CONSOLIDATED INCOME STATEMENT

	Notes	53 weeks ended 3 April 2021 Total £m	52 weeks ended 28 March 2020 Total £m
Revenue	2, 3	**9,155.7**	10,181.9
Share of result in associate – Ocado Retail Limited	3, 5, 29	**64.2**	(14.2)
Operating (loss)/profit	2, 3, 5	**(30.7)**	254.8
Finance income	5, 6	**57.4**	46.9
Finance costs	5, 6	**(236.1)**	(234.5)
(Loss)/profit before tax	4, 5	**(209.4)**	67.2
Income tax credit/(expense)	7	**8.2**	(39.8)
(Loss)/profit for the year		**(201.2)**	27.4
Attributable to:			
Owners of the parent		**(198.0)**	23.7
Non-controlling interests		**(3.2)**	3.7
		(201.2)	27.4
(Loss)/earnings per share			
Basic (loss)/earnings per share	8	**(10.1p)**	1.3p
Diluted (loss)/earnings per share	8	**(10.1p)**	1.2p
Reconciliation of profit before tax & adjusting items:			
(Loss)/profit before tax		**(209.4)**	67.2
Adjusting items	5	**259.7**	335.9
Profit before tax & adjusting items – non-GAAP measure		**50.3**	403.1
Adjusted earnings per share – non-GAAP measure			
Adjusted basic earnings per share	8	**1.4p**	16.7p
Adjusted diluted earnings per share	8	**1.4p**	16.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 £m
(Loss)/profit for the year		**(201.2)**	27.4
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	11	**(1,352.0)**	927.9
Tax credit/(charge) on retirement benefit schemes		**256.5**	(196.7)
		(1,095.5)	731.2
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(27.7)**	5.1
– reclassified and reported in profit or loss		**3.7**	2.9
Cash flow hedges			
– fair value movements recognised in other comprehensive income	21	**(215.5)**	140.3
– reclassified and reported in profit or loss	21	**26.5**	(18.4)
Tax credit/(charge) on cash flow hedges		**37.0**	(27.0)
		(176.0)	102.9
Other comprehensive (expense)/income for the year, net of tax		**(1,271.5)**	834.1
Total comprehensive (expense)/income for the year		**(1,472.7)**	861.5
Attributable to:			
Owners of the parent		**(1,469.5)**	857.8
Non-controlling interests		**(3.2)**	3.7
		(1,472.7)	861.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 3 April 2021 £m	As at 28 March 2020 (Restated)[1] £m	As at 30 March 2019 (Restated)[1] £m
Assets				
Non-current assets				
Intangible assets	14	**232.0**	399.1	499.9
Property, plant and equipment	15	**5,058.6**	5,494.2	5,662.3
Investment property		**15.2**	15.5	15.5
Investments in joint ventures and associates	29	**825.8**	760.4	4.0
Other financial assets	16	**9.7**	9.7	9.9
Retirement benefit asset	11	**639.2**	1,915.0	931.5
Trade and other receivables	17	**261.4**	262.6	273.0
Derivative financial instruments	21	**0.3**	112.4	19.8
		7,042.2	8,968.9	7,415.9
Current assets				
Inventories	5	**624.6**	564.1	700.4
Other financial assets	16	**18.4**	11.7	141.8
Trade and other receivables	17	**209.6**	298.0	267.2
Derivative financial instruments	21	**32.8**	73.5	40.3
Current tax assets		**35.4**	19.3	–
Cash and cash equivalents	18	**674.4**	254.2	310.4
		1,595.2	1,220.8	1,460.1
Total assets		**8,637.4**	10,189.7	8,876.0
Liabilities				
Current liabilities				
Trade and other payables	19	**1,599.0**	1,501.0	1,518.2
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**124.9**	71.9	71.9
Borrowings and other financial liabilities	20	**432.8**	247.8	625.6
Derivative financial instruments	21	**96.0**	13.0	7.3
Provisions	22	**43.1**	21.5	100.7
Current tax liabilities		**–**	–	26.2
		2,295.8	1,855.2	2,349.9
Non-current liabilities				
Retirement benefit deficit	11	**7.8**	12.4	17.2
Trade and other payables	19	**192.3**	222.6	15.6
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**68.6**	135.5	200.5
Borrowings and other financial liabilities	20	**3,659.9**	3,865.9	3,628.5
Derivative financial instruments	21	**10.7**	0.7	2.8
Provisions	22	**74.2**	56.5	72.7
Deferred tax liabilities	23	**42.3**	332.4	119.6
		4,055.8	4,626.0	4,056.9
Total liabilities		**6,351.6**	6,481.2	6,406.8
Net assets		**2,285.8**	3,708.5	2,469.2
Equity				
Issued share capital	24	**489.2**	487.6	406.3
Share premium account	24	**910.4**	910.4	416.9
Capital redemption reserve		**2,210.5**	2,210.5	2,210.5
Hedging reserve	21	**(54.8)**	68.6	(14.6)
Cost of hedging reserve	21	**4.6**	5.7	11.7
Other reserve		**(6,542.2)**	(6,542.2)	(6,542.2)
Foreign exchange reserve		**(59.9)**	(35.9)	(43.9)
Retained earnings		**5,325.2**	6,597.8	6,024.8
Equity attributable to owners of the parent		**2,283.0**	3,702.5	2,469.5
Non-controlling interests		**2.8**	6.0	(0.3)
Total equity		**2,285.8**	3,708.5	2,469.2

1. See note 1 for details of a change in accounting policy and the resulting restatement of prior years.

The financial statements were approved by the Board and authorised for issue on 25 May 2021. The financial statements also comprise notes 1 to 31.

Steve Rowe, Chief Executive Officer **Eoin Tonge, Chief Financial Officer**

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
As at 31 March 2019	**406.3**	**416.9**	**2,210.5**	**(14.6)**	**11.7**	**(6,542.2)**	**(43.9)**	**6,024.8**	**2,469.5**	**(0.3)**	**2,469.2**
Profit for the year	–	–	–	–	–	–	–	23.7	23.7	3.7	27.4
Other comprehensive income/(expense):											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	5.1	–	5.1	–	5.1
– reclassified and reported in profit or loss	–	–	–	–	–	–	2.9	–	2.9	–	2.9
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	927.9	927.9	–	927.9
Tax charge on retirement benefit schemes	–	–	–	–	–	–	–	(196.7)	(196.7)	–	(196.7)
Cash flow hedges											
– fair value movement in other comprehensive income	–	–	–	147.8	(7.5)	–	–	–	140.3	–	140.3
– reclassified and reported in profit or loss	–	–	–	(18.4)	–	–	–	–	(18.4)	–	(18.4)
Tax on cash flow hedges	–	–	–	(28.5)	1.5	–	–	–	(27.0)	–	(27.0)
Other comprehensive income/ (expense)	**–**	**–**	**–**	**100.9**	**(6.0)**	**–**	**8.0**	**731.2**	**834.1**	**–**	**834.1**
Total comprehensive income/ (expense)	**–**	**–**	**–**	**100.9**	**(6.0)**	**–**	**8.0**	**754.9**	**857.8**	**3.7**	**861.5**
Cash flow hedges recognised in inventories	–	–	–	(21.8)	–	–	–	–	(21.8)	–	(21.8)
Tax on cash flow hedges recognised in inventories	–	–	–	4.1	–	–	–	–	4.1	–	4.1
Transactions with owners:											
Dividends	–	–	–	–	–	–	–	(191.1)	(191.1)	–	(191.1)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–	2.6	2.6
Shares issued on exercise of employee share options	–	0.1	–	–	–	–	–	–	0.1	–	0.1
Shares issued on rights issue[3]	81.3	493.4	–	–	–	–	–	–	574.7	–	574.7
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	(8.9)	(8.9)	–	(8.9)
Credit for share-based payments	–	–	–	–	–	–	–	18.5	18.5	–	18.5
Deferred tax on share schemes	–	–	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
As at 28 March 2020	**487.6**	**910.4**	**2,210.5**	**68.6**	**5.7**	**(6,542.2)**	**(35.9)**	**6,597.8**	**3,702.5**	**6.0**	**3,708.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Other reserve[1] £m	Foreign exchange reserve £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
As at 29 March 2020	**487.6**	**910.4**	**2,210.5**	**68.6**	**5.7**	**(6,542.2)**	**(35.9)**	**6,597.8**	**3,702.5**	**6.0**	**3,708.5**
Loss for the year	–	–	–	–	–	–	–	**(198.0)**	**(198.0)**	**(3.2)**	**(201.2)**
Other comprehensive (expense)/income:											
Foreign currency translation											
– movements recognised in other comprehensive income	–	–	–	–	–	–	**(27.7)**	–	**(27.7)**	–	**(27.7)**
– reclassified and reported in profit or loss	–	–	–	–	–	–	**3.7**	–	**3.7**	–	**3.7**
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	–	**(1,352.0)**	**(1,352.0)**	–	**(1,352.0)**
Tax credit on retirement benefit schemes	–	–	–	–	–	–	–	**256.5**	**256.5**	–	**256.5**
Cash flow hedges											
– fair value movement in other comprehensive income	–	–	–	**(214.2)**	**(1.3)**	–	–	–	**(215.5)**	–	**(215.5)**
– reclassified and reported in profit or loss	–	–	–	**26.5**	–	–	–	–	**26.5**	–	**26.5**
Tax on cash flow hedges	–	–	–	**36.8**	**0.2**	–	–	–	**37.0**	–	**37.0**
Other comprehensive (expense)/income	–	–	–	**(150.9)**	**(1.1)**	–	**(24.0)**	**(1,095.5)**	**(1,271.5)**	–	**(1,271.5)**
Total comprehensive (expense)/income	–	–	–	**(150.9)**	**(1.1)**	–	**(24.0)**	**(1,293.5)**	**(1,469.5)**	**(3.2)**	**(1,472.7)**
Cash flow hedges recognised in inventories	–	–	–	**33.9**	–	–	–	–	**33.9**	–	**33.9**
Tax on cash flow hedges recognised in inventories	–	–	–	**(6.4)**	–	–	–	–	**(6.4)**	–	**(6.4)**
Transactions with owners:											
Shares issued in respect of employee share options	**1.6**	–	–	–	–	–	–	**(1.6)**	–	–	–
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	**(0.8)**	**(0.8)**	–	**(0.8)**
Credit for share-based payments	–	–	–	–	–	–	–	**19.3**	**19.3**	–	**19.3**
Deferred tax on share schemes	–	–	–	–	–	–	–	**4.0**	**4.0**	–	**4.0**
As at 3 April 2021	**489.2**	**910.4**	**2,210.5**	**(54.8)**	**4.6**	**(6,542.2)**	**(59.9)**	**5,325.2**	**2,283.0**	**2.8**	**2,285.8**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**53 weeks ended 3 April 2021 £m**	52 weeks ended 28 March 2020 (Restated)[1] £m
Cash flows from operating activities			
Cash generated from operations	26	**876.7**	1,045.4
Income tax paid		**(5.8)**	(91.6)
Net cash inflow from operating activities		**870.9**	953.8
Cash flows from investing activities			
Proceeds on property disposals		**2.9**	2.7
Purchase of property, plant and equipment		**(158.9)**	(251.0)
Purchase of intangible assets		**(47.8)**	(77.6)
(Purchase)/sale of current financial assets		**(6.7)**	130.1
Purchase of investments in associates and joint ventures[2]		**8.7**	(580.3)
Interest received		**9.2**	10.4
Net cash used in investing activities		**(192.6)**	(765.7)
Cash flows from financing activities			
Interest paid[3]		**(219.3)**	(224.2)
Issuance of Medium Term Notes		**300.0**	250.0
Redemption of Medium Term Notes		**(136.4)**	(400.0)
Repayment of lease liabilities		**(184.3)**	(201.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(17.2)**	(63.5)
Equity dividends paid	9	**–**	(191.1)
Shares issued on exercise of employee share options	24	**–**	0.1
Proceeds from rights issue net of issue costs	24	**–**	574.4
Purchase of own shares by employee trust		**(0.8)**	(8.9)
Cash received from settlement of derivatives		**14.0**	7.7
Net cash used in financing activities		**(244.0)**	(256.9)
Net cash inflow/(outflow) from activities		**434.3**	(68.8)
Effects of exchange rate changes		**(3.3)**	0.5
Opening net cash		**238.7**	307.0
Closing net cash	27	**669.7**	238.7

1. See note 1 for details on a change in accounting policy and the resulting restatement.
2. Includes inflow of £11.2m upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited (last year: outflow of £577.8m) and outflow of £2.5m (last year: £2.5m) in relation to Founders Factory Retail Limited.
3. Includes interest paid on the partnership liability to the Marks & Spencer UK Pension Scheme of £6.4m (last year: £8.4m) and interest paid on lease liabilities of £132.3m (last year: £134.3m).

1 ACCOUNTING POLICIES

General information

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

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

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

Basis of preparation

The financial statements have been prepared for the 53 weeks ended 3 April 2021 (last year: 52 weeks ended 28 March 2020) in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the directors have considered the business activities as set out on pages 10 to 25, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 38 to 46, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 21 and the principal risks and uncertainties as set out on pages 48 to 56.

At 3 April 2021, the Group had available liquidity of £1,799.4m, comprising cash and cash equivalents of £674.4m, an undrawn committed syndicated bank revolving credit facility ("RCF") of £1.1bn (set to mature in April 2023), and undrawn uncommitted facilities amounting to £25.0m. This is an increase of £395.2m compared to the £1,404.2m liquidity position as at 28 March 2020 and has been achieved through the active measures taken by the Group to strengthen liquidity in response to the risks posed by the Covid-19 pandemic. In addition to operational cash preservation actions, the following measures have also been undertaken:

- Refinancing the upcoming December 2021 bond maturity with a £300m 2026 bond issuance.
- Extending the relaxation of covenant tests with the lending syndicate of banks providing the £1.1bn revolving credit facility, up to and including the period to March 2022.

In adopting the going concern basis of preparation, the directors have assessed the Group's cash flow forecasts which incorporate a latest estimate of the ongoing impact of Covid-19 on the Group. The forecast assumes that the UK government's four-step roadmap out of lockdown continues as planned, but that a full lifting of restrictions does not occur until Q3 2021/22.

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

The directors have reviewed the evolution of Covid-19 and the impact on the business and considered the potential longer-term impacts of the pandemic by modelling a more severe, but plausible, downside scenario. This downside scenario assumes that:

- A four-month lockdown between December 2021 and March 2022 will be mandated by the government, resulting in store closures and a 3% decline in Food sales. Between this period, a range of 10% – 20% decline in Clothing & Home sales has been modelled, as well as a 10% decline in International sales. These declines have been set with reference to the 2020/21 results; and,
- An economic recession in the UK from October 2021, following the cessation of the Coronavirus Job Retention Scheme in the UK, that continues into 2022/23 and 2023/24, resulting in a decline in sales of between 1% – 5% per annum, continuing for three years, across both sides of the business.

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

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

As a result, the directors believe that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. For this reason, the directors consider it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Change in accounting policy

Due to a change in the Group's accounting policy to recognise BACS payments at the settlement date, rather than when they are initiated, to more appropriately reflect the nature of these transactions, the comparative amounts have been restated.

The impact on the 28 March 2020 balance sheet is an increase to current trade and other payables of £74.6m (2019: £93.8m), a decrease to bank loans and overdrafts, within current liabilities, of £68.8m (2019: £68.8m) and an increase to cash and cash equivalents of £5.8m (2019: £25.0m). Net cash outflow from activities in 2019/20 has increased by £19.3m while net debt as at 28 March 2020 has decreased by £74.6m (2019: £93.9m). There is no impact on the income statement, earnings per share or net assets.

New accounting standards adopted by the Group

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

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards

The Group also elected to adopt the following amendment early:

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

The impact of early adopting the amendment to IFRS 16 is described below.

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

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

The Group has applied the amendment to IFRS 16 in advance of its effective date and, as a result, has treated rent concessions occurring as a direct consequence of Covid-19 as variable lease payments rather than as lease modifications.

The amount recognised in profit or loss in the period to reflect changes in lease payments arising from Covid-19-related rent concessions was a gain of £10.9m.

New accounting standards in issue but not yet effective

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

- IFRS 17 Insurance Contracts
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform Phase 2
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture

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

Alternative performance measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered significant in nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. The Group's definition of adjusting items is consistent with prior periods. Previously these were presented in the consolidated income statement in a columnar format; the Group now presents a reconciliation of profit before tax and adjusting items to profit before tax on the face of the consolidated income statement. Adjusted results are consistent with how business performance is measured internally and presented to aid comparability of performance. On this basis, the following items were included within adjusting items for the 53-week period ended 3 April 2021:

- 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.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- 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 investment in Ocado Retail Limited.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.
- Transition costs associated with the Sparks loyalty programme[1].

