Marks and Spencer plc financial statements 2019

REGISTERED NUMBER

00214436

STRATEGIC REPORT

Review of the business and future developments

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. The Group employs over 80,000 people and has around 1,487 stores including Simply Food franchised stores. The Group also trades in wholly-owned stores in the Republic of Ireland and the Czech Republic, through partly-owned stores in a number of European countries and India and in franchises within Asia, Europe and the Middle East.

In November 2017 we announced the beginning of a five-year transformation programme. The first phase is about restoring the basics, getting the organisational structure and infrastructure of the business fit for the future. The objective of this programme is not to "manage decline" but to return M&S to sustainable, profitable growth. Despite considerable changes and progress in restoring the basics, we remain in the first phase of the transformation and our in-year performance reflects this.

We are making good progress with the reshaping of our full-line estate and have closed 35 full-line stores as part of our programme as at 30 March 2019, with sales transfer rates to nearby stores remaining above 20%. Although we anticipate further net reductions in overall retail space, and we currently expect to close a further c.85 full-line stores and c.25 Simply Food stores in addition to the 35 full-line stores closed in FY18/19, we believe the current retail environment will allow us to secure some excellent sites for relocations.

The International business was already fully embarked on rationalisation and repositioning prior to the transformation programme and further good progress has been made. Our objective is to create a much more competitive localised version of M&S in those selected markets where we can attain a sustainable market share.

Last year we set out firm targets for cost savings as part of the first phase of transformation. We have made good progress in the year, delivering savings of c.£100m, in addition to the operating costs of stores that have closed, and are on the way to creating a leaner, more efficient cost base for the business.

Savings in FY18/19 derived from the retail management restructure, the IT transformation plan, property costs, depreciation and central costs enabled the business to offset inflation, new space and channel shift with the result that full year UK operating costs declined by 1.2%.

In February 2019, we announced the creation of a new 50/50 JV with Ocado Group Plc, the UK's leading pure play digital grocer, which will transform online grocery shopping for UK consumers. Under the JV, M&S acquired a 50% share of Ocado's UK retail business, which will be supported by Ocado Smart Platform technology, for an initial consideration of £562.5m and deferred consideration of up to £187.5m, plus interest. The Ocado JV is expected to be recognised by M&S as an associate applying the equity method of accounting, reflecting the significant influence that M&S will have over the entity.

The JV combines the strength of M&S's brand and its leading food quality and innovation with Ocado's unique and proprietary technology, to create an unrivalled online offer for customers. In bringing the best together, the JV will benefit existing and new UK customers, colleagues and suppliers.

Marks and Spencer plc is incorporated in the United Kingdom and domiciled in England and Wales. The Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW.

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 52 weeks ended 30 March 2019 (the 'year'). The prior financial year was the 52 weeks ended 31 March 2018.

Further information that fulfils the strategic review requirements of the Companies Act 2006 can be found in the following sections of the Marks and Spencer Group plc Annual Report 2019, which does not form part of this report:

Strategic Report on pages 1 – 33

Chairman's statement on pages 2 – 3

Chief Executive's statement on pages 4 – 5

Our people on page 15 - 17.

STRATEGIC REPORT

Results

		52 weeks ended 30 March 2019			52 weeks ended 31 March 2018		
	Notes	Before Adjusting Items £m	Adjusting Items £m	Total £m	Before Adjusting Items £m	Adjusting Items £m	Total £m
Revenue	2, 3	10,377.3	–	10,377.3	10,698.2	–	10,698.2
Operating profit	2, 3, 5	601.0	(414.5)	186.5	670.6	(468.3)	202.3
Finance income	6	33.8	–	33.8	24.1	–	24.1
Finance costs	6	(111.6)	–	(111.6)	(113.8)	–	(113.8)
Profit before tax	4, 5	523.2	(414.5)	108.7	580.9	(468.3)	112.6
Income tax expense	7	(105.1)	54.5	(50.6)	(125.4)	86.6	(38.8)
Profit for the year		418.1	(360.0)	58.1	455.5	(381.7)	73.8
Attributable to:							
Owners of the parent		414.3	(360.0)	54.3	452.1	(381.7)	70.4
Non-controlling interests		3.8	–	3.8	3.4	–	3.4
		418.1	(360.0)	58.1	455.5	(381.7)	73.8

Group revenue decreased to £10,377.3m compared with £10,698.2m last year. Group revenues decreased, adversely impacted by store closures in Clothing & Home, Easter timing and our investments in trusted value in Food. International revenue also declined largely due to the closure of stores in exit markets and the sale of the Group's business in Hong Kong.

