS 9 was adopted using the modified transition approach without restating comparative information. The reclassification and adjustments in relation to the new impairment rules are recognised in the opening balance sheet on 1 April 2018 and not reflected in the comparative balance sheet.

The table below shows the amount of adjustment for each financial statement line impacted by the adoption of IFRS 9.

Consolidated Statement of Financial Position	As at 31 March 2018 £m	IFRS 9 Adjustment £m	1 April 2018 restated £m
Non-current assets			
Other financial assets	**9.9**	**–**	**9.9**
Current assets			
Trade and other receivables	**308.4**	**(0.6)**	**307.8**
Current liabilities			
Provisions	**98.8**	**(0.1)**	**98.7**
Equity			
Retained earnings	**6,531.1**	**(0.5)**	**6,530.6**
Hedging reserve	**(65.3)**	**(10.7)**	**(76.0)**
Cost of hedging reserve	**–**	**10.7**	**10.7**

The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The total impact on the Group's retained earnings is as follows:

	£m
Closing retained earnings as at 31 March 2018	**6,531.1**
Increase in provision for trade receivables	**(0.6)**
Decrease in provision for other receivables	**0.1**
Adjustment to retained earnings from adoption of IFRS 9 on 1 April 2018	**(0.5)**
Opening retained earnings on 1 April 2018	**6,530.6**

Classification and measurement

On 1 April 2019, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories being fair value through profit and loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. Available for sale (AFS) category allowable under IAS 39 is not an allowable IFRS 9 categorisation. The main effects resulting from this classification are as follows:

	FVPL £m	FVOCI £m	Available for sale £m	Amortised cost £m
Financial assets at 31 March 2018	**47.9**	**–**	**9.9**	**176.5**
Reclassify available for sale financial assets to FVOCI	**–**	**9.9**	**(9.9)**	**–**
Opening balance at 1 April 2018	**47.9**	**9.9**	**–**	**176.5**

The impact of the changes on the Group's equity is as follows:

	AFS reserve £m	FVOCI reserve £m
Opening balance at 31 March 2018 under IAS 39	**6.9**	**–**
Reclassify available for sale financial assets to FVOCI	**(6.9)**	**6.9**
Opening balance at 1 April 2018 under IFRS 9	**–**	**6.9**

All equity financial instruments classified as available for sale under IAS 39 were irrevocably designated as fair value through other comprehensive income under IFRS 9 whereby gains or losses will never recycle to the profit and loss, instead being recognised as movements within retained earnings in other comprehensive income only. The classification was considered appropriate as the investments are expected to be held for the long term and not expected to be sold in the short to medium term. The cumulative associated available for sale reserve within equity of £6.9m was recognised as an adjustment within the other comprehensive income reserve on adoption of the standard.

29 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

Classification and measurement continued

On the date of initial application, 1 April 2018, the Group's financial instruments were as follows with any reclassifications noted:

	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount £m	New carrying amount £m	Difference in carrying amount £m
Non-current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	2.3	2.3	–
Other financial assets	Available for sale	FVOCI	9.9	9.9	–
Derivative financial instruments	FVPL	FVPL	27.1	27.1	–
Current financial assets					
Other financial assets	FVPL	FVPL	13.7	13.7	–
Trade and other receivables	Amortised cost	Amortised cost	174.2	173.6	(0.6)
Derivative financial instruments	FVPL	FVPL	7.1	7.1	–
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	1,355.9	1,355.9	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	125.6	125.6	–
Derivative financial instruments	FVPL	FVPL	73.8	73.8	–
Non-current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	52.7	52.7	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	1,670.6	1,670.6	–

Derivatives and hedging activities

IFRS 9 more closely aligns the hedge accounting with financial risk management methodology. All hedge relationships were regarded as continuing hedge relationships, as all which were designated hedges under IAS 39 as at 31 March 2018 met the criteria for hedge accounting under IFRS 9 as the Group's risk management strategies and hedge documentation were aligned to the new standard.

Under IAS 39 the Group included the cost of hedging within the hedge relationship. On transition, IFRS 9 allows the choice to separate aspects of the costs of hedging from the designation within a hedge relationship as part of the hedging instrument. Similarly under IFRS 9 in relation to cross-currency interest rate swaps, the currency basis is separated into the cost of hedging reserve and separated from the hedge relationship.