1. Adjusting items in the current year include the charges associated with the transition of the Sparks loyalty programme. While the Group provides vouchers to customers as part of its ongoing operations, vouchers of this nature and quantum have never been provided before in relation to a one-off event (refer to note 5 for further details). The Group has reviewed how it applies its policy and has concluded to include these charges in adjusting items.

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

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

Accounting convention

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

Basis of consolidation

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

Subsidiaries

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

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

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

Associates

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

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

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

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

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer. Online sales are recognised when items are delivered, as this is when the performance obligation is deemed to have been satisfied.

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.

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

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

M&S Bank

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

Dividends

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

Government grants

Government grants are recognised where there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached to them.

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

Government grant income is disclosed in note 30.

Pensions

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

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

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

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

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

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

For further details on pension schemes and the partnership liability to the Marks & Spencer UK Pension scheme, see notes 11 and 12.

Intangible assets

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

B. Acquired intangible assets Acquired intangible assets include trademarks or brands. These assets are capitalised on acquisition at cost and amortised on a straight-line basis over their estimated useful lives.

Acquired intangible assets are tested for impairment as triggering events occur. Any impairment in value is recognised within the income statement.

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

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

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Leasehold buildings with lease premiums and ongoing peppercorn lease payments are considered in-substance purchases and are therefore included within the buildings category of property, plant and equipment.

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

- Freehold land – not depreciated.
- Buildings – depreciated to their residual value over their estimated remaining economic lives of 25–50 years.
- 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, or reversal of an impairment, is recognised within the income statement.

Leasing

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

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

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

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

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

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

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours. Bank transactions are recorded on their settlement date.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment").

Provisions

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

Share-based payments

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

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

Foreign currencies

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

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year-end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income. On disposal of an overseas subsidiary the related cumulative translation differences recognised in reserves are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation

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

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

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

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

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

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

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially classified as at fair value through profit and loss, fair value through other comprehensive income or amortised cost depending on the Group's business model for managing the financial asset and its cash flow characteristics. Financial assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost.

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

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

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

The Group designated all non-listed equity investments not held for trading as FVOCI on initial recognition because the Group intends to hold them for long-term strategic purposes.

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI are measured at FVPL with gains and losses arising from changes in fair value included in the income statement for the period.

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

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to or deducted from the carrying amount of the instrument.

E. Loan notes Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost. If the loan is designated in a fair value hedge relationship, the carrying value of the loan is adjusted for fair value gains or losses attributable to the risk being hedged.

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

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

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); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective effectiveness testing is performed to ensure that the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

In 2019/20, the Group early adopted the Phase 1 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. The application of the amendments impacts the Group's accounting in relation to a sterling denominated fixed rate debt, for which it fair value hedge accounts using sterling fixed to GBP LIBOR interest rate swaps. The amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measurable. If the risk component is no longer reliably measurable, the hedging relationship is discontinued.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income. The element of the change in fair value which relates to the foreign currency basis spread is recognised in the cost of hedging reserve, with the remaining change in fair value recognised in the hedging reserve and any ineffective portion is recognised immediately in the income statement in finance costs. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income and accumulated in the cash flow hedge reserve are removed directly from equity and included in the initial measurement of the asset or liability. If the hedged item is transaction-related the foreign currency basis spread is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a systematic and rational basis. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item.

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

B. Fair value hedges Changes in the fair value of a derivative instrument designated in a fair value hedge are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

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

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

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

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

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

Reserves

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

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

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

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

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

E. Other reserve Originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical accounting judgements

Adjusting items

The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Executive Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the Glossary. These definitions have been applied consistently year on year, with additional items due to the transition of the Sparks loyalty programme.

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 3 April 2021. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £639.2m has been recognised.

Assessment of control

The directors have assessed that the Group has significant influence over Ocado Retail Limited and has therefore accounted for the investment as an associate (see note 29). This assessment is based on the current rights held by the respective shareholders and requires judgement in assessing these rights. These rights include determinative rights currently held by Ocado Group Plc, after agreed dispute-resolution procedures, in relation to the approval of the Ocado Retail Limited business plan and budget and the appointment and removal of Ocado Retail Limited's Chief Executive Officer. Any future change to these rights requires a reassessment of control and could result in a change in the status of the investment from associate to joint venture, subsidiary or investment.

Determining the lease term

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

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

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

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

Determining whether forecast purchases are highly probable

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

The Group has applied judgement in assessing whether forecast purchases are "highly probable". In making this assessment, the Group has considered the most recent budgets and plans. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, a reduction in the supply pipeline of inventory does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Last year, a £2.9m gain was recognised in the income statement as a result of US$76.6m notional forecast purchases no longer being expected to occur. There was no such occurrence in the current year.

During the year, the settlement of certain forecast purchases were delayed as a result of the Covid-19 pandemic and, as a result, the deferred fair value of the applicable forward foreign exchange contracts has been retained in reserves to be recycled in line with the delayed forecast purchases. As discussed above, due to our progressive hedging strategy, this delay does not affect the qualification of "highly probable". At 3 April 2021, the Group had £4.0m of deferred fair value retained in the cash flow hedge reserve which will be released over the first half of 2021/22.

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £95.3m (last year: £29.3m) 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.

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

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

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

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions in relation to the cash flow projections over the three-year strategic plan period (which is a key source of estimation uncertainty), 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. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

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 uncertainty. 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. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis for this source of estimation uncertainty.

Inventory provisioning

The Group assesses the recoverability of inventories by applying assumptions around the future saleability and estimated selling prices of items. At 28 March 2020, the Group recorded a write-down of £157.0m, based on the estimated impact of trade restrictions introduced in response to the Covid-19 pandemic. Performance during 2020/21 has exceeded the estimates made at last year end and the Group has updated the assumptions regarding future performance. As a result, and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net release of £101.6m of this provision has been recognised in the period. See note 5 for further details on the assumptions and associated sensitivities.

Post-retirement benefits

The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. 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 Operating Segments requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

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

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

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

The Ocado operating segment has been identified as reportable in the current period based on the quantitative thresholds in IFRS 8. As the Group's reportable segments have changed, the comparative information has been restated.

Other business activities and operating segments, including M&S Bank and M&S Energy, are combined and presented in "All other segments". Finance income and costs are not allocated to segments as each is managed on a centralised basis.

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

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

	53 weeks ended 3 April 2021						52 weeks ended 28 March 2020					
	UK Clothing & Home £m	**UK Food £m**	**International £m**	**Ocado £m**	**All other segments £m**	**Group £m**	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Revenue before adjusting items[1]	**2,239.0**	**6,138.5**	**789.4**	**–**	**–**	**9,166.9**	3,209.1	6,028.2	944.6	–	–	10,181.9
Operating (loss)/profit before adjusting items[2]	**(130.8)**	**228.6**	**44.1**	**78.4**	**1.9**	**222.2**	223.9	236.7	110.7	2.6	16.8	590.7
Finance income before adjusting items						**57.4**						44.0
Finance costs before adjusting items						**(229.3)**						(231.6)
(Loss)/profit before tax and adjusting items	**(130.8)**	**228.6**	**44.1**	**78.4**	**1.9**	**50.3**	223.9	236.7	110.7	2.6	16.8	403.1
Adjusting items						**(259.7)**						(335.9)
(Loss)/profit before tax	**(130.8)**	**228.6**	**44.1**	**78.4**	**1.9**	**(209.4)**	223.9	236.7	110.7	2.6	16.8	67.2

1. Revenue is stated prior to adjusting items of £11.2m (see note 5).
2. Operating (loss)/profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

2 SEGMENTAL INFORMATION CONTINUED

Other segmental information

	53 weeks ended 3 April 2021						52 weeks ended 28 March 2020					
	UK Clothing & Home £m	**UK Food £m**	**International £m**	**Ocado £m**	**All other segments £m**	**Group £m**	UK Clothing & Home £m	UK Food £m	International £m	Ocado £m	All other segments £m	Group £m
Additions to property, plant and equipment, and intangible assets (excluding goodwill and right-of-use assets)	**50.5**	**105.0**	**6.8**	**–**	**–**	**162.3**	166.5	170.1	15.7	–	–	352.3
Depreciation and amortisation[1,2]	**(312.3)**	**(259.4)**	**(25.1)**	**–**	**–**	**(596.8)**	(350.6)	(283.4)	(34.6)	–	–	(668.6)
Impairment charges, impairment reversals and asset write-offs[1]	**(155.1)**	**(34.9)**	**(4.7)**	**–**	**–**	**(194.7)**	(69.9)	(45.3)	(10.3)	–	–	(125.5)

1. These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.
2. Includes £0.3m (last year: £nil) depreciation charged on the investment property.

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

3 EXPENSE ANALYSIS

	2021 Total £m	2020 Total £m
Revenue	**9,155.7**	10,181.9
Cost of sales	**(6,244.1)**	(6,746.5)
Gross profit	**2,911.6**	3,435.4
Selling and administrative expenses	**(3,018.9)**	(3,225.2)
Other operating income	**12.4**	58.8
Share of results of Ocado Retail Limited	**64.2**	(14.2)
Operating (loss)/profit	**(30.7)**	254.8

The figures above include revenue adjusting item charges of £11.2m (last year: £nil) and operating profit adjusting item charges of £241.7m (last year: £335.9m), totalling £252.9m (last year: £335.9m) adjusting item charges within operating (loss)/profit.

The £252.9m (last year: £335.9m) adjusting items charges for the year (see note 5) are further analysed against the categories of revenue (£11.2m; last year: £nil), cost of sales (£86.3m gain; last year: £157.0m charge), selling and administrative expenses (£313.8m; last year: £188.8m), other operating income (£nil; last year: £26.7m) and share of results of Ocado Retail Limited (£14.2m; last year: £16.8m).

The selling and administrative expenses are further analysed below:

	2021 Total £m	2020 Total £m
Employee costs[1,2]	**1,339.1**	1,434.3
Occupancy costs	**223.9**	352.5
Repairs, renewals and maintenance of property	**95.8**	81.0
Depreciation, amortisation and asset impairments and write-offs[3]	**791.7**	772.4
Other costs	**568.4**	585.0
Selling and administrative expenses	**3,018.9**	3,225.2

1. There are an additional £68.8m (last year: £53.1m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. Includes furlough income (see note 30).
3. Includes £0.3m (last year: £nil) depreciation charged on the investment property.

Adjusting items categorised as selling and administrative expenses are further analysed as employee costs £100.4m (last year £23.1m); occupancy costs £6.1m (last year: release £25.2m); depreciation, amortisation and asset impairments/reversals and write-offs £188.6m (last year: £139.9m); and other costs £18.7m (last year: £51.0m).

FINANCIAL STATEMENTS

4 (LOSS)/PROFIT BEFORE TAXATION

The following items have been included in arriving at (loss)/profit before taxation:

	2021 £m	2020 £m
Net foreign exchange gains	**2.9**	(2.1)
Cost of inventories recognised as an expense	**5,427.6**	5,762.3
Write-down of inventories recognised as an expense	**117.0**	389.0
Depreciation of property, plant and equipment		
– owned assets[1]	**312.1**	329.2
– right-of-use assets	**153.1**	174.6
Amortisation of intangible assets	**131.6**	164.8
Impairments and write-offs of intangible assets and property, plant and equipment	**252.0**	149.4
Impairment reversals of property, plant and equipment	**(73.1)**	(58.1)
Impairments of right-of-use assets	**52.7**	84.4
Impairment reversals of right-of-use assets	**(36.9)**	(50.2)

1. Includes £0.3m (last year: £nil) depreciation charged on the investment property.

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:

	2021 £m	2020 £m
Annual audit of the Company and the consolidated financial statements	**1.6**	1.4
Audit of subsidiary companies	**0.6**	0.6
Total audit fees	**2.2**	2.0
Audit-related assurance services	**0.2**	0.2
Transaction-related services	**–**	0.5
Total non-audit services fees	**0.2**	0.7
Total audit and non-audit services	**2.4**	2.7

5 ADJUSTING ITEMS

The total adjusting items reported for the 53-week period ended 3 April 2021 is a net charge of £259.7m (last year: £335.9m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	**2021 £m**	2020 £m
Included in revenue			
Sparks loyalty programme transition		**(11.2)**	–
		(11.2)	–
Included in operating profit			
Strategic programmes – Organisation	15, 22	**(133.7)**	(13.8)
Strategic programmes – UK store estate[1]	15, 22	**(95.3)**	(29.3)
Strategic programmes – International store closures and impairments	22	**(3.6)**	(2.2)
Strategic programmes – UK logistics	15, 22	**(2.2)**	(10.2)
Strategic programmes – Operational transformation		**–**	(11.6)
Strategic programmes – Changes to pay and pensions	22	**–**	(2.9)
Strategic programmes – IT restructure	22	**–**	(0.4)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic[1]		**90.8**	(166.5)
Intangible asset impairments	14	**(79.9)**	(13.4)
Store impairments, impairment reversals and other property charges[1]	15, 22	**6.9**	(78.5)
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		**(14.2)**	(16.8)
Sparks loyalty programme transition		**(5.4)**	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		**(2.4)**	(12.6)
Establishing the investment in Ocado Retail Limited		**(1.7)**	(1.2)
GMP and other pension equalisation	11	**(1.0)**	–
Other		**–**	23.5
		(241.7)	(335.9)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind		**(6.8)**	(2.9)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic[1,2]		**–**	2.9
		(6.8)	–
Adjustments to profit before tax		**(259.7)**	(335.9)

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

	2021 £m	2020 £m
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic – included in operating profit	**90.8**	(166.5)
Directly attributable gains/(expenses) resulting from the Covid-19 pandemic – included in net finance costs[2]	**–**	2.9
UK store estate impairments	**–**	(11.6)
Store impairments	**–**	(24.2)
Goodwill impairment – per una	**–**	(13.4)
Total Covid-19 gains/(charges)	**90.8**	(212.8)

2. The 2019/20 gain for Directly attributable gains/(expenses) resulting from the Covid-19 pandemic within net finance costs is a £2.9m gain relating to forecast purchases no longer expected to occur.

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – Organisation (£133.7m)

During 2020/21, the Group announced a commitment to integrate more flexible management structures into store operations as well as streamline the business at store and management level in the UK and Republic of Ireland as part of the 'Never the Same Again' transformation. As part of the transformation, the Group has incurred £9.5m of consultancy costs. The changes have resulted in a reduction of c.8,200 roles across central support centres, regional management and stores, with a charge of £99.7m recognised in the period primarily for redundancy costs associated with these changes. The majority of the charges have been settled during 2020/21, with a provision being held on the balance sheet for the remaining charges. The provision is expected to be fully utilised during 2021/22, with no further significant charges anticipated.

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. A further £24.5m of costs have been recognised in the period associated with centralising the Group's London Head Office functions, with a £9.7m charge relating to the sub-let of previously closed offices. £14.8m of these charges relate to closure costs to further consolidate our London Head Office functions as announced in February 2021. Total costs of centralising our London Head Office functions into one building incurred to date are c.£98m. Any future charges will relate to the updating of assumptions and market fluctuations over the life of the sub-let lease.

These costs are reported as adjusting items on the basis that they are significant in quantum, relate to a strategic initiative focused on reviewing our organisation structure and to aid comparability from one period to the next. The treatment as adjusting items is consistent with the disclosure of costs for similar restructuring and centralisation programmes previously undertaken.

Strategic programmes – UK store estate (£95.3m)

In November 2016, the Group announced a strategic programme to transform the UK store estate with the overall objective to improve our store estate to better meet our customers' needs. The Group has incurred charges of £562.3m up to March 2020 under this programme primarily relating to closure costs associated with stores identified as part of the strategic transformation plans.

While Covid-19 has continued to impact the Group's day-to-day operations, the Group has experienced a significant channel shift from stores to online. The pandemic has driven a much faster and more acute switch to online, accelerating the Group's ambition to now achieve a Clothing & Home online sales mix of at least 40% over the next three years. This acceleration in channel shift has required the Group to revise the UK store estate strategic programme in order to ensure the estate continues to meet our customers' needs. As a result, the programme has been further accelerated with additional stores identified as part of the transformation, extending the length to 10 years. Coupled with this, the Group is identifying opportunities to unlock value from the estate through redevelopments and new site acquisitions, with charges and gains associated with these activities now included within the UK store estate programme.

The Group has recognised a charge of £95.3m in the year in relation to those stores identified as part of the revised transformation plans. The charge primarily reflects a revised view of latest store exit routes and assumptions underlying estimated store closure costs in response to the unanticipated acceleration in channel shift experienced as a result of the pandemic. The charge primarily relates to impairment of buildings and fixtures and fittings, and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and reconfiguration of the UK store estate are anticipated over the next 10 years as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Following the latest view of store closure costs, at 3 April 2021, further charges of c.£268m are estimated within the next 10 financial years, bringing anticipated total programme costs since 2016 up to c.£926m.