Group operating profit before adjusting items decreased by 10.4% to £601.0m. The Group recognised adjusting items before tax of £414.5m during the year (last year £468.3m) in relation to our strategic programmes which include: net costs associated with the implementation of strategic programmes in relation to UK store estate, organisation, operational transformation, IT restructure, UK logistics, charges arising in relation to changes to pay and pensions and International store closures and impairments (the closure of International owned businesses); impairments and write-off of the carrying value of UK stores and other property charges; the reduction in M&S Bank charges incurred in relation to the insurance mis-selling provision; guaranteed minimum pension and other pension equalisation; and charges relating to establishing the Ocado JV (refer to note 5).

Net finance costs were £77.8m compared with £89.7m last year primarily due to a decrease in interest payable as a result of the repayment of the US$500m bond which matured in December 2017. Group profit before tax was £108.7m compared with £112.6m last year.

Key performance indicators

Financial

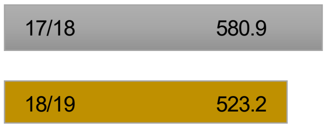
Group revenue

£10.4bn -3.0%

Group Revenue decreased, adversely impacted by store closures in Clothing & Home, Easter timing and our investments in trusted value in Food. International revenue also declined largely due to the closure of stores in exit markets and the sale of the Group's business in Hong Kong.

Group profit before tax (PBT) & adjusting items

£523.2m -9.9%



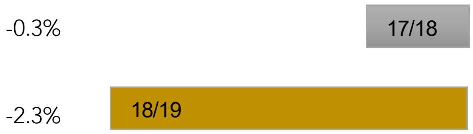
Profit before tax and adjusting items was down year-on-year principally due to the reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

Strategic KPIs

Food

Like-for-like sales (see page 119 for definition)

Like-for-like performance was down but we saw encouraging volume growth in the final quarter.



-2.3%

Value for money perception

The proportion of customers who rated us highly on value for money. We have started to address our value for money perception through our marketing and price reductions.

+59%

Availability

Our availability is behind the industry average and we are tackling this through our "Fuse" programme..

92.6% **+0.3%**

Quality perception[1]

The proportion of customers who rated us highly on quality. Our Food strategy is to "protect the magic" including our unique quality, freshness, and innovation credentials.

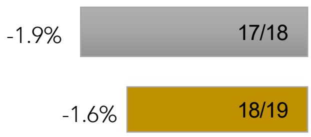
+85%

1. Based on data covering stores from 2018 onwards following a reset in internal measurements.

Clothing & Home

Like-for-like sales (see page 119 for definition)

Like-for-like revenue was down this year. Encouraging progress in Q3 was offset by weak availability in Q4.



-1.6%

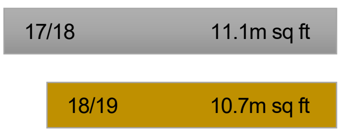
Value for money perception

The proportion of customers who rated us highly on value for money. We are focused on restoring our reputation for style and value.

+65%

Clothing & home space

We have made good progress in reshaping our Clothing & Home space, with a reduction of 4%.



-4.0%

Style perception[2]

The proportion of customers who rated us highly on style. We saw an encouraging customer response to some of our ranges this year such as our Denim Best Ever Fit.

+58%

2. Based on stores and online data from 2018 onwards following a reset in internal measurements.

Key performance indicators (continued)

Stores

Footfall (average per week)	Transactions (average per week)	Net promoter score*
-4.5%	+0.3%	
18.6m	11.4m	+68

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'. This represents our total NPS score following a reset in internal measurements from which we will measure our future progress against.

M&S.com

Percentage of UK Clothing & Home sales online	Traffic (visits per week)	Net promoter score*
+3.0%	+5.7%	
22.0%	8.8m	+54

International

Retained markets sales	International customer satisfaction scores
	+6%
+1.1%	77%
Sales from the International business including sales from owned business and sales to franchisees. Excludes sales from owned exit markets and Hong Kong following transition to franchise. At constant exchange rates.	Overall satisfaction score provided by customers from across the International business, including both owned and franchise stores.