On transition to IFRS 9, a classification change between the hedging reserve and cost of hedging reserve within equity of £10.7m debit to hedging reserve and credit to cost of hedging reserve was recognised.

Impairment of financial assets

The Group holds the following types of financial assets subject to IFRS 9's new expected credit loss model:

→ Trade receivables.

→ Other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is illustrated above, while a detailed description of the methodology is included with the credit risk disclosures in note 21.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. This resulted in an increase in the loss allowance on 1 April 2018 by £0.6m for trade receivables and a decrease of £0.1m for other receivables.

30 SUBSEQUENT EVENTS

Subsequent to the year end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group's exposure to changes in longevity, interest rates, inflation and other factors.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 March 2019 £m	As at 31 March 2018 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,269.5**	9,260.3
Total assets		**9,269.5**	9,260.3
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,548.5**	2,550.6
Total liabilities		**2,548.5**	2,550.6
Net assets		**6,721.0**	6,709.7
Equity			
Ordinary share capital		**406.3**	406.2
Share premium account		**416.9**	416.4
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,290.0**	2,279.3
Total equity		**6,721.0**	6,709.7

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

The financial statements were approved by the Board and authorised for issue on 21 May 2019. The financial statements also comprise the notes C1 to C6.

Steve Rowe Chief Executive Officer

Humphrey Singer Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 2 April 2017	406.2	416.4	2,210.5	1,397.3	2,266.7	6,697.1
Profit for the year	–	–	–	–	305.0	305.0
Dividends	–	–	–	–	(303.4)	(303.4)
Capital contribution for share-based payments	–	–	–	–	11.0	11.0
At 31 March 2018	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,279.3**	**6,709.7**
At 1 April 2018	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,279.3**	**6,709.7**
Profit for the year	**–**	**–**	**–**	**–**	**305.0**	**305.0**
Dividends	**–**	**–**	**–**	**–**	**(303.5)**	**(303.5)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**9.2**	**9.2**
Shares issued on exercise of employee share options	**0.1**	**0.5**	**–**	**–**	**–**	**0.6**
At 30 March 2019	**406.3**	**416.9**	**2,210.5**	**1,397.3**	**2,290.0**	**6,721.0**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flow from investing activities		
Dividends received	**305.0**	305.0
Net cash generated from investing activities	**305.0**	305.0
Cash flows from financing activities		
Shares issued on exercise of employee share options	**0.6**	–
Repayment of intercompany loan	**(2.1)**	(1.6)
Equity dividends paid	**(303.5)**	(303.4)
Net cash used in financing activities	**(305.0)**	(305.0)
Net cash inflow	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

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

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

These financial statements are presented in Sterling, which is the currency of the primary economic environment in which the Company operates and are rounded to the nearest million.

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

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

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

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

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,028,666 (last year: £999,922). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.9p	**193.1**	193.1
Paid interim dividend	**6.8p**	6.8p	**110.4**	110.3
	18.7p	18.7p	**303.5**	303.4

The directors have approved a final dividend of 7.1p per share (last year: 11.9p per share) which in line with the requirements of IAS 10 Events after the Reporting Period, has not been recognised within these results. This final dividend of c.£115.4m (last year: £193.1m) will be paid on 12 July 2019 to shareholders whose names are on the Register of Members at the close of business on 31 May 2019. The ordinary shares will be quoted ex dividend on 30 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 21 June 2019.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £305.0m (last year: £305.0m) and decreased its loan from Marks and Spencer plc by £2.1m (last year: £1.6m). The outstanding balance was £2,548.5m (last year: £2,550.6m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2019 £m	2018 £m
Beginning of the year	**9,260.3**	9,249.3
Additional investment in subsidiary undertakings relating to share-based payments	**9.2**	11.0
End of year	**9,269.5**	9,260.3

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

The Company tests investments in subsidiary undertakings annually for impairment.

The recoverable amount of the investment is determined from value in use calculations. The key assumptions for the value in use calculation are those regarding the discount rate, growth rates, and expected trading performance. These assumptions have been revised in the year in light of the current economic outlook which has softened in the period since the last impairment review was undertaken.