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

Strategic programmes – International store closures and impairments (£3.6m)

In 2016/17, the Group announced its intention to close owned stores in 10 international markets. A charge of £3.6m has been recognised in the year, reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred, taking the programme cost to date to £148.6m.

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

Strategic programmes – UK logistics (£2.2m)

In 2017/18, as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green. As a direct result, the Group announced the closure of two existing distribution centres.

In February 2020, the next phase of the single-tier programme was announced with the closure of two further distribution centres across 2020/21 and 2021/22. A net charge of £2.2m has been recognised in the period, reflecting an updated view of estimated closure costs and transition project costs relating to these closures. Total programme costs to date are £39.8m with further charges next financial year.

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

Directly attributable gains/(expenses) resulting from the Covid-19 pandemic (£90.8m gain)

In March 2020, following the onset of the Covid-19 global pandemic and subsequent UK government restrictions, the Group sustained significant disruption to its operations. In response to the uncertainty resulting from the pandemic, coupled with the fast-paced changes taking place across the retail sector, the Board approved a Covid-19 scenario to reflect management's best estimate of the significant volatility and business disruption expected as a result of the ongoing pandemic.

5 ADJUSTING ITEMS CONTINUED

As a result, in 2019/20 the Group identified total Covid-19 charges of £212.8m across four adjusting items programmes. The charges related to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. The Group disclosed in 2019/20 that should the estimated charges prove to be in excess of the amounts required, the release or reassessment of any amounts previously provided would also be treated as adjusting items.

The pandemic continued to impact the Group throughout 2020/21 and it became increasingly more difficult to differentiate Covid-19 items from costs that support the underlying performance of the business. In addition, the estimated timeframe over which these effects may impact the business increased. As a result, the Group took the decision in the interim 2020/21 results to only include changes in estimates to items that were included in adjusting items in 2019/20, in this case relating to the inventory provision. Impairment reversals in the period were not able to be reliably differentiated from the underlying performance of the business and therefore have not been recognised within this category.

Write-back of inventories to net realisable value (£90.8m gain)

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

Included within directly attributable expenses resulting from the Covid-19 pandemic of £163.6m at 2019/20, was an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m; and International: £5.7m), reflecting management's best estimate of the impact on the Group of the Covid-19 pandemic. Accordingly, of the total £204.8m inventory provision, £157.0m was recognised in adjusting items and £47.8m in the underlying results.

The Group's half year results announced on 4 November 2020 included a partial release of the £157.0m incremental write-down of inventory. At the time of our half year results announcement, a second national lockdown had just been implemented with the return of restrictions on non-essential retail and an expectation that at the end of national lockdown the United Kingdom would remain under regional tiered restrictions. However, stronger trading, particularly in online, has allowed the Group to continue to sell much higher volumes of stock than assumed versus the Covid-19 scenario.

As a result, and supported by the certainty provided by vaccines and a clear government Covid-19 re-emergence strategy, a net credit of £90.8m has been recorded, representing a significant release to the inventory provisions recorded in the 2019/20 financial statements to align to our latest estimates based on current sales performance, offset by charges in the period relating to reassessment of storage and fabric cancellation provisions. Incremental provisions remain in place where risk remains and include a provision of £10.8m against excess slow moving personal protective equipment, committed to during the peak of the first Covid-19 lockdown and incurred directly in response to the Covid-19 pandemic. The total remaining provision held is £35.0m.

The carrying value of the Group's inventories at 3 April 2021 is £624.6m, split across the UK Clothing & Home, UK Food and International businesses represents gross inventories of £508.8m, £144.0m and £78.5m respectively, against which a provision of £78.2m, £15.9m and £12.6m has been recognised. Included within the UK Clothing & Home provision is an incremental write-down of inventory to net realisable value of £18.6m reflecting management's best estimate of the impact of the Covid-19 pandemic on UK Clothing & Home inventory as at 3 April 2021. The total UK Clothing & Home inventory provisions represent 15.4% of UK Clothing & Home inventory. The UK Clothing & Home inventory provision is based on future trading assumptions in line with the Group's 2021/22 Budget. However, trading could be higher or lower than expected and a 5% increase in the UK Clothing & Home inventory provision (from 15% to 20%) would result in a reduction in the valuation of inventory held on the balance sheet of £25.4m and would result in a corresponding increase to recognised loss before tax in the period.

The £90.8m directly attributable net gains from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period and treatment as adjusting items is consistent with the treatment of charges of a consistent nature recognised in 2019/20. Further charges may be incurred in 2021/22 should government lockdown restrictions be reinstated and restrictions on trade and consumer behaviour return. Any future credits relating to these items will continue to also be classified as adjusting.

The impact that Covid-19 has had on underlying trading continues not to be recognised within adjusting items. The Group has provided additional disclosure of the significant impacts of Covid-19 on the underlying results on pages 38 to 42.

Within this, the Group has received support from the government during the period in the form of Business Rates relief of £174.6m and the Coronavirus Job Retention Scheme of £131.5m. Further details of which are provided in note 30 – government support.

Intangible asset impairments (£79.9m)

The Group has recognised impairment charges in the period for certain intangible assets.

A further impairment charge of £39.6m has been recorded against per una goodwill. The charge primarily reflects an updated view of assumptions and cash flows to reflect the impact of the new broader Brands strategy and a longer Covid-19 recovery period. Refer to note 14 for further details on the impairment charge related to per una goodwill.

The per una goodwill impairment charge has been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group and for consistency with prior periods.

In November 2020, the Group performed a critical review of the UK Clothing & Home operations leading to the launch of the new MS2 division within UK Clothing & Home to build on our investment in data and digital and step change online growth.

The Group conducted a review of the intangible computer software assets held on the balance sheet which were to be replaced, retired or decommissioned as part of the MS2 programme. An impairment charge of £40.3m has been recognised reflecting significant changes to certain intangible assets used by UK Clothing & Home.

These costs are considered to be adjusting items as they relate to the transformation and the total costs are significant in quantum and as a result not considered to be normal operating costs of the business. No further significant charges are expected to be recognised within adjusting items in relation to MS2.

5 ADJUSTING ITEMS CONTINUED

Store impairments, impairment reversals and property charges (£6.9m gain)

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

In response to the ongoing pressures impacting the retail industry in light of the ongoing Covid-19 pandemic, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future cash flow projections for UK and International stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £66.4m has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £73.3m has been incurred for the reversal of store impairments recognised in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 15 for further details on the impairments.

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

Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited (£14.2m)

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10–40 years with an amortisation charge of £17.5m recognised in the period and a related deferred tax credit of £3.3m.

The amortisation charge and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. Identifying these items as adjusting allows greater comparability of underlying performance.

Sparks loyalty programme transition (£16.6m)

In July 2020, the Group relaunched its Sparks loyalty programme as a Digital First loyalty scheme. The new Sparks programme removed certain elements of the old, such as points and sale access tiers, and introduced new instant rewards to deliver immediate and clearer value to customers for shopping with M&S. As part of the transition to the new Sparks programme, customers who were members of the old loyalty scheme were provided with 'thank you' gifts for their loyalty, the value of which was determined in part with reference to the number of Sparks points earned historically. These 'thank you' gifts consisted of tote bags and vouchers for money off future purchases. As a result, a charge of £16.6m has been recognised in the period relating to one-off transition and 'thank-you' costs associated with the closure of the old Sparks programme.

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

M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision (£2.4m)

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

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £2.4m.

The treatment of this in adjusting items is in line with previous charges in relation to settlement of PPI claims and although it is recurring, it is significant in quantum in the context of the total charges recognised for PPI mis-selling to-date and is not considered representative of the normal operating performance of the Group. As previously noted, while the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue. The total charges recognised in adjusting items since September 2012 for both PPI and Covid-19 forward economic guidance provision is £338.3m which exceeds the total offset against profit share of £225.1m to date and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Establishing the investment in Ocado Retail Limited (£1.7m)

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

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

These costs are adjusting items as they relate to a major transaction and as a result are not considered to be normal operating costs of the business.

GMP and other pension equalisation (£1.0m)

The Group has recognised a charge of £1.0m in respect of the Group's defined benefit pension liability arising from equalisation of GMP for past transfers following a High Court ruling in November 2020. Additional detail on the Group's GMP assessment is provided in note 11.

Treatment of the costs as being adjusting items is consistent with the treatment of charges recognised in 2018/19 in relation to the equalisation of GMP and other pension equalisation. Total GMP and other pension equalisation costs are £21.5m.

5 ADJUSTING ITEMS CONTINUED

Remeasurement of contingent consideration including discount unwind (£6.8m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. A charge of £6.8m has been recognised in the period, representing the revaluation of the contingent consideration payable. The change in fair value is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

6 FINANCE INCOME/COSTS

	2021 £m	2020 £m
Bank and other interest receivable	**2.9**	8.6
Other finance income	**1.8**	5.9
Pension net finance income (see note 11F)	**47.2**	23.6
Interest income of subleases	**5.5**	5.9
Finance income before adjusting items	**57.4**	44.0
Finance income in adjusting items	**–**	2.9
Finance income	**57.4**	46.9
Other finance costs	**(0.6)**	–
Interest payable on syndicated bank facility	**(3.9)**	(2.3)
Interest payable on Medium Term Notes	**(86.4)**	(78.2)
Interest payable on commercial paper facility	**(0.4)**	–
Interest payable on lease liabilities	**(130.4)**	(139.3)
Unwind of discount on provisions	**(2.7)**	(4.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(4.9)**	(6.9)
Finance costs before adjusting items	**(229.3)**	(231.6)
Finance costs in adjusting items	**(6.8)**	(2.9)
Finance costs	**(236.1)**	(234.5)
Net finance costs	**(178.7)**	(187.6)

7 INCOME TAX (CREDIT)/EXPENSE

A. Taxation charge

	2021 £m	2020 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	**3.7**	42.8
– adjustments in respect of prior years	**(12.1)**	(4.1)
UK current tax	**(8.4)**	38.7
Overseas current taxation		
– current year	**0.2**	8.8
– adjustments in respect of prior years	**(0.2)**	(0.1)
Total current taxation	**(8.4)**	47.4
Deferred tax		
– origination and reversal of temporary differences	**6.7**	0.4
– adjustments in respect of prior years	**(5.9)**	(4.1)
– changes in tax rate	**(0.6)**	(3.9)
Total deferred tax (see note 23)	**0.2**	(7.6)
Total income tax (credit)/expense	**(8.2)**	39.8

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 3.9% (last year: 59.3%) and is explained below.

	2021 £m	2020 £m
(Loss)/profit before tax	**(209.4)**	67.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**(39.8)**	12.8
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**5.2**	4.8
Other income and expenses that are not taxable or allowable for tax purposes	**8.6**	16.5
Joint venture results accounted for as profit after tax	**(14.6)**	–
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**–**	(6.6)
Overseas profits taxed at rates different to those of the UK	**0.7**	(0.6)
Movement in unrecognised overseas deferred tax assets	**0.9**	0.8
Adjustments to the current and deferred tax charges in respect of prior periods	**(18.2)**	(8.3)
Capital losses no longer recognised	**25.8**	–
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**8.5**	11.5
– International store closures and impairments	**(1.0)**	0.7
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**13.0**	5.0
– Amortisation arising as a part of the investment in Ocado Retail Limited	**2.7**	3.2
Total income tax (credit)/expense	**(8.2)**	39.8

The effective tax rate of profit before tax and adjusting items was 50.3% (last year: 20.7%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £4.1m (last year: £12.8m 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.

Capital losses no longer recognised relate to a restriction on deferred tax assets recognised following changes to the UK tax legislation. Please refer to note 23.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the Group's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax charge of £13.3m. It is not possible to accurately calculate how much of the deferred tax liability at the balance sheet date would reverse at 19% vs 25%. This is because a large portion of the liability relates to the pension surplus for which future actuarial gains or losses cannot be reliably forecasted.

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

C. Current tax reconciliation

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

	2021 £m	2020 £m
(Loss)/profit before tax	**(209.4)**	67.2
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**(39.8)**	12.8
Disallowable accounting depreciation and other similar items	**75.1**	52.5
Deductible capital allowances	**(50.0)**	(56.8)
Adjustments in relation to employee share schemes	**1.9**	2.3
Adjustments in relation to employee pension schemes	**(4.7)**	8.2
Overseas profits taxed at rates different to those of the UK	**0.7**	(0.6)
Movement in unrecognised overseas deferred tax	**0.9**	0.8
Joint venture results accounted for as profit after tax	**(14.6)**	–
Current year losses carried forward	**11.3**	–
Other income and expenses that are not taxable or allowable	**(0.1)**	4.6
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**8.5**	21.0
– International store closures and impairments	**(1.0)**	0.5
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**5.5**	3.1
– Impairment to per una goodwill	**7.5**	–
– Amortisation arising as a part of the investment in Ocado Retail Limited	**2.7**	3.2
Current year current tax charge	**3.9**	51.6
Represented by:		
UK current year current tax	**3.7**	42.8
Overseas current year current tax	**0.2**	8.8
	3.9	51.6
UK adjustments in respect of prior years	**(12.1)**	(4.1)
Overseas adjustments in respect of prior years	**(0.2)**	(0.1)
Total current taxation (note 7A)	**(8.4)**	47.4

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.

8 EARNINGS PER SHARE CONTINUED

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

	2021 £m	2020 £m
(Loss)/profit attributable to equity shareholders of the Company	**(198.0)**	23.7
Add/(less):		
Adjusting items (see note 5)	**259.7**	335.9
Tax on adjusting items	**(33.5)**	(43.6)
Profit before adjusting items attributable to equity shareholders of the Company	**28.2**	316.0

	Million	Million
Weighted average number of ordinary shares in issue	**1,953.5**	1,894.9
Potentially dilutive share options under Group's share option schemes[1]	**15.0**	10.7
Weighted average number of diluted ordinary shares	**1,968.5**	1,905.6

1. Potentially dilutive share options only considered in relation to adjusted diluted earnings per share as the Group made a basic loss per share.

	Pence	Pence
Basic (loss)/earnings per share	**(10.1)**	1.3
Diluted (loss)/earnings per share	**(10.1)**	1.2
Adjusted basic earnings per share	**1.4**	16.7
Adjusted diluted earnings per share	**1.4**	16.6

9 DIVIDENDS

	2021 per share	2020 per share	2021 £m	2020 £m
Dividends on equity ordinary shares				
Paid final dividend	**–**	6.8p	**–**	115.1
Paid interim dividend	**–**	3.9p	**–**	76.0
	–	10.7p	**–**	191.1

The Board of Directors has not proposed a final dividend for 2020/21. The Board of Directors continues to defer consideration of further dividends until visibility of the pace and scale of market recovery has improved.

10 EMPLOYEES

A. Aggregate remuneration

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

	2021 Total £m	2020 Total £m
Wages and salaries	**1,210.3**	1,263.7
Social security costs	**99.5**	80.0
Pension costs	**71.3**	72.9
Share-based payments (see note 13)	**19.3**	18.5
Employee welfare and other personnel costs	**43.7**	51.8
Capitalised staffing costs	**(6.4)**	(22.5)
Total aggregate remuneration[1]	**1,437.7**	1,464.4

1. Excludes amounts recognised within adjusting items of £100.4m (last year: £23.1m) (see notes 3 and 5).

Details of key management compensation are given in note 28.

10 EMPLOYEES CONTINUED

B. Average monthly number of employees

	2021	2020
UK stores		
– management and supervisory categories	**4,870**	5,278
– other	**54,076**	62,027
UK head office		
– management and supervisory categories	**2,948**	2,947
– other	**749**	764
UK operations		
– management and supervisory categories	**117**	115
– other	**1,507**	1,302
Overseas	**5,579**	5,598
Total average number of employees	**69,846**	78,031

The average number of full-time equivalent employees is 49,177 (last year: 53,988).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Your M&S Pension Saving Plan (a defined contribution (DC) arrangement) and prior to 2017, through the Marks & Spencer Pension Scheme (“UK DB Pension Scheme”) (a defined benefit (DB) 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 Pension Scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB Pension Scheme had no active members (last year: nil), 53,674 deferred members (last year: 55,887) and 52,794 pensioners (last year: 52,165).

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 46,191 active members (last year: 52,059) and some 40,604 deferred members (last year: 33,578).

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 £23.9m (last year: £49.2m). Of this, income of £43.3m (last year: income of £20.2m) relates to the UK DB Pension Scheme, costs of £64.0m (last year: costs of £65.6m) to the UK DC plan and costs of £3.2m (last year: costs of £3.8m) to other retirement benefit schemes.

The most recent actuarial valuation of the UK DB Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. 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). We have yet to reach agreement with the Trustee of the UK DB Pension Scheme with regards to the triennial actuarial valuation of the scheme as at 31 March 2021.