People

Engagement	Empowerment	Enablement
-1%	**-1%**	**-2%**
81%	83%	76%
Of our colleagues feel proud to work at M&S and enjoy what they do.	Of our colleagues feel that they are trusted and have the freedom to perform their role effectively.	Of our colleagues feel that they have the right processes, support and tools to do their job well.

Plan A

Products with a plan a quality	Operational greenhouse gas emissions (co_2e)	Volunteering hours
New	-16%	+54%
70%	360,000	47,218
70% of all M&S product packaging that ends up with our customers is classified as being widely recycled in the UK. We're aiming to make it all widely recycled or recycled in store as soon as possible.	The gross carbon dioxide emissions from M&S stores, offices, warehouses and vehicles worldwide was down 16% on last year and 75% on 2006/07.	We provided 47,218 hours of work-time volunteering across the UK and Republic of Ireland.

Financial review

Full year review

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change %
Group revenue	**10,377.3**	**10,698.2**	**(3.0)**
Food	5,903.4	5,940.0	(0.6)
Clothing & Home	3,537.3	3,671.0	(3.6)
UK	9,440.7	9,611.0	(1.8)
International	936.6	1,087.2	(13.9)
Group operating profit before adjusting items	**601.0**	**670.6**	**(10.4)**
UK	474.0	535.4	(11.5)
International	127.0	135.2	(6.1)
Net finance costs	(77.8)	(89.7)	13.3
Profit before tax & adjusting items	**523.2**	**580.9**	**(9.9)**
Adjusting items	(414.5)	(468.3)	11.5
Profit before tax	**108.7**	**112.6**	**(3.5)**

UK: FOOD

Food revenue decreased 0.6%, with like-for-like revenue down 2.3%, or 1.5% when adjusted for the timing of Easter. Revenue reflected the effects of price investment and a change in product mix as we reduced promotions. However, during the second half, we saw an improving trend with volumes up 1.8% in the fourth quarter, adjusted for Easter. We opened 48 new stores during the year in line with our plan to focus new store expansion on only the highest returning locations, although the contribution from space diminished through the year as our full-line closure programme progressed.

Gross margin was down 15bps year-on-year at 31.1%. The benefit of promotional savings and our cost reduction programmes largely offset the effects of cost inflation and price investment.

UK: CLOTHING & HOME

UK Clothing & Home revenue declined 3.6%, partly driven by our store closure programme, with like-for-like sales down 1.6%. Discounted sales decreased, as a result of the planned reduction in stock-into-sale. UK Clothing & Home online revenue grew 9.8%, which was ahead of the clothing market, with strong growth in womenswear, as we made improvements to our website and delivery proposition and focused on key categories such as dresses in our 'Must Haves' campaign.

Gross margin increased 20bps to 57.1%. Buying margin was down 20bps as adverse currency headwinds more than offset sourcing gains across the year. Discounting reduced by 40bps, largely as a result of the 14% reduction in stock into sale.

Financial review (continued)

UK operating costs

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change %
Store staffing	1,044.7	1,070.6	(2.4)
Other store costs	950.4	992.1	(4.2)
Distribution & warehousing	564.6	538.0	4.9
Marketing	155.1	151.6	2.3
Central costs	694.8	698.0	(0.5)
Total	**3,409.6**	**3,450.3**	**(1.2)**

UK operating costs decreased 1.2%. Store closures more than offset the cost of new space and channel shift. Cost savings across the business outweighed inflation related increases.

Store staffing costs reduced, as savings from store management restructuring, closures and other efficiencies more than offset pay inflation. Other store costs reduced driven by lower depreciation, due to our closure programme and as a number of assets have reached the end of their useful life, which more than offset rent and rates inflation in the year.

The growth in distribution and warehousing costs was largely driven by inflation and the costs of channel shift, as well as costs associated with the closure of an equipment warehouse, with some offset achieved from improved efficiencies at Castle Donington. The increase in marketing costs reflected investments in our Food brand and the planned increase in costs in the second half of the year due to the timing of campaigns.

Central costs reduced as lower incentive costs year-on-year, the benefits of technology transformation programmes and other cost efficiencies more than offset system investment write offs and expenditure on the Fuse programme.