The cash flows used in the value in use calculation are 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 cash flows. The cash flows include ongoing capital expenditure required to maintain the store network but exclude any growth capital initiatives not committed. The latest budget and three-year plan reflect a more conservative view of the short-term future performance of the Group.

Cash flows beyond this three-year period are extrapolated for a further two years using the expected growth rates expected in year three and then extrapolated beyond this period using the Group's current view of achievable long-term growth of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the outcome of the strategic programme to transform the business in achieving a higher terminal growth rate.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The rate used to discount the forecast cash flows is 9.1%.

The value in use calculation also includes the intercompany payable due from the company to the subsidiary of £2,548.5m.

The outcome of the value in use calculation supports the carrying value of the investment in subsidiary undertakings, with a headroom of £336.7m. This is significantly lower than the £1.8bn headroom calculated in the prior year (having corrected a mechanical error in the prior year calculation) reflecting the impact of the current outlook and the updated forecasts discussed above.

The following key assumptions would have to change as follows in order to eliminate the headroom within the impairment test:

→ The cash flow forecasts in each of the years covered by the three-year forecast would have to be 3.9% below forecast (last year restated: 17.3%);

→ The long-term growth rate of cash flows would have to decline to 2.0% per annum (last year: -2.1%); or

→ The pre-tax discount rate would have to increase to 9.4% (last year: 10.4%).

As disclosed in the accounting policies note C1, the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions, given the reduced level of headroom, could lead to an impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions. A 3% reduction in cash flows from the three-year plan would reduce the headroom by £261.9m, a 25 basis point increase in the discount rate would reduce the headroom by £297.1m, neither of which in isolation would result in an impairment. A 50 basis point decrease in the long-term growth rate (reducing the growth rate down to just reflect the expected long-term inflation rate) would result in an impairment of £134.2m. In the event that all three were to occur simultaneously, an impairment of £643.7m would be recorded.

Based on the corrected prior year headroom, a 3% reduction in cash flows from the three-year plan would have reduced the headroom by £311m, a 25 basis point increase in the discount rate would have reduced the headroom by £290m and a 50 basis point decrease in the long-term growth rate would have reduced the headroom by £499m. In the event that all three were to occur simultaneously, no impairment would have resulted.

B Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 30 March 2019 is disclosed below.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

Subsidiary and other related undertakings registered in the UK(i)

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 Ordinary	–	100
Founders Factory Retail Limited	£0.0001 Ordinary	–	0.002
	£0.0001 Preferred		49.999
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 B Ordinary	–	50
M&S Limited	£1 Ordinary	–	100
Manford (Textiles) Limited	£1 Ordinary	–	100
Marks & Spencer Company Archive CIC(ii)	N/A	–	–
Marks & Spencer Simply Foods Limited	£1 Ordinary	–	100
Marks and Sparks Limited	£1 Ordinary	–	100
Marks and Spencer (Northern Ireland) Limited Registered Office: 8 Laganbank Road, Belfast, BT1 3LR	£1 Ordinary	–	100
Marks and Spencer France Limited	€1.14 Ordinary	–	100
Marks and Spencer Guernsey Investments LLP	Partnership interest	–	100
Marks and Spencer Holdings Limited	£1 Ordinary	100	–
Marks and Spencer International Holdings Limited	£1 Ordinary	–	100
Marks and Spencer Pension Trust Limited(iii)	£1 A Ordinary	100	–
	£1 B Ordinary	–	–
	£1 C Ordinary	–	–
Marks and Spencer plc	£0.25 Ordinary	100	–
Marks and Spencer Property Developments Limited	£1 Ordinary	–	100
Marks and Spencer Scottish Limited Partnership(iv) Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	–	100
St. Michael (Textiles) Limited	£1 Ordinary	–	100
St. Michael Finance plc	£1 Ordinary	–	100

UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 March 2019. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Amethyst Leasing (Properties) Limited	–	100	04246934
Busyexport Limited	–	100	04411320
Marks & Spencer Outlet Limited	–	100	04039568
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	–	SC315365
Marks and Spencer (Bradford) Limited	–	100	10011863
Marks and Spencer (Property Investments) Limited	–	100	05502582
Marks and Spencer (Property Ventures) Limited	–	100	05502513
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	05502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	05502519
Marks and Spencer 2005 (Chester Store) Limited	–	100	05502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	05502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	05502546
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	05502538
Marks and Spencer 2005 (Kensington Store) Limited	–	100	05502478
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	05502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	05502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	05502588
Marks and Spencer 2005 (Pudsey Store) Limited	–	100	05502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	05502502
Marks and Spencer Chester Limited	–	100	05174129
Marks and Spencer Hungary Limited	–	100	08540784
Marks and Spencer Investments	–	100	04903061
Marks and Spencer Property Holdings Limited	–	100	02100781
Marks and Spencer Shared Services Limited	–	100	04461788
Minterton Services Limited	–	100	04763836
Ruby Properties (Cumbernauld) Limited	–	100	04922798
Ruby Properties (Enfield) Limited (Strike off requested)	–	100	04716390
Ruby Properties (Hardwick) Limited	–	100	04716018
Ruby Properties (Long Eaton) Limited	–	100	04716031
Ruby Properties (Thorncliffe) Limited	–	100	04716110
Ruby Properties (Tunbridge) Limited	–	100	04716032
Simply Food (Property Investments)	–	100	05502543
Simply Food (Property Ventures) Limited	–	100	02239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £6.4m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

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

B Related undertakings continued
International subsidiary undertakings(i)

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100
Marks and Spencer Commercial (Shanghai) Ltd	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	100
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	Registered Capital	100
Oü MSF Estonia	Paldiski mnt 102, Tallinn, 13522, Estonia	Estonia	Registered Capital	100
Andis SARL	48 Rue de la Chaussée-d'Antin, 75009 Paris, France	France	€1,060 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership interest	100
Marks and Spencer (Hong Kong) Investments Limited	Suites 1520-25, 15/F, Ocean Centre, 5 Canton Road, Tsim Sha Shui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	100
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Ltd	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51
			INR 10 Class B	100
			INR 5 Class C(ii)	0
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	100
Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Israel) Limited	31 Ahad Haam Street, TEL AVIV 65202, Israel	Israel	NIS Ordinary	100
Per Una Italia SRL (in liquidation)	via Giotto 25 - 59100 Prato, Italy	Italy	€ Quota	100
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
UAB MSF Lithuania	A. Goštauto g. 40B, Viliniaus m., Lithuania	Lithuania	LTL 100 Ordinary	100
M & S Mode International B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Nederland (Retail) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer Poland Sp z o.o.	UL Marynarska 11, XI pitro 02-674 Warsaw, Poland	Poland	PLN 50.00 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	100
MSF Slovakia S.R.O	Europeum Business Center, Suché Mýto 1, 811 02 Bratislava, Slovakia	Slovakia	Registered capital	100
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	100

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).
(ii) INR 10 Class C shares and INR 10 Equity shares 100% owned by joint venture partner.

GROUP FINANCIAL RECORD

	2019 52 weeks £m	2018 52 weeks £m	2017 52 weeks £m	2016 53 weeks £m	2015 52 weeks £m
Income statement					
Revenue[1]					
UK	**9,440.7**	9,611.0	9,441.7	9,470.8	9,223.1
International	**936.6**	1,087.2	1,180.3	1,084.6	1,088.3
	10,377.3	10,698.2	10,622.0	10,555.4	10,311.4
Operating profit/(loss)[1]					
UK	**52.8**	23.2	327.6	627.3	640.6
International	**109.6**	133.3	(74.4)	(43.2)	60.7
Total operating profit	**162.4**	156.5	253.2	584.1	701.3
Net interest payable	**(103.6)**	(107.4)	(106.1)	(110.6)	(111.8)
Pension finance income	**25.8**	17.7	29.3	15.3	10.5
Profit on ordinary activities before taxation	**84.6**	66.8	176.4	488.8	600.0
Analysed between:					
Profit before tax and adjusting items	**523.2**	580.9	613.8	689.6	661.2
Adjusting items	**(438.6)**	(514.1)	(437.4)	(200.8)	(61.2)
Income tax expense	**(47.3)**	(37.7)	(60.7)	(84.4)	(118.3)
Profit after taxation	**37.3**	29.1	115.7	404.4	481.7