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

In November 2020, there was a further High Court ruling in relation to guaranteed minimum pension benefits. The latest ruling states that trustees of defined benefit (DB) schemes that provided guaranteed minimum payments should revisit, and where necessary, top-up historic cash equivalent transfer values that were calculated on an unequalised basis if an affected member makes a successful claim. The impact of the ruling implies that pension scheme trustees are responsible for equalising the guaranteed minimum payments for members who transferred out of its DB pension scheme. This has resulted in an increase in the liabilities of the UK DB Pension Scheme of £1.0m, which was recognised in the results as a past service cost.

11 RETIREMENT BENEFITS CONTINUED

A. Pensions and other post-retirement liabilities

	2021 £m	2020 £m
Total market value of assets	**10,442.9**	10,653.8
Present value of scheme liabilities	**(9,803.7)**	(8,743.3)
Net funded pension plan asset	**639.2**	1,910.5
Unfunded retirement benefits	**(3.8)**	(3.9)
Post-retirement healthcare	**(4.0)**	(4.0)
Net retirement benefit surplus	**631.4**	1,902.6
Analysed in the statement of financial position as:		
Retirement benefit asset	**639.2**	1,915.0
Retirement benefit deficit	**(7.8)**	(12.4)
Net retirement benefit surplus	**631.4**	1,902.6

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 Trustee has 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:

	2021 %	2020 %
Rate of increase in pensions in payment for service	**2.2–3.2**	1.9–2.7
Discount rate	**2.00**	2.40
Inflation rate for RPI	**3.30**	2.70
Long-term healthcare cost increases	**7.30**	6.70

C. Demographic assumptions

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

		2021	2020
Current pensioners (at age 65)	– male	**22.2**	22.2
	– female	**25.0**	24.9
Future pensioners – currently in deferred status (at age 65)	– male	**24.0**	24.0
	– female	**26.8**	26.8

D. Sensitivity analysis

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

	2021 £m	2020 £m
(Decrease)/increase in scheme surplus caused by a decrease in the discount rate of 0.25%	**(20.0)**	50.0
(Decrease)/increase in scheme surplus caused by a decrease in the discount rate of 0.50%	**(30.0)**	100.0
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(20.0)**	(50.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	**(30.0)**	(100.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**300.0**	240.0

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

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 bond (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 105% of interest rate movements and 102% of inflation movements, as measured on the Trustee's 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:

	2021			2020		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government bonds net of repurchase agreements[1]	**3,945.2**	**(1,443.5)**	**2,501.7**	3,596.8	352.0	3,948.8
– Corporate bonds	**6.4**	**1,036.6**	**1,043.0**	6.2	728.3	734.5
– Asset-backed securities and structured debt	**–**	**256.1**	**256.1**	–	264.4	264.4
Scottish Limited Partnership Interest (see note 12)	**–**	**142.5**	**142.5**	–	211.2	211.2
Equity investments						
– Developed markets	**450.9**	**–**	**450.9**	338.7	56.6	395.3
– Emerging markets	**131.1**	**–**	**131.1**	90.3	–	90.3
Growth asset funds						
– Global property	**5.4**	**276.8**	**282.2**	5.8	291.4	297.2
– Hedge and reinsurance	**43.8**	**299.0**	**342.8**	32.6	385.1	417.7
– Private equity and infrastructure	**–**	**224.1**	**224.1**	–	175.4	175.4
Derivatives						
– Interest and inflation rate swaps	**18.4**	**298.6**	**317.0**	19.9	253.7	273.6
– Foreign exchange contracts and other derivatives	**93.2**	**4.5**	**97.7**	(0.4)	162.4	162.0
Cash and cash equivalents	**13.6**	**148.9**	**162.5**	108.1	181.8	289.9
Other						
– Buy-in insurance	**–**	**3,177.0**	**3,177.0**	–	2,430.0	2,430.0
– Secure income asset funds	**–**	**1,064.4**	**1,064.4**	–	934.6	934.6
– Other	**38.7**	**211.2**	**249.9**	28.8	0.1	28.9
	4,746.7	**5,696.2**	**10,442.9**	4,226.8	6,427.0	10,653.8

1. Repurchase agreements were £1,443.5m (last year: £820.5m)

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 75,223 (last year: 63,527) 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:

	2021 £m	2020 £m
Current service cost	**0.2**	0.2
Administration costs	**4.5**	4.5
Past service costs	**1.0**	–
Net interest income	**(47.2)**	(23.6)
Total	**(41.5)**	(18.9)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**117.5**	(477.3)
Actuarial (gain)/loss – demographic assumptions	**(12.5)**	10.0
Actuarial gain – experience[1]	**(82.6)**	(46.1)
Actuarial loss/(gain) – financial assumptions	**1,332.1**	(414.5)
Components of defined benefit expense/(income) recognised in other comprehensive income	**1,354.5**	(927.9)

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

G. Scheme assets

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

	2021 £m	2020 £m
Fair value of scheme assets at start of year	**10,653.8**	10,224.7
Interest income based on discount rate	**254.9**	245.4
Actual return on scheme assets excluding amounts included in net interest income[1]	**(117.5)**	477.3
Employer contributions	**41.5**	41.8
Benefits paid	**(379.4)**	(333.2)
Administration costs	**(4.3)**	(4.3)
Exchange movement	**(6.1)**	2.1
Fair value of scheme assets at end of year	**10,442.9**	10,653.8

1. The actual return on scheme assets was a gain of £137.4m (last year: gain of £722.7m).

H. Pensions and other post-retirement liabilities

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

	2021 £m	2020 £m
Present value of obligation at start of year	**8,751.2**	9,310.4
Current service cost	**0.2**	0.2
Administration costs	**0.2**	0.2
Past service cost	**1.0**	–
Interest cost	**207.7**	221.8
Benefits paid	**(379.4)**	(333.2)
Actuarial gain – experience[1]	**(82.6)**	(46.1)
Actuarial (gain)/loss – demographic assumptions	**(12.5)**	10.0
Actuarial loss/(gain) – financial assumptions	**1,332.1**	(414.5)
Exchange movement	**(6.4)**	2.4
Present value of obligation at end of year	**9,811.5**	8,751.2
Analysed as:		
Present value of pension scheme liabilities	**9,803.7**	8,743.3
Unfunded pension plans	**3.8**	3.9
Post-retirement healthcare	**4.0**	4.0
Present value of obligation at end of year	**9,811.5**	8,751.2

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

The average duration of the defined benefit obligation at 3 April 2021 is 19 years (last year: 19 years).

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

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

The partnership liability in relation to the first interest of £193.5m (last year: £207.4m) is included as a financial liability in the Group’s financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the year to 3 April 2021, an interest charge of £4.9m (last year: £6.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB pension scheme assets, valued at £142.5m (last year: £211.2m).

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

13 SHARE-BASED PAYMENTS

This year, a charge of £19.3m was recognised for share-based payments (last year: charge of £18.5m). Of the total share-based payments charge, £9.2m (last year: £7.6m) relates to the Save As You Earn share option scheme and a charge of £1.7m (last year: £4.9m) relates to the Performance Share Plan. The remaining charge of £8.4m (last year: £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 scheme allows participants to save up to a maximum of £500 (last year: £250) each month. 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.

	2021		2020	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**53,139,941**	**190.7p**	38,023,501	267.9p
Granted	**101,466,321**	**82.0p**	34,087,655	151.0p
Exercised	**(556)**	**151.0p**	(49,610)	250.2p
Forfeited	**(23,811,474)**	**155.7p**	(15,727,568)	237.9p
Expired	**(11,642,826)**	**248.7p**	(3,194,037)	380.2p
Outstanding at end of year	**119,151,406**	**99.4p**	53,139,941	190.7p
Exercisable at end of year	**7,211,376**	**212.5p**	11,272,515	249.6p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 152.4p (last year: 265.7p).

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13 SHARE-BASED PAYMENTS CONTINUED

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

	2021		2020
	3-year plan	3-year plan 2020 modified[1]	3-year plan
Grant date	**Dec-20**	**Dec-20**	Dec 19
Share price at grant date	**103p**	**103p**	189p
Exercise price	**82p**	**151p**	151p
Option life in years	**3 years**	**3 years**	3 years
Risk-free rate	**0.0%**	**0.0%**	0.5%
Expected volatility	**45.6%**	**45.6%**	27.6%
Expected dividend yield	**0.0%**	**0.0%**	5.7%
Fair value of option	**34p**	**19p**	33p
Incremental fair value of option	**N/A**	**15p**	N/A

1. In the current year, there has been a modification to the 2021 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2021 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 2021 options, being 34p, and the fair value of repriced previous awards, calculated using 2020 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 15p for 2021 modified options is already recognised in operating loss.

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

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

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	2021	2020	2021	2020	Option price
January 2016	**–**	3,720	**–**	–	416p
January 2017	**9,202**	11,344,003	**–**	0.3	250p
January 2018	**4,112,855**	5,557,053	**0.3**	1.3	251p
January 2019	**3,405,862**	4,910,783	**1.3**	2.3	238p
February 2020	**12,331,683**	31,324,382	**2.3**	3.3	151p
February 2021	**99,291,804**	–	**3.3**	–	82p
	119,151,406	53,139,941	**3.1**	2.4	99p

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 170 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2020 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 2020/21 included earnings per share (EPS), return on capital employed (ROCE), total shareholder return (TSR) and strategic measures. The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report.

During the year, 19,777,921 shares (last year: 12,924,621) were awarded under the plan. The weighted average fair value of the shares awarded was 101.4p (last year: 161.0p). As at 3 April 2021, 33,878,325 shares (last year: 20,502,705) 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 and was approved by shareholders at the 2020 AGM. It may be operated for approximately 4,000 of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 3 April 2021, 422,672 shares (last year: 1,359,166) were outstanding under the plan.

13 SHARE-BASED PAYMENTS CONTINUED

D. Restricted Share Plan*

The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business and was approved by shareholders at the 2020 AGM. The plan operates for the senior management team. Awards vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year, 11,996,948 shares (last year: 3,645,421) have been awarded under the plan. The weighted average fair value of the shares awarded was 124.3p (last year: 150.0p). As at 3 April 2021, 10,722,919 shares (last year: 4,896,084) were outstanding under the plan.

E. Republic of Ireland Save As You Earn scheme

Sharesave, the Company's Save As You Earn scheme, was introduced in 2009 to all employees in the Republic of Ireland for a 10-year period, after approval by shareholders at the 2009 AGM and again at the 2019 AGM. The scheme is subject to Irish Revenue rules and allows participants to save up to a maximum of €500 (last year: €320) each month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

During the year, 1,409,129 options (last year: 327,689) were granted, at a fair value of 33.7p (last year: 33.4p). As at 3 April 2021, 1,846,589 options (last year: 790,977) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 527,116 (last year: 1,557,996) shares with a book value of £0.1m (last year: £3.4m) and a market value of £0.8m (last year: £1.5m). These shares were acquired by the Trust through a combination of market purchases and new issues and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under the senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

* All awards both this year and last year were conditional shares. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 30 March 2019					
Cost	136.5	112.3	1,402.2	74.6	1,725.6
Accumulated amortisation and impairments	(59.0)	(109.5)	(1,025.1)	(32.1)	(1,225.7)
Net book value	77.5	2.8	377.1	42.5	499.9
Year ended 28 March 2020					
Opening net book value	77.5	2.8	377.1	42.5	499.9
Additions	–	–	1.1	76.5	77.6
Transfers and reclassifications	–	–	91.8	(91.4)	0.4
Asset impairments	(13.4)	–	–	–	(13.4)
Asset write-offs	–	–	(0.5)	–	(0.5)
Amortisation charge	–	(2.8)	(162.0)	–	(164.8)
Exchange difference	(0.1)	–	–	–	(0.1)
Closing net book value	64.0	–	307.5	27.6	399.1
At 28 March 2020					
Cost	136.4	112.3	1,495.1	59.7	1,803.5
Accumulated amortisation, impairments and write-offs	(72.4)	(112.3)	(1,187.6)	(32.1)	(1,404.4)
Net book value	64.0	–	307.5	27.6	399.1
Year ended 3 April 2021					
Opening net book value	**64.0**	**–**	**307.5**	**27.6**	**399.1**
Additions	**–**	**6.3**	**0.1**	**41.4**	**47.8**
Transfers and reclassifications	**–**	**–**	**44.7**	**(44.2)**	**0.5**
Asset impairments[1]	**(39.6)**	**–**	**(40.0)**	**–**	**(79.6)**
Asset write-offs	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Amortisation charge	**–**	**(0.2)**	**(131.4)**	**–**	**(131.6)**
Exchange difference	**(0.7)**	**–**	**(0.3)**	**–**	**(1.0)**
Closing net book value	**23.7**	**6.1**	**177.4**	**24.8**	**232.0**
At 3 April 2021					
Cost	**135.7**	**118.6**	**1,539.6**	**56.9**	**1,850.8**
Accumulated amortisation, impairments and write-offs	**(112.0)**	**(112.5)**	**(1,362.2)**	**(32.1)**	**(1,618.8)**
Net book value	**23.7**	**6.1**	**177.4**	**24.8**	**232.0**

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

	per una £m	**India £m**	**Other £m**	**Total goodwill £m**
Net book value at 28 March 2020	**56.1**	**7.2**	**0.7**	**64.0**
Asset impairments	**(39.6)**	**–**	**–**	**(39.6)**
Exchange difference	**–**	**(0.7)**	**–**	**(0.7)**
Net book value at 3 April 2021	**16.5**	**6.5**	**0.7**	**23.7**

1. Asset impairments of £79.6m made up of: £39.6m charge recorded against per una goodwill, £40.0m in relation to replaced, retired or decommissioned as part of MS2 (see note 5).

14 INTANGIBLE ASSETS CONTINUED

Goodwill impairment testing

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

The goodwill balance relates to the goodwill recognised on the acquisition of per una £16.5m (last year: £56.1m), India £6.5m (last year: £7.2m) and other £0.7m (last year: £0.7m).

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

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

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

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 0.5% (last year: 0.7%), which is a reduction from the overall Group long-term growth rate of 1.75% (last year: 2%). The Group's current view of achievable long-term growth for India is 5.9% (last year: 5.9%).

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital ("WACC") which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 11.0% for per una (last year: 9.7%) and 12.9% for India (last year: 14.3%).

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

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

per una

The future cash flows applied in the per una calculation reflect the Group's current plan for the per una brand over the next three years. These plans reflect the updated trading position of the per una brand post Covid-19 and rationalisation of the per una range whereby certain product ranges have been removed from the brand.

The trading assumptions applied in the prior year reflected the expectation that the impact of Covid-19 would last 12 months, with sales and customer trends returning to pre-pandemic levels in 2021/22. Therefore, the impact of Covid-19 was reflected within the forecast per una sales for 2020/21 only, with return to pre Covid-19 levels by February 2021. A year on, it has become apparent that the recovery of per una sales will take longer and that there is likely to be a permanent shift in customer behaviour and habits, especially triggered by two additional lockdowns in the second half of the financial year. As a result, the revised plan assumes a per una sales decline of c. 40% in 2021/22 vs 2019/20, followed by moderate increases in sales in years 2 and 3 of the plan. The revised plan does not return to 2019/20 sales levels.

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 0.5% (last year: 0.7%) growth into perpetuity, which is the per una sales growth assumed in year 3 of the plan. If a shorter trading period was assumed then this could result in a further impairment.

The outcome of the value in use calculation is an impairment of £39.6m (prior year impairment charge of £13.4m).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Individually a 50-basis point increase in the WACC rate or a reduction in the perpetuity growth rate to 0% would cause an increase in the impairment below £0.7m. A 20% reduction in cash flows over the whole three-year plan period would cause a £3.3m further impairment and in combination, these reasonably possible changes in the key assumptions would cause a further impairment of £3.9m.

Computer software impairment testing

Following the announcement of the new MS2 division, the Group conducted a review of the intangible computer software assets held on the balance sheet which were to be decommissioned, replaced or retired as part of the MS2 programme. An impairment charge and write off of £40.0m has been recognised reflecting significant changes to certain intangible assets used by UK Clothing & Home.

Jaeger

During the period, the Group recognised additions to brand intangible assets of £6.3m, relating to the purchase of the Intellectual Property of the Jaeger brand (including registered trademarks, goodwill, logos, domain names and social media accounts) as part of an asset acquisition.

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £5,058.6m (last year: £5,494.2m) consists of owned assets of £3,562.6m (last year: £3,863.9m) and right-of-use assets of £1,496.0m (last year: £1,630.3m).