M&S Bank

M&S Bank income before adjusting items was down £12.7m to £27.6m. This was predominantly the result of an increase in bad debt provisioning due to the impact of revised forward estimates of economic indicators, including the impact of Brexit, and a modest increase in underlying bad debt due to the risk of customer default. Underlying credit income was slightly up, as a result of more competitive pricing. M&S Bank income after adjusting items increased £1.1m to £6.7m.

International

	52 weeks ended				
	30 March 2019 £m	31 March 2018 £m	Change %	Change CC%	Change CC% excl. Hong Kong
Revenue					
Franchise	409.1	360.6	13.4	13.3	2.2
Owned Retained[1]	527.5	660.2	(20.1)	(19.3)	0.3
Total Retained	936.6	1,020.8	(8.2)	(7.7)	1.1
Owned Exit[1]	–	66.4	–	–	–
Total	**936.6**	**1,087.2**	**(13.9)**	**(13.4)**	**(6.1)**
Operating profit/(loss) before adjusting items					
Franchise	72.2	86.1	(16.1)		
Owned Retained[1]	52.7	53.1	(0.8)		
Total Retained	124.9	139.2	(10.3)		
Owned Exit[1]	2.1	(4.0)	152.5		
Total	**127.0**	**135.2**	**(6.1)**		

1. Hong Kong results reported in owned retained until the business was sold to our franchise partner in December 2017.

Total International revenue decreased 13.4% at constant currency ('CC'). Excluding the impact from exit markets and Hong Kong, revenue at constant currency increased 1.1%. This was driven by our franchise operations where Food revenue increased by 8%, with notable growth in France, the Middle East and Singapore. In Clothing & Home we implemented market right pricing across most markets and saw an improving trend in retail sales in Q4. Owned retained revenue reflects solid growth in India and Greece, which largely offsets ongoing difficult trading conditions in the Republic of Ireland.

International operating profit before adjusting items decreased 6.1% with total retained operating profit down 10.3%. This was largely driven by the sale of our business in Hong Kong and the implementation of market right pricing. The decline in franchise operating profit reflects the allocation of £8m of costs from owned to franchise following the closure of owned markets and the sale of our business in Hong Kong, in addition to the implementation of market right pricing. Owned retained profit increased, excluding the effects of the disposal of Hong Kong. The £2.1m profit in owned exit markets largely reflects the recovery of an historical VAT receivable.

Financial review (continued)

Net finance cost

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change £m
Interest payable	(82.0)	(95.4)	13.4
Interest income	7.6	6.0	1.6
Net interest payable	**(74.4)**	**(89.4)**	**15.0**
Pension net finance income	25.8	17.7	8.1
Unwind of discount on Scottish Limited Partnership liability	(8.8)	(10.9)	2.1
Unwind of discount on provisions	(17.3)	(5.2)	(12.1)
Hedge ineffectiveness on financial instruments	(3.1)	(1.9)	(1.2)
Net finance cost	**(77.8)**	**(89.7)**	**11.9**

Net finance cost decreased by £11.9m to £77.8m, primarily due to a decrease in interest payable as a result of the repayment of the US$500m bond which matured in December 2017. Pension net finance income increased by £8.1m driven by a higher UK defined benefit pension scheme surplus at the start of the year compared to the start of the prior year. The unwind of discount on provisions reflects our UK store estate programme and our central London office reorganisation.

Group profit before tax and adjusting items

Profit before tax and adjusting items was £523.2m, down 9.9% on last year. The decrease was principally due to a 2.3% reduction in UK gross profit, partially offset by the decrease in operating costs in the year.

Group statutory profit before tax

Statutory profit before tax was £108.7m, down 3.5% on last year as a result of the above offset by a 11.5% decrease in adjusting items.

Adjustments to profit before tax

The Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business. Further material charges relating to our strategic programmes are anticipated as programmes progress. For further detail on these charges and the Group's policy for adjusting items please see notes 1 and 5 to the financial statements.