		2019 52 weeks	2018 52 weeks	2017 52 weeks	2016 53 weeks	2015 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**2.1p**	1.6p	7.2p	24.9p	29.7p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**25.4p**	27.8p	30.4p	35.0p	33.1p
Dividend per share declared in respect of the year		**18.7p**	18.7p	18.7p	18.7p	18.0p
Dividend cover	Adjusted earnings per share/Dividend per share	**1.4x**	1.5x	1.6x	1.9x	1.8x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.8x**	3.8x	3.4x	3.7x	3.6x
Statement of financial position						
Net assets (£m)		**2,680.9**	2,954.2	3,150.4	3,443.4	3,198.8
Net debt[2] (£m)		**1,545.1**	1,827.5	1,934.7	2,138.3	2,223.2
Capital expenditure (£m)		**294.5**	300.5	331.2	525.1	526.6
Stores and space						
UK stores		**1,043**	1,035	979	914	852
UK selling space (m sq ft)		**17.2**	17.6	17.4	17.0	16.8
International stores		**444**	428	454	468	480
International selling space (m sq ft)		**4.9**	5.2	5.9	6.1	6.0
Staffing (full-time equivalent)						
UK		**50,578**	53,273	53,562	52,388	52,247
International		**4,862**	5,655	6,202	6,507	6,849

The above results are prepared under IFRS for each reporting period on a consistent basis, with the exception of the implementation of IFRS 9 and IFRS 15 in 2018/19 for which comparative periods have not been restated.

1. Based on continuing operations.
2. Excludes accrued interest.

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 to similarly-titled measures reported by other companies due to differences in the way they are calculated.

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

	52 weeks ending 30 March 2019 £m	52 weeks ending 31 March 2018 £m
Food		
Like-for-like	5,630.4	5,764.0
Net new space	273.0	176.0
Total Food revenue	**5,903.4**	**5,940.0**
Clothing & Home		
Like-for-like	3,479.3	3,534.2
Net new space	58.0	136.8
Total Clothing & Home revenue	**3,537.3**	**3,671.0**

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

	FY 18/19 £m	FY 17/18 £m	%
International Revenue			
At constant currency	936.6	1,081.3	(13.4)
Impact of FX retranslation	–	5.9	
At reported currency	936.6	1,087.2	(13.9)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
UK Food like-for-like revenue growth adjusted for Easter	Movement in revenue per the income statement	Sales from non like-for-like stores & adjustments for Easter dates	The period-on-period change in like-for-like Food revenue (excluding VAT) adjusted for any differences in the timing of Easter between comparative periods. This adjusted revenue measure is a good indicator of the underlying performance of the Food business, as it eliminates the effect of Easter trading on period-on period reported results.

	FY 18/19 £m	FY 17/18 £m	%
UK Food Revenue			
Easter adjusted LFL	5,630.4	5,713.9	(1.5)
Impact of Easter	–	50.1	
Like-for-like	5,630.4	5,764.0	(2.3)
Net new space	273.0	176.0	
Statutory Total	**5,903.4**	**5,940.0**	**(0.6)**

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
International owned retained and franchise revenue growth at constant currency	Movement in revenue per the income statement	Sales from closure markets	The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy 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 the International exit programme and exchange rate fluctuations on the period-on-period reported results.

	FY 18/19 £m	FY 17/18 £m	%
International Revenue			
Reported currency	936.6	1,087.2	(13.9)
Owned exit	–	(66.4)	100
Owned retained and franchise	936.6	1,020.8	(8.2)
Impact of FX translation	–	(6.1)	100
Owned retained and franchise at constant currency	936.6	1,014.7	(7.7)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Management gross margin	Gross profit margin[1]	Certain downstream logistics costs (see note 2)	Where referred to throughout the Annual Report, management gross margin is calculated as gross profit on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.
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[2]	Adjusting items (see note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the Consolidated Income Statement. This measure is used in calculating the Return on Capital Employed for the Group.
Profit before tax and adjusting items	Profit before tax	Adjusting items (see note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.
Adjusted earnings per share	Earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (see note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (see note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

GLOSSARY CONTINUED

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 27)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), 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. 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 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			
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.
Return on Capital Employed	None	Not applicable	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:

	FY 18/19 £m	FY 17/18 £m
EBIT before adjusting items	601.0	670.6
Average capital employed	4,267.9	4,785.3

This measure is used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.

1. Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.
2. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.