PROPERTY, PLANT AND EQUIPMENT – OWNED

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 30 March 2019				
Cost	2,885.9	5,673.6	98.1	8,657.6
Accumulated depreciation, impairments and write-offs	(637.1)	(4,015.6)	(18.0)	(4,670.7)
Net book value	2,248.8	1,658.0	80.1	3,986.9
Year ended 28 March 2020				
Opening net book value	2,248.8	1,658.0	80.1	3,986.9
Additions	2.1	27.7	244.9	274.7
Transfers and reclassifications	22.2	183.6	(205.0)	0.8
Impairment reversals	25.7	32.4	–	58.1
Impairment charge	(73.9)	(52.7)	–	(126.6)
Asset write-offs	(1.8)	(7.1)	–	(8.9)
Depreciation charge	(62.0)	(267.2)	–	(329.2)
Exchange difference	6.3	1.8	–	8.1
Closing net book value	2,167.4	1,576.5	120.0	3,863.9
At 28 March 2020				
Cost	2,887.5	5,457.1	138.0	8,482.6
Accumulated depreciation, impairments and write-offs	(720.1)	(3,880.6)	(18.0)	(4,618.7)
Net book value	2,167.4	1,576.5	120.0	3,863.9
Year ended 3 April 2021				
Opening net book value	**2,167.4**	**1,576.5**	**120.0**	**3,863.9**
Additions	**3.8**	**18.6**	**92.1**	**114.5**
Transfers and reclassifications	**7.2**	**157.0**	**(162.6)**	**1.6**
Impairment reversals	**36.9**	**36.2**	**–**	**73.1**
Impairment charge[1]	**(73.2)**	**(48.7)**	**–**	**(121.9)**
Asset write-offs	**(29.8)**	**(17.4)**	**(0.1)**	**(47.3)**
Depreciation charge	**(83.3)**	**(228.5)**	**–**	**(311.8)**
Exchange difference	**(6.6)**	**(2.8)**	**(0.1)**	**(9.5)**
Closing net book value	**2,022.4**	**1,490.9**	**49.3**	**3,562.6**
At 3 April 2021				
Cost	**2,809.9**	**5,450.2**	**67.5**	**8,327.6**
Accumulated depreciation, impairments and write-offs	**(787.5)**	**(3,959.3)**	**(18.2)**	**(4,765.0)**
Net book value	**2,022.4**	**1,490.9**	**49.3**	**3,562.6**

1. Asset impairments of £121.9m made up of: £48.2m charge as a result of UK store impairment testing, £73.4m charge relating to the ongoing UK store estate programme and £0.3m in relation to assets replaced, retired or decommissioned as part of the MS2 programme (see note 5).

Asset write-offs in the year include assets with gross book value of £67.4m (last year: £680.5m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Right-of-use assets

The Group adopted IFRS 16 Leases from 31 March 2019. Refer to note 1 for the accounting policy. The right-of-use assets recognised on adoption of IFRS 16 are reflected in the underlying asset classes of property, plant and equipment.

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

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 30 March 2019	1,637.8	37.6	1,675.4
Additions	140.3	40.4	180.7
Transfers and reclassifications	0.2	(0.2)	–
Disposals	(18.9)	–	(18.9)
Impairment reversals	50.2	–	50.2
Impairment charge	(84.4)	–	(84.4)
Depreciation charge	(155.9)	(18.7)	(174.6)
Exchange difference	1.8	0.1	1.9
As at 28 March 2020	**1,571.1**	**59.2**	**1,630.3**
Additions	**37.2**	**13.1**	**50.3**
Transfers and reclassifications	**0.3**	**–**	**0.3**
Disposals	**(5.5)**	**0.2**	**(5.3)**
Impairment reversals	**36.9**	**–**	**36.9**
Impairment charge	**(52.7)**	**–**	**(52.7)**
Depreciation charge	**(132.0)**	**(21.1)**	**(153.1)**
Exchange difference	**(10.6)**	**(0.1)**	**(10.7)**
As at 3 April 2021	**1,444.7**	**51.3**	**1,496.0**

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

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

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

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

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 8.9% to 14.0% (last year: 8.6% to 16.8%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £66.4m and impairment reversals of £64.5m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £69.3m). The impaired stores were impaired to their 'value in use' recoverable amount of £98.5m, which is their carrying value at year end. The stores with impairment reversals were written back to their 'value in use' recoverable amount of £223.0m. These impairments and impairment reversals 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 1.75%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 1.75%. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

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

A reduction in sales of 5% from the three-year plan in year 3 would result in an increase in the impairment charge of £33.0m and a 25 basis point reduction in gross profit margin from year 3 onwards would increase the impairment charge by £4.0m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.0m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

A reduction in sales of 5% from the three-year plan in year 3 would result in a reduction in the reversal of £1.1m and a 25 basis point reduction in gross profit margin from year 3 onwards would have no impact on the reversal. In combination, a 5% fall in sales and a 25 basis point fall in gross profit margin would reduce the reversal by £2.0m.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £107.9m and impairment reversals of £36.7m relating to the ongoing UK store estate programme (last year: impairment charge of £132.0m and impairment reversals of £108.3m). These stores were impaired to their 'value in use' recoverable amount of £109.6m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5). Impairment reversals predominantly reflect improved trading expectations compared to those assumed at the end of the prior year end.

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.9% (last year: 8.6%).

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 £24.7m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £21.7m. Neither a 50 basis point increase in the discount rate, a 25 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year, the Group has recognised an impairment reversal of £8.8m in Ireland (last year: impairment charge of £9.0m) and £nil in the Czech Republic (last year: £0.2m) as a result of store impairment testing.

For Irish stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 10.0% (last year: 14.1%).

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.

For Irish stores, reasonably possible changes in other key assumptions, including a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession, a 25 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a change in the impairment reversal.

16 OTHER FINANCIAL ASSETS

	2021 £m	2020 £m
Non-current		
Unlisted investments	**9.7**	9.7
Current		
Short-term investments[1]	**18.4**	11.7

1. Includes £9.2m (last year: £5.8m) of money market deposits held by Marks and Spencer plc in an escrow account.

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

17 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Non-current		
Trade receivables	**0.1**	0.2
Lease receivables – net	**62.8**	69.2
Other receivables	**2.1**	2.2
Prepayments	**196.4**	191.0
	261.4	262.6
Current		
Trade receivables	**109.8**	150.8
Less: provision for impairment of receivables	**(3.7)**	(4.0)
Trade receivables – net	**106.1**	146.8
Lease receivables – net	**–**	0.1
Other receivables	**30.5**	41.0
Prepayments	**53.9**	84.8
Accrued income	**19.1**	25.3
	209.6	298.0

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The Group's assessment of any expected credit losses is included in note 21. Included in accrued income is £5.7m (last year: £17.4m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An immaterial amount of 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 impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

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

	2021 £m	2020 £m
Timing of cash flows		
Within one year	**4.8**	7.1
Between one and two years	**4.8**	4.7
Between two and three years	**4.7**	4.7
Between three and four years	**4.7**	4.7
Between four and five years	**6.1**	4.7
More than five years	**128.9**	135.0
Total undiscounted cash flows	**154.0**	160.9
Effect of discounting	**(79.3)**	(86.9)
Present value of lease payments receivable	**74.7**	74.0
Less: provision for impairment of receivables	**(11.9)**	(4.7)
Net investment in the lease	**62.8**	69.3

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £674.4m (last year: £254.2m (restated)). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.06% (last year: 0.42%). These deposits have an average maturity of 5 days (last year: 3 days).

19 TRADE AND OTHER PAYABLES

	2021 £m	2020 (Restated) £m
Current		
Trade and other payables[1]	**1,091.5**	1,017.8
Social security and other taxes	**46.8**	64.4
Accruals	**407.5**	379.3
Deferred income	**53.2**	39.5
	1,599.0	1,501.0
Non-current		
Other payables	**179.2**	206.6
Deferred income	**13.1**	16.0
	192.3	222.6

1. See note 1 for details on a change in accounting policy and the resulting restatement.

Included within current trade and other payables is £33.6m (last year: £nil) and non-current other payables is £178.4m (last year: £202.4m) of contingent consideration relating to the investment in Ocado Retail Limited. See note 21 for further details.

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

	2021 £m	2020 £m
Opening balance	**180.8**	186.9
Issues	**363.2**	423.8
Released to the income statement	**(349.6)**	(429.9)
Closing balance	**194.4**	180.8

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

The Group is not party to these financing arrangements and the arrangements do not permit the Group to obtain finance from the provider by paying the provider later than the Group would have paid its supplier. The Group does not incur any interest towards the provider on the amounts due to the suppliers. The Group therefore discloses the amounts factored by suppliers within trade payables because the nature and function of the financial liability remain the same as those of other trade payables.

The payments by the Group under these arrangements are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating – i.e. payments for the purchase of goods and services.

At 3 April 2021, £272.6m (last year: £215.6m) of trade payables were amounts owed under these arrangements. During the year, the maximum facility available at any one time under the arrangements was £305.0m (last year: £299.0m).

In response to the Covid-19 pandemic, during the year the Group implemented extended payment terms for suppliers in Clothing & Home.

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2021 £m	2020 (Restated)[7] £m
Current		
Bank loans and overdrafts	**4.7**	15.5
Lease liabilities	**219.4**	197.2
6.125% £400m Medium Term Notes 2021[1]	**163.5**	–
Interest accrued on Medium Term Notes	**45.2**	35.1
	432.8	247.8
Non-current		
6.125% £300m Medium Term Notes 2021[1]	**–**	299.2
3.00% £300m Medium Term Notes 2023[1]	**298.5**	298.0
4.75% £400m Medium Term Notes 2025[1,5]	**412.2**	399.4
3.75% £300m Medium Term Notes 2026[1,4]	**298.3**	–
3.25% £250m Medium Term Notes 2027[1]	**248.0**	247.6
7.125% US$300m Medium Term Notes 2037[2,3]	**192.2**	192.1
Revaluation of Medium Term Notes[6]	**24.2**	64.8
Lease liabilities	**2,186.5**	2,364.8
	3,659.9	3,865.9
Total	**4,092.7**	4,113.7

1. These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually.
2. Interest on these bonds is payable semi-annually.
3. US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
4. In November 2020, a £300m 3.75% Medium Term Note was issued which matures in May 2026.
5. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £nil (last year: £175m) was swapped from fixed to floating rate. Also includes £13.6m (last year: £1.2m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.
6. Revaluation consists of foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £24.2m (last year: £50.8m). Last year this also included a fair value hedge adjustment of £13.6m.
7. See note 1 for details on a change in accounting policy and the resulting restatement.

Leases

The Group leases various stores, offices, warehouses and equipment with varying terms, escalation clauses and renewal rights.

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

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

	2021 £m	2020 £m
Opening lease liabilities	**2,562.0**	2,576.8
Additions	**48.3**	204.1
Interest expense relating to lease liabilities	**133.8**	141.3
Payments	**(316.7)**	(335.7)
Disposals	**(7.8)**	(25.7)
Exchange difference	**(13.7)**	1.2
	2,405.9	2,562.0
Current	**219.4**	197.2
Non-current	**2,186.5**	2,364.8

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

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

The Group holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16, the Group has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £2,405.9m of lease liabilities held on the balance sheet.

The following amounts were recognised in profit or loss:

	2021 £m	2020 £m
Expenses relating to short-term leases	**4.6**	1.0
Expenses relating to low-value assets	**1.0**	2.4
Expenses relating to variable consideration	**2.5**	6.0

FINANCIAL STATEMENTS

21 FINANCIAL INSTRUMENTS

Treasury policy

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

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

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

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

Financial risk management

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

(a) Liquidity and funding risk

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

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

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

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax the covenant conditions for the tests arising in September 2021 and March 2022.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £25m (last year: £50m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year: £1.3bn) was in issuance as at the balance sheet date. The initial rate of interest is fixed at the date of issue and the Notes are referred to as fixed rate borrowings throughout the Annual Report as the coupon does not change with movements in benchmark interest rates. However, the rate of interest on certain Notes varies both up and down in response to third-party credit ratings (to above/below Baa3 or above/below BBB-) that reflects the relative deterioration or improvement in the Group's cost of credit, and the interest payable on these Notes increases from the next interest payment date following a relevant credit rating downgrade. As the original contractual terms of these Notes provide for changes in cash flows to be reset to reflect the relative deterioration or improvement in the Group's cost of credit, the Group considers these Notes to be floating rate instruments when determining amortised cost under IFRS 9 and consequently the Group applied IFRS 9 paragraph B5.4.5, which requires no adjustment to the carrying amount of the liabilities or immediate impact on profit and loss. If the Group had determined these Notes to be fixed rate instruments, the Notes would be remeasured to reflect the revised cash flows discounted at the original effective rate. This would result in initially a higher interest expense to profit or loss, offset by lower interest charges subsequently, when compared to the Group's treatment. The Group assessed that there are also no implications on the application of fair value hedge accounting. Prior to the early settlement of the Group's interest rate swaps, the hedge effectiveness requirements of IFRS 9 were met, with an identified economic relationship in existence between the designated hedged item and the hedging instrument, with their respective fair values expected to move in opposite directions.

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

21 FINANCIAL INSTRUMENTS CONTINUED

The table below summarises the contractual maturity of the Group's non-derivative financial liabilities and derivatives, excluding trade and other payables and accruals. The carrying value of all trade and other payables (excluding contingent consideration payable) and accruals of £1,466.2m (last year: £1,401.3m) is equal to their contractual undiscounted cash flows (see note 19) which are due within one year. Contingent consideration (see the fair value hierarchy section within note 21) of £33.7m (last year: £nil) is expected to become payable within one year and £190.8m (last year: £222.6m) between two and five years.

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities[3] £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives[1] £m	Cash outflow on derivatives[1] £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(15.5)	(71.9)	(340.2)	(71.9)	(499.5)	1,972.0	(1,898.0)	74.0
Between one and two years	–	(371.9)	(329.4)	(71.9)	(773.2)	183.5	(167.2)	16.3
Between two and five years	–	(451.6)	(834.2)	(71.9)	(1,357.7)	296.8	(238.4)	58.4
More than five years	–	(1,164.0)	(3,674.2)	–	(4,838.2)	235.3	(188.3)	47.0
Total undiscounted cash flows	(15.5)	(2,059.4)	(5,178.0)	(215.7)	(7,468.6)	2,687.6	(2,491.9)	195.7
Effect of discounting	–	523.2	2,616.0	8.3	3,147.5			
At 28 March 2020 (restated)[2]	(15.5)	(1,536.2)	(2,562.0)	(207.4)	(4,321.1)			
Timing of cash flows								
Within one year	**(4.7)**	**(244.8)**	**(326.3)**	**(124.9)**	**(700.7)**	**2,082.2**	**(2,143.0)**	**(60.8)**
Between one and two years	**–**	**(74.8)**	**(289.1)**	**(71.9)**	**(435.8)**	**208.8**	**(210.2)**	**(1.4)**
Between two and five years	**–**	**(898.8)**	**(754.6)**	**–**	**(1,653.4)**	**46.5**	**(43.8)**	**2.7**
More than five years	**–**	**(987.7)**	**(3,293.2)**	**–**	**(4,280.9)**	**404.0**	**(368.6)**	**35.4**
Total undiscounted cash flows	**(4.7)**	**(2,206.1)**	**(4,663.2)**	**(196.8)**	**(7,070.8)**	**2,741.5**	**(2,765.6)**	**(24.1)**
Effect of discounting	**–**	**524.0**	**2,257.3**	**3.3**	**2,784.6**			
At 3 April 2021	**(4.7)**	**(1,682.1)**	**(2,405.9)**	**(193.5)**	**(4,286.2)**			

1. Cash inflows and outflows on derivative instruments that require gross settlement (such as cross currency swaps and forward foreign exchange contracts) are disclosed gross. Cash inflows and outflows on derivative instruments that settle on a net basis are disclosed net.
2. See note 1 for details on a change in accounting policy and the resulting restatement.
3. Total undiscounted lease payments of £764.0m relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Group's contractual indebtedness under these leases, where there is a contractual right to break.

(b) Counterparty risk

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

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

21 FINANCIAL INSTRUMENTS CONTINUED

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

	Credit rating of counterparty								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	–	–	–	42.4	59.4	15.7	–	3.6	121.1
Net derivative assets[2]	–	–	–	79.2	66.2	26.8	–	–	172.2
At 28 March 2020	–	–	–	121.6	125.6	42.5	–	3.6	293.3

	AAA £m	**AA+ £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Short term investments[1]	**–**	**–**	**–**	**54.4**	**182.4**	**250.3**	**4.7**	**3.3**	**495.1**
Net derivative assets[2]	**–**	**–**	**–**	**–**	**8.3**	**0.6**	**–**	**–**	**8.9**
At 3 April 2021	**–**	**–**	**–**	**54.4**	**190.7**	**250.9**	**4.7**	**3.3**	**504.0**

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 of £197.7m (last year: £144.8m).
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 £106.2m (last year: £147.0m), lease receivables £62.8m (last year: £69.3m), other receivables £32.6m (last year: £43.2m), cash and cash equivalents £674.4m (last year: £254.2m) and derivatives £33.1m (last year: £172.2m).

Impairment of financial assets

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

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

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry, as well as by geographical location and days past due. In addition to the expected credit losses calculated using a provision matrix, the Group may provide additional provision for the receivables of particular customers if the deterioration of financial position was observed. The Group's trade receivables are of very low credit risk due to transactions being principally of high volume, low value and short maturity. Therefore, it also has very low concentration risk.

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.

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

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

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

21 FINANCIAL INSTRUMENTS CONTINUED

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

As at 3 April 2021	**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	**95.0**	**9.9**	**2.0**	**0.8**	**0.8**	**1.3**	**109.8**
Expected loss rate	**1.45%**	**5.43%**	**12.88%**	**15.78%**	**17.06%**	**100.0%**	**3.40%**
Lifetime expected credit loss	**1.4**	**0.5**	**0.3**	**0.1**	**0.1**	**1.3**	**3.7**
Net carrying amount	**93.6**	**9.4**	**1.7**	**0.7**	**0.7**	**–**	**106.1**

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

Trade receivables expected loss provision	**2021 £m**	2020 £m
Opening loss allowance as at 28 March 2020	**4.0**	3.2
(Decrease)/increase in loss allowance recognised in profit and loss during the year	**(0.3)**	0.9
Receivables written off during the year as uncollectable	**–**	(0.1)
Closing loss allowance as at 3 April 2021	**3.7**	4.0

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

Lease receivables expected loss provision	**2021 £m**	2020 £m
Opening loss allowance as at 28 March 2020	**4.7**	–
Increase in loss allowance recognised in profit and loss during the year[1]	**7.2**	4.7
Receivables written off during the year as uncollectable	**–**	–
Closing loss allowance as at 3 April 2021	**11.9**	4.7

1. Relates to the sub-let of previously closed offices associated with the strategic programme to centralise the Group's London Head Office functions (see note 5).

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

(c) Foreign currency risk

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

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 14 months ahead of the start of the season, with between 80% and 100% of the risk hedged eight 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 £1,776.6m (last year: £1,872.9m) with a weighted average maturity date of six months (last year: six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 3 April 2021 will be reclassified to the income statement at various dates over the following 16 months (last year: 18 months) from the balance sheet date.

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21 FINANCIAL INSTRUMENTS CONTINUED

The foreign exchange forwards are designated as cash flow hedges of highly probable forecast transactions. Both spot and forward points are designated in the hedge relationship, under IFRS 9 the currency basis spread may be excluded from the hedge relationship and recognised in other comprehensive income – cost of hedging reserve. The change in the fair value of the hedging instrument, to the degree effective, is deferred in equity and subsequently either reclassified to profit or loss or removed from equity and included in the initial cost of inventory as part of the "basis adjustment". This will be realised in the income statement once the hedged item is sold. The Group has considered and elected not to recognise the currency basis spread element in the cost of hedging reserve, owing to the relatively short-dated nature of the hedging instruments.

The Group regularly reviews the foreign exchange hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the Income Statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group's treasury policy, hedges are entered into by business line and by season. In the prior period, management identified over-hedging in Clothing & Home stock purchases resulting in a gain of £2.9m in profit and loss. No such over-hedging has been identified in the current period.

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

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

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

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are classified as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £1.4m gain (last year: £3.4m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £172.0m (last year: £157.0m).

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

	2021			2020		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**3,886.2**	**4.7**	**3,890.9**	3,672.2	205.6	3,877.8
Euro	**95.8**	**–**	**95.8**	109.8	–	109.8
Other	**106.0**	**–**	**106.0**	126.1	–	126.1
	4,088.0	**4.7**	**4,092.7**	3,908.1	205.6	4,113.7

The floating rate sterling borrowings are cash balances classified as overdrafts.

As at the balance sheet date and excluding lease liabilities, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 5.3% (last year: 4.8%) and the weighted average time for which the rate is fixed is six years (last year: six years).

During the year, the Group closed out all interest rate swaps designated in hedge relationships (last year: £175m).

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 £4,088.0m (last year: £3,908.1m) representing the public bond issues and lease liabilities, amounting to 99% (last year: 95%) of the Group's gross borrowings.

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

	2021 %	2020 %
Committed and uncommitted borrowings	**N/A**	N/A
Medium Term Notes	**5.3%**	4.6%
Leases	**5.4%**	5.5%

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA).
In March 2021, the FCA announced that it will no longer seek to persuade, or compel, banks to submit LIBOR from 31 December 2021 (for USD LIBOR: 30 June 2023).

In response to the announcements, the Group has identified any contracts with reference to LIBOR within the business and has appointed a project team to ensure a smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The work is ongoing but is expected to complete well ahead of the cessation of the publication of LIBOR.

During the year, the Group closed out all pay six-month GBP LIBOR, receive GBP fixed interest rate swaps (last year: £175m). The Group no longer holds any derivatives or hedge relationships that reference LIBOR.

The Group will continue to apply the Phase 1 amendments to IFRS 9 (which were adopted last year) until the uncertainty arising from the interest rate benchmark reforms that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBORs are amended to specify the date on which the interest rate benchmark will be replaced, the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

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

	28 March 2020					
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	FVTPL	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional/currency legs	1,699.3	157.0	–	193.5	173.6	175.0
Carrying amount assets	71.0	2.5	–	83.8	10.2	18.4
Carrying amount (liabilities)	(10.2)	(2.8)	–	–	(0.7)	–
Maturity date	to Feb 2021	to Oct 2020	–	Dec 2037	to Aug 2021	Jun 2025
Hedge ratio	100%	100%	–	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument	33.4	(0.6)	–	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness	(30.5)	4.0	–	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBP/USD 1.3, GBP/EUR 1.15	N/A	–	7.5%	GBP/USD 1.32, GBP/EUR 1.15	–
Amounts recognised within finance costs in profit and loss	2.9	3.4	–	5.9	–	–
Balance on cash flow hedge reserve at 28 March 2020	(37.3)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	–	N/A	N/A	(7.1)	–	N/A

	3 April 2021					
	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**	**FVTPL**	**Fair value hedges**	**Cash flow hedges**	**Cash flow hedges**	**Fair value hedges**
Notional/currency legs	**1,585.9**	**333.8**	**–**	**193.5**	**190.7**	**–**
Carrying amount assets	**32.1**	**0.7**	**–**	**–**	**0.3**	**–**
Carrying amount (liabilities)	**(83.9)**	**(12.1)**	**–**	**(8.1)**	**(2.6)**	**–**
Maturity date	**to Sep 2021**	**to Jan 2022**	**–**	**to Dec 2037**	**to May 2022**	**–**
Hedge ratio	**100%**	**100%**	**–**	**100%**	**100%**	**–**
Description of hedged item	**Highly probable transactional FX exposures**	**Inter-company loans/ deposits**	**–**	**USD fixed rate borrowing**	**Highly probably transactional FX exposures**	**–**
Change in fair value of hedging instrument[1]	**(100.2)**	**(11.1)**	**–**	**(91.7)**	**(11.8)**	**–**
Change in fair value of hedged item used to determine hedge effectiveness	**100.2**	**12.5**	**–**	**93.0**	**11.8**	**–**
Weighted average hedge rate for the year	**GBP/USD 1.32, GBP/EUR1.13**	**–**	**–**	**7.5%**	**GBP/USD 1.28, GBP/ EUR1.12**	**–**
Amounts recognised within finance costs in profit and loss	**–**	**1.4**	**–**	**1.3**	**–**	**–**
Balance on cash flow hedge reserve at 3 April 2021	**40.6**	**–**	**–**	**25.4**	**2.2**	**–**
Balance on cost of hedging reserve at 3 April 2021	**–**	**–**	**–**	**(5.8)**	**–**	**–**

1. The £(11.1)m fair value change represented in the fair value movement of the forward contracts under FVTPL consists of economic hedges of certain intercompany loans/deposits and forward contracts that are no longer in hedge relationships (total equivalent notional: £333.8m). Of this fair value change, £(10.2)m relates to movements in valid hedge relationships that de-designated at the end of the financial year and were reclassified to the cost of inventory. This line also includes the cash settlements of the derivative positions during the year.

21 FINANCIAL INSTRUMENTS CONTINUED

		3 April 2021				28 March 2020			
		Notional value		Fair value		Notional value		Fair value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current									
Forward foreign exchange contracts	– cash flow hedges	**449.0**	**1,136.9**	**32.1**	**(83.9)**	1,385.0	314.3	71.0	(10.2)
	– FVTPL	**72.2**	**261.6**	**0.7**	**(12.1)**	61.9	95.1	2.5	(2.8)
		521.2	**1,398.5**	**32.8**	**(96.0)**	1,446.9	409.4	73.5	(13.0)
Non-current									
Cross currency swaps	– cash flow hedges	**–**	**193.5**	**–**	**(8.1)**	193.5	–	83.8	–
Forward foreign exchange contracts	– cash flow hedges	**46.2**	**144.5**	**0.3**	**(2.6)**	153.1	20.5	10.2	(0.7)
Interest rate swaps	– fair value hedges	**–**	**–**	**–**	**–**	175.0	–	18.4	–
		46.2	**338.0**	**0.3**	**(10.7)**	521.6	20.5	112.4	(0.7)

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

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	**Total cost of hedging reserve £m**	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	**Total hedge reserve £m**
Opening balance 31 March 2019	–	(14.6)	2.9	**(11.7)**	(11.1)	32.9	0.2	(7.4)	**14.6**
Add: Change in fair value of hedging instrument recognised in OCI[2]	–	–	–	**–**	(59.2)	(88.6)	–	–	**(147.8)**
Add: Costs of hedging deferred and recognised in OCI	–	7.5	–	**7.5**	–	–	–	–	**–**
Less: Reclassified to the cost of inventory	–	–	–	**–**	21.8	–	–	–	**21.8**
Less: Reclassified from OCI to profit or loss – included in finance costs	–	–	–	**–**	2.9	15.6	(0.1)	–	**18.4**
Less: Deferred tax	–	–	(1.5)	**(1.5)**	–	–	–	24.4	**24.4**
Closing balance 28 March 2020	**–**	**(7.1)**	**1.4**	**(5.7)**	**(45.6)**	**(40.1)**	**0.1**	**17.0**	**(68.6)**
Opening balance 29 March 2020	–	(7.1)	1.4	**(5.7)**	(45.6)	(40.1)	0.1	17.0	**(68.6)**
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	**–**	122.2	92.0	–	–	**214.2**
Add: Costs of hedging deferred and recognised in OCI	–	1.3	–	**1.3**	–	–	–	–	**–**
Less: Reclassified to the cost of inventory	–	–	–	**–**	(33.9)	–	–	–	**(33.9)**
Less: Reclassified from OCI to profit or loss	–	–	–	**–**	–	(26.5)	–	–	**(26.5)**
Less: Deferred tax	–	–	(0.2)	**(0.2)**	–	–	–	(30.4)	**(30.4)**
Closing balance 3 April 2021	**–**	**(5.8)**	**1.2**	**(4.6)**	**42.7**	**25.4**	**0.1**	**(13.4)**	**54.8**

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

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21 FINANCIAL INSTRUMENTS CONTINUED

In the previous year, management identified over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases not expected to occur amounted to a gain of £2.9m. The corresponding cash flow hedges were discontinued prospectively; derivatives with the notional value of US$76.6m were subsequently accounted for at fair value through profit or loss. No such over-hedging has been identified in the current year.

During the year, the Group closed out all interest rate swaps designating its GBP fixed debt to floating debt which were reported as fair value hedges (see note 20 for details of fair value adjustment). At 3 April 2021, the Group had a deferred fair value adjustment of £13.6m in borrowings relating to terminated fair value hedges. The ineffective portion recognised in profit or loss that arose from fair value hedges amounted to a nil gain or loss as the loss on the hedged items was £4.4m (last year: gain of £3.8m) and the gain on the hedging instruments was £4.4m (last year: loss of £3.8m).

Movement in hedged items and hedging instruments	**2021 £m**	2020 £m
Net gain/(loss) in fair value of interest rate swap	**4.4**	(3.8)
Net (loss)/gain on hedged items	**(4.4)**	3.8
Ineffectiveness	**–**	–

The Group holds a number of cross-currency interest rate swaps to designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in profit or loss that arises from the cash flow hedge amounts to a £1.3m gain (last year: nil gain or loss) as the gain on the hedged items was £93.0m (last year: £79.7m loss) and the movement on the hedging instruments was a £91.7m loss (last year: £79.7m gain). A nil gain or loss (last year: £5.9m gain) was recognised in profit or loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	**2021 £m**	2020 £m
Net (loss)/gain in fair value of cross-currency interest rate swap	**(91.7)**	79.7
Net gain/(loss) on hedged items	**93.0**	(79.7)
Ineffectiveness	**1.3**	–

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	–	–
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)
At 3 April 2021				
Impact on income statement: (loss)/gain	**(9.2)**	**9.2**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(2.1)**	**4.7**	**199.4**	**(199.4)**

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	–	4.3
Derivative financial assets	185.9	–	185.9	(13.7)	172.2
	204.5	(14.3)	190.2	(13.7)	176.5
Trade and other payables	(272.8)	14.3	(258.5)	–	(258.5)
Derivative financial liabilities	(13.7)	–	(13.7)	13.7	–
	(286.5)	14.3	(272.2)	13.7	(258.5)

	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 3 April 2021					
Trade and other receivables	**16.5**	**(12.8)**	**3.7**	**–**	**3.7**
Derivative financial assets	**33.1**	**–**	**33.1**	**(33.1)**	**–**
	49.6	**(12.8)**	**36.8**	**(33.1)**	**3.7**
Trade and other payables	**(257.4)**	**12.8**	**(244.6)**	**–**	**(244.6)**
Derivative financial liabilities	**(106.7)**	**–**	**(106.7)**	**33.1**	**(73.6)**
	(364.1)	**12.8**	**(351.3)**	**33.1**	**(318.2)**

Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities. The Group had no level 1 investments or financial instruments.
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

21 FINANCIAL INSTRUMENTS CONTINUED

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

	2021				2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– derivatives held at FVTPL	**–**	**0.7**	**–**	**0.7**	–	2.5	–	2.5
Derivatives used for hedging	**–**	**32.4**	**–**	**32.4**	–	183.4	–	183.4
Short-term investments	**–**	**18.4**	**–**	**18.4**	–	11.7	–	11.7
Unlisted investments[1]	**–**	**–**	**9.7**	**9.7**	–	–	9.7	9.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– derivatives held at FVTPL	**–**	**(12.1)**	**–**	**(12.1)**	–	(2.8)	–	(2.8)
– contingent consideration[2]	**–**	**–**	**(212.0)**	**(212.0)**	–	–	(202.4)	(202.4)
Derivatives used for hedging	**–**	**(94.6)**	**–**	**(94.6)**	–	(10.9)	–	(10.9)

There were no transfers between the levels of the fair value hierarchy during the period. There were also no changes made to any of the valuation techniques during the period.

1. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) (see note 16) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.
2. As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The fair value of contingent consideration payable is estimated by calculating the present value of the future expected cash flows. The contingent consideration arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets, the most significant of which is Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the arrangement is £187.5m plus interest of 4%.

   The fair value was estimated by applying an appropriate discount rate to the expected future payments. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. The performance targets are binary and, based on the latest five-year plan of Ocado Retail Limited, are expected to be met and therefore the fair value reflects the full, discounted £187.5m plus interest, and it is therefore expected that £33.7m will become payable in 2021/22 and £190.8m will become payable in 2024/25. Should some, or all, of these targets not be met, less, or no, consideration would be payable. Should the discount rate applied be changed, the fair value of the contingent consideration would change, but the amount of consideration that would ultimately be paid would not necessarily change. The discount rates used ranged from 0.8% to 2.0% (last year: 1.7% to 2.2%) and a 1.0% change in the discount rates would result in a change in fair value of £6.0m (last year: £7.3m). A 5% change in the forecast level of earnings used to assess the performance targets would not result in a significant change in fair value of the contingent consideration.

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,442.9m (last year: £10,653.8m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £5,446.0m (last year: £6,328.7m). Additionally, the scheme assets include £4,996.9m (last year: £4,325.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

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

	2021 £m	2020 £m
Opening balance	**4,325.1**	3,216.1
Fair value gain/(loss) recognised in other comprehensive income	**68.3**	(130.1)
Additional investment	**603.5**	1,239.1
Closing balance	**4,996.9**	4,325.1

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 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 fixed rate bond debt (level 1 equivalent) was £1,682.1m (last year: £1,536.2m); the fair value of this debt was £1,807.6m (last year: £1,531.4m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (level 2 equivalent) is £193.5m (last year: £207.4m) and the fair value of this liability is £185.5m (last year: £202.7m).

21 FINANCIAL INSTRUMENTS CONTINUED

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to fund investment in the transformation and rebuild balance sheet metrics towards levels consistent with investment grade, 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 rebuild a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was six years (last year: six years). During the year, the Group maintained credit ratings of Ba1 (negative) with Moody's and BB+ (negative) 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	2021 £m	2020 £m
At 28 March 2020	**60.0**	**12.6**	**5.4**	**78.0**	173.4
Provided in the year – charged to profit or loss	**22.5**	**105.2**	**9.6**	**137.3**	44.3
Provided in the year – charged to property, plant and equipment	**25.9**	**–**	**–**	**25.9**	(16.9)
Released in the year	**(29.8)**	**(7.6)**	**(0.1)**	**(37.5)**	(93.2)
Utilised during the year	**(4.6)**	**(81.6)**	**(0.3)**	**(86.5)**	(35.1)
Exchange differences	**–**	**(0.1)**	**–**	**(0.1)**	0.6
Discount rate unwind	**2.7**	**–**	**–**	**2.7**	4.9
Reclassified to the pension liability	**–**	**–**	**(2.5)**	**(2.5)**	–
At 3 April 2021	**76.7**	**28.5**	**12.1**	**117.3**	78.0
Analysed as:					
Current				**43.1**	21.5
Non-current				**74.2**	56.5

Property provisions relate primarily to obligations such as dilapidations arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

Restructuring provisions relate to the estimated costs associated with the strategic programme to reduce roles across central support centres, regional management and our UK and Republic of Ireland stores; the historical International exit strategy; and the strategic programme to transition to a single-tier UK distribution network. These provisions are expected to be utilised within the next year and over the period of closure of sites.

Other provisions include amounts in respect of probable liabilities for employee-related matters.

Provisions related to adjusting items were £100.8m at 3 April 2021 (last year: £71.1m), with a net charge in the year of £90.1m (see note 5).

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% as applicable (last year: 19%) 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 31 March 2019	(30.1)	(6.1)	(195.2)	110.4	(121.0)	1.4	(119.6)
Credited/(charged) to income statement	1.8	5.9	(7.1)	9.2	9.8	(2.2)	7.6
Credited/(charged) to equity/ other comprehensive income	–	–	(196.5)	(24.4)	(220.9)	0.5	(220.4)
At 28 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
At 29 March 2020	**(28.3)**	**(0.2)**	**(398.8)**	**95.2**	**(332.1)**	**(0.3)**	**(332.4)**
Credited/(charged) to income statement	**(22.0)**	**22.8**	**(7.6)**	**4.5**	**(2.3)**	**2.1**	**(0.2)**
Credited/(charged) to equity/ other comprehensive income	**–**	**–**	**257.7**	**35.8**	**293.5**	**(3.2)**	**290.3**
At 3 April 2021	**(50.3)**	**22.6**	**(148.7)**	**135.5**	**(40.9)**	**(1.4)**	**(42.3)**

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

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £228.0m (last year: £335.7m) and a tax value of £43.3m (last year: £63.8m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m per year were extended to include capital losses. The change in tax legislation has resulted in a restriction in the capital losses recognised by £108.6m (last year: £nil). It is not considered there are sufficient future taxable profits to recognise the carry forward loss which is considered an unrecognised deferred tax asset at the year end. 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 £11.0m (last year: £9.5m) and a tax value of £3.0m (last year: £2.6m).

A deferred tax asset of £10.5m has been recognised on current year trading losses in the UK which are being carried forward. The utilisation of these losses is dependent on the existence of future taxable profits, which we expect to arise in future years without the one-off current year impact on trading from Covid-19.

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £24.1m (last year: £27.0m) 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 £2.3m (last year: £2.6m) however this has not been recognised by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

24 ORDINARY SHARE CAPITAL

	2021 Shares	2021 £m	2020 Shares	2020 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,950,059,808**	**487.6**	1,625,000,230	406.3
Shares issued on rights issue	**–**	**–**	325,009,968	81.3
Shares issued in respect of share option schemes	**6,453,783**	**1.6**	49,610	–
At end of year	**1,956,513,591**	**489.2**	1,950,059,808	487.6

Issue of new shares

In May 2019, the Company offered a fully underwritten rights issue to existing shareholders on the basis of 1 share for every 5 fully paid ordinary shares held. As a result, 325,009,968 ordinary shares with an aggregate nominal value of £81.3m were issued for cash consideration of £601.1m. Transaction costs of £26.4m were incurred resulting in £493.4m being recognised in share premium.

6,453,783 (last year: 49,610) ordinary shares having a nominal value of £1.6m (last year: £0.0m) were allotted during the year under the terms of the Company's share schemes which are described in note 13 of the Group financial statements. The increase from prior year is driven by DSBP, PSP and RSP schemes which were previously satisfied through market purchase. The aggregate consideration received was £0.0m (last year: £0.1m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2021 £m	2020 £m
Commitments in respect of properties in the course of construction	**88.3**	78.7
Software capital commitments	**10.6**	8.6
	98.9	87.3

B. Other material contracts

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

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

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

Cash flows from operating activities

	2021 £m	2020 £m
(Loss)/profit on ordinary activities after taxation	**(201.2)**	27.4
Income tax (credit)/expense	**(8.2)**	39.8
Finance costs	**236.1**	234.5
Finance income	**(57.4)**	(46.9)
Operating (loss)/profit	**(30.7)**	254.8
Share of results of Ocado Retail Limited	**(78.4)**	(2.6)
Decrease/(increase) in inventories	**41.2**	(29.3)
Decrease/(increase) in receivables	**67.4**	(9.2)
Increase/(decrease) in payables[1]	**159.5**	(29.3)
Depreciation, amortisation and write-offs	**603.1**	632.5
Non-cash share-based payment expense	**19.3**	18.5
Defined benefit pension funding	**(37.1)**	(37.9)
Adjusting items net cash outflows[2,3]	**(118.1)**	(75.4)
Adjusting items M&S Bank[4]	**(2.4)**	(12.6)
Adjusting operating profit items	**252.9**	335.9
Cash generated from operations	**876.7**	1,045.4

1. See note 1 for details on a change in accounting policy and the resulting restatement.
2. Excludes £12.4m (last year: £11.3m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.
3. Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, organisation, UK logistics, the utilisation of the provisions for International store closures and impairments, expenses directly attributable to the Covid-19 pandemic, cash outflows incurred as part of the Sparks loyalty programme transition and establishing the investment in Ocado Retail Limited.
4. 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 31 March 2019 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[2] £m	At 28 March 2020 £m
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 20)[1]	(3.5)	(12.0)	–	–	–	(15.5)
	(3.5)	(12.0)	–	–	–	(15.5)
Cash and cash equivalents (see note 18)[1]	310.5	(56.8)	–	–	0.5	254.2
Net cash per statement of cash flows	307.0	(68.8)	–	–	0.5	238.7
Current other financial assets (see note 16)	141.8	(130.1)	–	–	–	11.7
Medium Term Notes (see note 20)	(1,673.8)	230.1	–	–	(92.5)	(1,536.2)
Lease liabilities (see note 20)	(2,576.8)	335.7	–	(204.1)	(116.8)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(266.2)	71.9	–	–	(8.4)	(202.7)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	–	–	102.2
Liabilities from financing activities	(4,492.9)	630.0	86.0	(204.1)	(217.7)	(4,198.7)
Less: Cashflows related to interest and derivative instruments	62.6	(215.1)	(86.0)	–	236.2	(2.3)
Net debt	(3,981.5)	216.0	–	(204.1)	19.0	(3,950.6)

	At 29 March 2020 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[2] £m	**At 3 April 2021 £m**
Net debt						
Bank loans, overdrafts and syndicated bank facility (see note 20)[1]	(15.5)	10.8	–	–	–	**(4.7)**
	(15.5)	10.8	–	–	–	**(4.7)**
Cash and cash equivalents (see note 18)[1]	254.2	423.5	–	–	(3.3)	**674.4**
Net cash per statement of cash flows	238.7	434.3	–	–	(3.3)	**669.7**
Current other financial assets (see note 16)	11.7	6.7	–	–	–	**18.4**
Medium Term Notes (see note 20)	(1,536.2)	(87.9)	–	–	(58.0)	**(1,682.1)**
Lease liabilities (see note 20)	(2,562.0)	316.7	–	(48.3)	(112.3)	**(2,405.9)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(202.7)	23.6	–	–	(6.4)	**(185.5)**
Derivatives held to hedge Medium Term Notes	102.2	(14.0)	(96.3)	–	–	**(8.1)**
Liabilities from financing activities	(4,198.7)	238.4	(96.3)	(48.3)	(176.7)	**(4,281.6)**
Less: Cashflows related to interest and derivative instruments	(2.3)	(212.6)	96.3	–	196.2	**77.6**
Net debt	(3,950.6)	466.8	–	(48.3)	16.2	**(3,515.9)**

27 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2021 £m	2020 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)[1]	**674.4**	254.2
Current other financial assets (see note 16)	**18.4**	11.7
Bank loans and overdrafts (see note 20)[1]	**(4.7)**	(15.5)
Medium Term Notes – net of foreign exchange revaluation (see note 20)	**(1,657.9)**	(1,471.4)
Lease liabilities (see note 20)	**(2,405.9)**	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	**(193.5)**	(207.4)
	(3,569.2)	(3,990.4)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**53.3**	39.8
Total net debt	**(3,515.9)**	(3,950.6)

1. See note 1 for details on a change in accounting policy and the resulting restatement.
2. Exchange and other non-cash movements includes interest charge on Medium Term Notes of £86.4m (last year: £78.2), interest charge on lease liabilities of £130.4m (last year: £139.3) and interest charge relating to Partnership liability to the Marks & Spencer UK Pension Scheme of £4.9m (last year: £6.9m).

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

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

B. Joint ventures and associates

A shareholder loan facility with Ocado Retail Limited was established in the prior year, with Ocado Retail Limited having the ability to draw down up to £30m from each shareholder. The facility was not utilised by Ocado Retail Limited during the year ended 3 April 2021 (last year: not utilised).

As part of the Ocado Retail Limited investment, Ocado Retail Limited entered into a £30m, three-year revolving credit facility. Along with Ocado Group Plc, the Group has provided a parent guarantee to cover 50% of the £30m revolving credit facility provided by BNPP to Ocado Retail Limited. The revolving credit facility was undrawn at 3 April 2021 (last year: undrawn).

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

Sales and purchases of goods and services:

	2021 £m	2020 £m
Sales of goods and services	**28.5**	–
Purchases of goods and services	**–**	–

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

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 Executive Committee.

	2021 £m	2020 £m
Salaries and short-term benefits	**8.6**	5.9
Share-based payments	**3.2**	1.7
Total	**11.8**	7.6

29 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

Ocado Retail Limited is considered an associate of the Group as certain rights are conferred on Ocado Group Plc for an initial period of at least five years from acquisition in August 2019, giving Ocado Group Plc control of the company. Following this initial period, a reassessment of control will be required as the Group will have an option to obtain more power over Ocado Retail Limited if certain conditions are met. If the Group is deemed to have obtained control, Ocado Retail Limited will then be consolidated as a subsidiary of the Group. Through Board representation and shareholder voting rights, the Group is currently considered to have significant influence, therefore the investment in Ocado Retail Limited is treated as an associate and applies the equity method of accounting.

Ocado Retail Limited has a financial year end date of 29 November 2020, aligning with its parent company, Ocado Group Plc. For the Group's purpose of applying the equity method of accounting, Ocado Retail Limited has prepared financial information to the nearest quarter-end date of its financial year end, as to do otherwise would be impracticable. The results of Ocado Retail Limited are incorporated in these financial statements from 2 March 2020 to 28 February 2021. There were no significant events or transactions in the period from 28 February 2021 to 3 April 2021.

The carrying amount of the Group's interest in Ocado Retail Limited is £819.0m (last year: £754.8m). The Group's share of Ocado Retail Limited profits of £64.2m (last year: £14.2m loss) includes the Group's share of underlying profits of £78.4m, which includes £25.2m of exceptional income before tax related to insurance receipts (share of profit last year: £2.6m) and adjusting item charges of £14.2m (last year: £16.8m) (see note 5).

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

	As at 28 Feb 2021 £m	As at 1 Mar 2020 £m
Ocado Retail Limited		
Current assets	**353.9**	484.9
Non-current assets	**336.8**	206.6
Current liabilities	**(245.7)**	(489.7)
Non-current liabilities	**(264.6)**	(178.2)
Net assets	**180.4**	23.6

	2 Mar 2020 to 28 Feb 2021 £m	5 Aug 2019 to 1 Mar 2020 £m
Revenue	**2,353.2**	979.7
Profit for the period	**156.8**	5.1
Other comprehensive income	**–**	–
Total comprehensive income	**156.8**	5.1

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

29 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

	As at 3 Apr 2021 £m	As at 28 Mar 2020 £m
Ocado Retail Limited		
Net assets	**180.4**	23.6
Proportion of the Group's ownership interest	**90.2**	11.8
Goodwill	**449.1**	449.1
Brand	**249.2**	255.7
Customer relationships	**88.3**	98.9
Other adjustments to align accounting policies	**(63.5)**	(66.4)
Acquisition costs	**5.7**	5.7
Carrying amount of the Group's interest in Ocado Retail Limited	**819.0**	754.8

In addition, the Group holds immaterial investments in joint ventures totalling £6.8m (last year: £5.6m). The Group's share of losses totalled £1.3m (last year: £0.9m loss).

30 GOVERNMENT SUPPORT

During the year, the Group has received support from governments in connection with its response to the Covid-19 pandemic. This support included furlough and job retention scheme reliefs, tax payment deferral schemes and business rates relief.

The Group has recognised government grant income of £131.5m in relation to furlough programmes, such as the Coronavirus Job Retention Scheme (CJRS) in the UK, and its equivalents in other countries. The salary expense relating to those colleagues on furlough during the period was £181.8m.

The Group also benefited from the business rates holiday for the retail, hospitality and leisure sector of £174.6m.

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

31 SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions). No material changes in key estimates and judgements have been identified as adjusting post balance sheet events. There have been no material non-adjusting events since 3 April 2021.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 3 April 2021 £m	As at 28 March 2020 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,730.8**	8,763.2
Total assets		**9,730.8**	8,763.2
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,541.8**	2,543.4
Total liabilities		**2,541.8**	2,543.4
Net assets		**7,189.0**	6,219.8
Equity			
Ordinary share capital	C7	**489.2**	487.6
Share premium account	C7	**910.4**	910.4
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve	C7	**1,262.0**	311.0
Retained earnings		**2,316.9**	2,300.3
Total equity		**7,189.0**	6,219.8

The Company's profit for the year was £951.0m (last year: loss of £892.5m).

The financial statements were approved by the Board and authorised for issue on 25 May 2021. The financial statements also comprise the notes C1 to C7.

Steve Rowe, Chief Executive Officer **Eoin Tonge, Chief Financial Officer**

Registered number: 04256886

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 31 March 2019	406.3	416.9	2,210.5	1,397.3	2,290.0	6,721.0
Loss for the year	–	–	–	–	(892.5)	(892.5)
Dividends	–	–	–	–	(191.1)	(191.1)
Capital contribution for share-based payments	–	–	–	–	7.6	7.6
Shares issued on rights issue	81.3	493.4	–	–	–	574.7
Shares issued on exercise of employee share options	–	0.1	–	–	–	0.1
Realisation of merger reserve	–	–	–	(1,086.3)	1,086.3	–
At 28 March 2020	**487.6**	**910.4**	**2,210.5**	**311.0**	**2,300.3**	**6,219.8**
At 29 March 2020	**487.6**	**910.4**	**2,210.5**	**311.0**	**2,300.3**	**6,219.8**
Profit for the year	**–**	**–**	**–**	**–**	**951.0**	**951.0**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**16.6**	**16.6**
Shares issued on exercise of employee share options	**1.6**	**–**	**–**	**–**	**–**	**1.6**
Reclassification to merger reserve	**–**	**–**	**–**	**951.0**	**(951.0)**	**–**
At 3 April 2021	**489.2**	**910.4**	**2,210.5**	**1,262.0**	**2,316.9**	**7,189.0**

COMPANY STATEMENT OF CASH FLOWS

	53 weeks ended 3 April 2021 £m	52 weeks ended 28 March 2020 £m
Cash flow from investing activities		
Dividends received	–	193.8
Additional investment in subsidiary	–	(572.4)
Net cash (used in)/generated from investing activities	–	(378.6)
Cash flows from financing activities		
Shares issued on exercise of employee share options	**1.6**	0.1
Repayment of intercompany loan	**(1.6)**	(5.1)
Proceeds from rights issue net of costs	–	574.7
Equity dividends paid	–	(191.1)
Net cash generated from/(used in) financing activities	–	378.6
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 Company's functional currency, and are rounded to the nearest hundred thousand.

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

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

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

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

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment or impairment reversal 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. While performance during 2020/21 has exceeded the estimates made at last year end, there is still significant uncertainty regarding the impact of Covid-19 on the Group's operations and on the global economy. See note C6 for further details on the assumptions and associated sensitivities.

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

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,093,458 (last year: £1,081,875). 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

	2021 per share	2020 per share	**2021 £m**	2020 £m
Dividends on equity ordinary shares				
Paid final dividend	–	6.8p	–	115.1
Paid interim dividend	–	3.9p	–	76.0
	–	10.7p	–	191.1

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

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has not received any dividends from Marks and Spencer plc (last year: £193.8m) and decreased its loan from Marks and Spencer plc by £1.6m (last year: £5.1m). The outstanding balance was £2,541.8m (last year: £2,543.4m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2021 £m	2020 £m
Beginning of the year	**8,763.2**	9,269.5
Contributions to subsidiary undertakings relating to share-based payments	**16.6**	7.6
Additions	**–**	572.4
Impairment reversal/(charge)	**951.0**	(1,086.3)
End of year	**9,730.8**	8,763.2

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

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

Impairment of investments in subsidiary undertakings

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment or impairment reversal. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 3 April 2021, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc of £8,207.4m, indicating a potential impairment. However, performance of the Group during 2020/21 has been more favourable than the estimates assumed in the Covid-19 scenario in 2019/20, indicating a potential impairment reversal.

The recoverable amount of the investment in Marks and Spencer plc is determined based on a value in use calculation. The Company has updated its assumptions as at 3 April 2021, reflecting the latest budget and forecast cash flows covering a three-year period. The pre-tax discount rate of 8.9% (last year: 8.6%) was derived from the Group's weighted average cost of capital, the inputs of which included a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The long-term growth rate of 1.75% (last year: 2.00%) was based on inflation forecasts by recognised bodies and with reference to rates used within the retail industry.

The Company has determined that the recoverable amount of its investment in Marks and Spencer plc is £9,158.4m and as a result has recognised an impairment reversal of £951.0m. This reversal primarily relates to improved trading expectations, reflecting the Group's strategy and current three-year plan which reflects the latest view of trading and recovery from the pandemic as well as the year-on-year reduction in net debt. Refer to the strategic report for details of the key drivers of the strategic plans which cash flow projections are based on for the purpose of determining value in use.

Sensitivity analysis

As disclosed in the accounting policies note C1, the cash flows used within the value in use model, the long-term growth rate and the discount rate are sources of estimation uncertainty. Management has performed a sensitivity analysis on the key assumptions and using reasonably possible changes would result in the following impacts:

- A 25-basis point decrease in the long-term growth rate would reduce the impairment reversal by £306.6m;
- A 5% reduction in cash flows from the three-year plan would reduce the impairment reversal by £506.6m;
- A 50-basis point increase in the discount rate would reduce the impairment reversal by £655.7m.

In the event that all three were to occur simultaneously, an impairment charge of £431.5m would be recorded.

C6 INVESTMENTS CONTINUED

B. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 3 April 2021 is disclosed below.

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

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 ordinary	–	100
Founders Factory Retail Limited Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 ordinary	–	0.004
	£0.0001 preferred	–	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 ordinary B	–	50
M&S Limited	£1 ordinary	–	100
Manford (Textiles) Limited	£1 ordinary	–	100
Marks and Spencer Company Archive (CIC)[ii]	N/A	–	–
Marks and Sparks Limited	£1 ordinary	–	100
Marks and Spencer (Northern Ireland) Limited Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR	£1 ordinary	–	100
Marks and Spencer France Limited	€1.14 ordinary	–	100
Marks and Spencer Guernsey Investments LLP	Partnership interest	–	100

Name	Share class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Marks and Spencer Pension Trust Limited[iii]	£1 ordinary A	100	–
	£1 ordinary B	–	–
	£1 ordinary C	–	–
Marks and Spencer plc	£0.25 ordinary	100	–
Marks and Spencer Property Developments Limited	£1 ordinary	–	100
Marks and Spencer Scottish Limited Partnership[iv] Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	–	100
Ocado Retail Limited Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX	£0.01 ordinary	–	50
St. Michael (Textiles) Limited	£1 ordinary	–	100
St. Michael Finance plc	£1 ordinary	–	100

UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 3 April 2021. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Amethyst Leasing (Properties) Limited	–	100	4246934
Busyexport Limited	–	100	4411320
Marks & Spencer Outlet Limited	–	100	4039568
Marks & Spencer Simply Foods Limited	–	100	4739922
Marks and Spencer (Bradford) Limited	–	100	10011863
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	–	SC315365
Marks and Spencer (Jaeger) Limited	–	100	13098074
Marks and Spencer (Property Investments) Limited	–	100	5502582
Marks and Spencer (Property Ventures) Limited	–	100	5502513
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	5502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	5502519
Marks and Spencer 2005 (Chester Store) Limited	–	100	5502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	5502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	5502546
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	5502538
Marks and Spencer 2005 (Kensington Store) Limited	–	100	5502478

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company number
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	5502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	5502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	5502588
Marks and Spencer 2005 (Pudsey Store) Limited	–	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	5502502
Marks and Spencer 2005 Chester Limited	–	100	5174129
Marks and Spencer Holdings Limited	100	–	11845975
Marks and Spencer Hungary Limited	–	100	8540784
Marks and Spencer International Holdings Limited	–	100	2615081
Marks and Spencer Investments	–	100	4903061
Marks and Spencer Property Holdings Limited	–	100	2100781
Minterton Services Limited	–	100	4763836
Ruby Properties (Cumbernauld) Limited	–	100	4922798
Ruby Properties (Hardwick) Limited	–	100	4716018
Ruby Properties (Long Eaton) Limited	–	100	4716031
Properties (Thorncliffe) Limited	–	100	4716110
Ruby Properties (Tunbridge) Limited	–	100	4716032
Simply Food (Property Investments)	–	100	5502543
Simply Food (Property Ventures) Limited	–	100	2239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £38.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

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

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

International subsidiary undertakings[i]

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	Registered Capital	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership Interest	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A (14.619% of total capital)	51
			INR 10 Class B (43.544% of total capital)	100
			INR 5 Class C[ii] (41.837% of total capital)	0
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 Pensions Trust (Ireland) Company Limited By Guarantee	24-27 Mary Street, Dublin 1, Ireland	Ireland	N/A[iii]	–
Marks and Spencer (Israel) Limited (in liquidation)	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	€1 Ordinary	100
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100
M & S Mode International B.V.	Prins Bernhardplein 200, 1097JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks & Spencer (Portugal) Lda. (in liquidation)	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	No Par Value Ordinary	100
M&S (Spain) S.L. (in liquidation)	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer Clothing Textile Trading J.S.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy Istanbul Turkey	Turkey	TRL 25.00 Ordinary	100
Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100

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

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

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

6,453,783 (last year: 49,610) ordinary shares having a nominal value of £1.6m (last year: £0.0m) were allotted during the year under the terms of the Company's share schemes which are described in note 13 of the Group financial statements. The aggregate consideration received was £0.0m (last year: £0.1m).

Merger reserve

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. Last year, an amount equal to the impairment charge of £1,086.3m was transferred from the merger reserve to retained earnings as that amount has become a realised profit in accordance with TECH 02/17. Following the reversal of impairment recognised in the current year, an amount equal to the reversal of £951.0m has been transferred from retained earnings to the merger reserve, in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2021 53 weeks £m	2020 52 weeks (Restated) £m	2019 52 weeks (Restated) £m	2018 52 weeks £m	2017 52 weeks £m
Income statement					
Revenue[1]					
UK Clothing & Home	**2,239.0**	3,209.1	3,499.8		
UK Food	**6,138.5**	6,028.2	5,903.4		
Total UK	**8,377.5**	9,237.3	9,403.2	9,611.0	9,441.7
International	**789.4**	944.6	974.1	1,087.2	1,180.3
Revenue before adjusting items	**9,166.9**	10,181.9	10,377.3	10,698.2	10,622.0
Adjusting items included in revenue	**(11.2)**	–	–	–	–
Revenue	**9,155.7**	10,181.9	10,377.3	10,698.2	10,622.0
Operating profit/(loss)[1]					
UK Clothing & Home	**(130.8)**	223.9	355.2		
UK Food	**228.6**	236.7	212.9		
Ocado	**78.4**	2.6	–		
Other	**1.9**	16.8	27.0		
Total UK	**178.1**	480.0	595.1	535.4	626.2
International	**44.1**	110.7	130.5	135.2	64.4
Total operating profit before adjusting items	**222.2**	590.7	725.6	670.6	690.6
Adjusting items included in operating profit	**(252.9)**	(335.9)	(427.5)	(514.1)	(437.4)
Total operating profit	**(30.7)**	254.8	298.1	156.5	253.2
Net interest payable	**(219.1)**	(211.2)	(239.7)	(107.4)	(106.1)
Pension finance income	**47.2**	23.6	25.8	17.7	29.3
Net finance costs before adjusting items	**(171.9)**	(187.6)	(213.9)	(89.7)	(76.8)
Adjusting items included in net finance costs	**(6.8)**	–	–	–	–
Net finance costs	**(178.7)**	(187.6)	(213.9)	(89.7)	(76.8)
Profit before tax and adjusting items	**50.3**	403.1	511.7	580.9	613.8
(Loss)/profit on ordinary activities before taxation	**(209.4)**	67.2	84.2	66.8	176.4
Income tax credit/(expense)	**8.2**	(39.8)	(38.9)	(37.7)	(60.7)
(Loss)/profit after taxation	**(201.2)**	27.4	45.3	29.1	115.7

		2021 52 weeks	2020 52 weeks	2019 52 weeks	2018 52 weeks	2017 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**(10.1)p**	1.3p	2.5p	1.6p	7.2p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**1.4p**	16.7p	23.7p	27.8p	30.4p
Dividend per share declared in respect of the year		**–**	3.9p	13.3p	18.7p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	**–**	4.3x	1.8x	1.5x	1.6x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	**2.0x**	3.4x	3.6x	3.8x	3.4x
Statement of financial position						
Net assets (£m)		**2,285.8**	3,708.5	2,469.2	2,954.2	3,150.4
Net debt[2,3] (£m)		**3,515.9**	3,950.6	3,981.5	1,827.5	1,934.7
Capital expenditure (£m)		**146.9**	332.0	294.5	300.5	331.2
Stores and space						
UK stores		**1,037**	1,038	1,043	1,035	979
UK selling space (m sq ft)		**16.8**	16.8	17.2	17.6	17.4
International stores		**472**	483	445	429	455
International selling space (m sq ft)		**5.1**	5.0	4.9	5.2	5.9
Staffing (full-time equivalent)						
UK		**44,423**	49,094	50,578	53,273	53,562
International		**4,754**	4,894	4,862	5,655	6,202

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

1. Based on continuing operations.
2. Excludes accrued interest.
3. See note 1 for details on a change in accounting policy and the resulting restatement in 2020 and 2019.

GLOSSARY

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
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.

	2020/21 £m	2019/20 £m
UK Food		
Like-for-like	**5,831.1**	5,754.4
Net new space[1]	**163.7**	273.8
Week 53	**143.7**	–
Total UK Food revenue	**6,138.5**	6,028.2
UK Clothing & Home		
Like-for-like	**2,164.5**	3,084.5
Net new space	**34.1**	124.6
Week 53	**40.4**	–
Total UK Clothing & Home revenue	**2,239.0**	3,209.1

1. UK Food net new space includes sales to Ocado Retail Limited.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Food LFL ex hospitality and franchise	Movement in revenue per the Income Statement	Sales from non like-for-like stores and hospitality and franchise categories	The period-on-period change in Food excluding the hospitality and franchise categories' revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for least 52 weeks and online sales. The LFL measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change. The hospitality category includes cafés, counters and marketplace. This measure has been introduced as both hospitality and franchise were closed for a majority of the year.

	2020/21 £m	2019/20 £m	%
UK Food			
Like-for-like	**5,831.1**	5,754.4	1.3
Hospitality	**(52.0)**	(249.4)	(79.1)
Franchise	**(420.2)**	(491.0)	(14.4)
Like-for-like ex hospitality and franchise	**5,358.9**	5,014.0	6.9

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
Clothing & Home stores/Clothing & Home online	None	Not applicable	Clothing & Home revenue through stores and through the Clothing & Home online platforms. These revenues are reported within the UK Clothing & Home segment results. Store revenue excludes revenue from 'shop your way' and click & collect, which are included in online revenue. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels. This measure has been introduced given the Group's focus on online sales.

	2020/21 £m	2019/20 £m	%
UK Clothing & Home			
Stores	**1,088.9**	2,487.8	(56.2)
Online	**1,109.7**	721.3	53.9
Total UK Clothing & Home revenue – 52-week basis	**2,198.6**	3,209.1	(31.5)
Week 53	**40.4**	–	–
Total UK Clothing & Home revenue	**2,239.0**	3,209.1	(30.2)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
M&S.com revenue/ Online revenue	None	Not applicable	Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
International online	None	Not applicable	International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel. This measure has been introduced given the Group's focus on online sales.

	2020/21 £m	2019/20 £m	%
International revenue			
Stores	**613.6**	867.4	(29.3)
Online	**165.7**	77.2	114.6
Week 53	**10.1**	–	–
At reported currency	**789.4**	944.6	(16.4)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
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.

	2020/21 £m	2019/20 £m	%
International revenue			
At constant currency	**779.3**	942.7	(17.3)
Impact of FX retranslation	**–**	1.9	–
International revenue – 52-week basis	**779.3**	944.6	(17.5)
Week 53	**10.1**	–	–
At reported currency	**789.4**	944.6	(16.4)

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
Revenue before adjusting items	Revenue	Adjusting items (See note 5)	Revenue before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This measure has been introduced as certain adjustments have been made to revenue for the first time in accordance with the Group's policy for adjusting items.
Operating profit before adjusting items	Operating profit	Adjusting items (See note 5)	Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance income before adjusting items	Finance income	Adjusting items (See note 5)	Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 5)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Interest on leases	Finance income/costs	Finance income/costs (See note 6)	The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 6)	Calculated as net finance costs, excluding interest on leases and adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
EBIT before adjusting items	EBIT[1]	Adjusting items (See note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT[1]	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
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 Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 53 weeks ended 3 April 2021 with the comparative financial year being for the 52 weeks ended 28 March 2020. In order to provide comparability with the prior year results, adjustments have been made to the 2020/21 53-week income statement to remove sales, operating costs and other items relating to the last trading week of the 2020/21 financial year. In determining the week 53 adjustment, revenue and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53.

	2020/21 £m	Exclude week 53 £m	2020/21 52-week basis
Revenue			
UK Food	6,138.5	(143.7)	5,994.8
UK Clothing & Home	2,239.0	(40.4)	2,198.6
Total UK Retail	*8,377.5*	*(184.1)*	*8,193.4*
International	789.4	(10.1)	779.3
Total Group	*9,166.9*	*(194.2)*	*8,972.7*
Operating profit/(loss) before adjusting items			
UK Food	228.6	(15.0)	213.6
UK Clothing & Home	(130.8)	1.4	(129.4)
International	44.1	1.0	45.1
Adjusted profit before tax			
Total Group	*50.3*	*(8.7)*	*41.6*
Loss before tax			
Total Group	*(209.4)*	*8.2*	*(201.2)*

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 and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 27) Lease liabilities (see note 20)	Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash flow measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Other measures			
Covid-19 scenario	None	Not applicable	As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan. As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario. The downside scenario assumed the government guidelines at the period end continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation in the Group's 2020 Annual Report and Financial Statements. This downside scenario was approved by the directors and is defined as the Covid-19 scenario.
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.
Ocado Retail Limited	None	Not applicable	References made to Ocado Retail Limited also include its two subsidiaries, Speciality Stores Limited (disposed on 31 January 2021) and Paws & Purrs Limited.
Return on capital employed	None	Not applicable	Calculated as being EBIT[1] before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:

	2020/21 £m	2019/20 £m
EBIT[1] before adjusting items	**222.2**	590.7
Net assets	**2,285.8**	3,708.5
Add back:		
Partnership liability to the Marks & Spencer UK Pension Scheme	**193.5**	207.4
Deferred tax liabilities	**42.3**	332.4
Non-current borrowings and other financial liabilities	**3,659.9**	3,865.9
Retirement benefit deficit	**7.8**	12.4
Derivative financial instruments	**73.6**	–
Current tax liabilities	**–**	–
Less:		
Investment property	**(15.2)**	(15.5)
Derivative financial instruments	**–**	(172.2)
Retirement benefit asset	**(639.2)**	(1,915.0)
Current tax assets	**(35.4)**	(19.3)
Net operating assets	**5,573.1**	6,004.6
Add back: Provisions related to adjusting items	**100.8**	71.1
Capital employed	**5,673.9**	6,075.7
Average capital employed	**5,874.8**	5,887.5
ROCE %	**3.8%**	10.0%

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

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