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change £m
Strategic programmes			
– UK store estate	222.1	321.1	(99.0)
– UK organisation	51.8	30.7	21.1
– Operational transformation	16.4	–	16.4
– IT restructure	15.6	15.5	0.1
– UK logistics	14.3	13.1	1.2
– Changes to pay and pensions	6.2	12.9	(6.7)
– International store closures and impairments	5.3	5.0	0.3
UK store impairments and other property charges	62.1	17.6	44.5
M&S Bank charges incurred in relation to the insurance mis-selling provision	20.9	34.7	(13.8)
GMP and other pension equalisation	20.5	–	20.5
Establishing the Ocado joint venture	3.4	–	3.4
Other	(24.1)	17.7	(41.8)
Adjusting items	**414.5**	**468.3**	**(53.8)**

Financial review (continued)

We have recognised a number of charges in the period relating to the implementation of our strategic programmes including:

- A charge of £222.1m in relation to our accelerated and expanded store closure programme, which has been expanded to include a number of Food stores. This charge includes accelerated depreciation, impairment of assets, estimated onerous leases and other closure costs. Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change through-out the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Based on current plans, further charges before the adoption of IFRS 16 are expected to be incurred predominantly in the next two years and are anticipated to be c.£100m, bringing total programme costs to c.£680m;
- A charge of £51.8m largely in relation to costs associated with centralising and rationalising our London office functions as well as redundancy costs related to the review of the retail organisational structure;
- A charge of £16.4m in relation to the transformation and simplification of our supply chain and operations across Clothing & Home and Food. This includes initiatives to reengineer the end to end supply chain, remove costs and complexity and working capital;
- A charge of £15.6m in relation to our technology transformation programme which we began in the prior year; and
- A net charge of £14.3m as we continue to transition to a single tier Clothing & Home UK distribution network, including the closure of two of our distribution centres.

In 2016/17 we announced our intention to close owned stores in ten international markets. A net charge of £5.3m has been recognised in the period reflecting the actualisation of previously estimated closure costs.

In response to the ongoing pressures impacting the retail industry, as well as reflecting our strategic focus towards growing online market share, we have revised future projections for certain UK stores. As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. The charge has been classified as an adjusting item on the basis of the significant value of the charge in the year to the results of the Group. Additional detail is in note 14 and 21 to the financial statements.

We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a charge of £20.9m during the year. The deadline for any claims to be brought by customers expires on 29 August 2019. The estimated liability continues to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

We have recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of guaranteed minimum pensions ("GMP") and other pension equalisation costs following a High Court ruling in October 2018. Additional detail on the Group's GMP assessment is detailed in note 10 to the financial statements.

In February 2019 we announced the creation of a new 50/50 Joint Venture with Ocado, the UK's leading pure play digital grocer. Transaction costs of £3.4m were incurred in the year.

Furthermore, a credit of £24.1m in relation to the finalisation of charges for certain employee related matters provided for during the prior year.

Taxation

The effective tax rate on profit before tax and adjusting items was 20.3% (last year 21.6%). This is higher than the UK statutory rate predominantly due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure, partially offset by the recognition of deferred tax assets in our India entity, following its return to profitability. The effective tax rate on statutory profit before tax was 46.6% (last year 34.4%) due to the impact of disallowable adjusting items.

Financial review (continued)

Capital expenditure

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change £m
UK store environment	26.0	26.6	(0.6)
New UK stores	40.1	72.1	(32.0)
International	11.0	11.6	(0.6)
Supply chain	48.7	23.8	24.9
IT & M&S.com	88.2	91.9	(3.7)
Property & maintenance	69.0	72.9	(3.9)
Capital expenditure before disposals	**283.0**	**298.9**	**(15.9)**
Proceeds from property disposals	(48.1)	(3.2)	(44.9)
Net capital expenditure	**234.9**	**295.7**	**(60.8)**

Group capital expenditure remains tightly controlled resulting in a 5.3% reduction year-on-year, before disposal proceeds.

UK store environment spend was slightly down reflecting investment in store layout in the prior year, partially offset by investment in improved visual merchandising and click and collect facilities in a number of stores. Spend on UK store space was lower as we opened 15 fewer owned Food and full-line stores than the prior year. International expenditure remains focused on the store opening and modernisation programme.

Supply chain expenditure increased due to our investment in the Welham Green distribution centre as we moved towards a single tier network for Clothing & Home, and in improvements to our capabilities in Castle Donington. Spend in IT and M&S.com was driven by the migration from our mainframe system, investment in the Welham Green distribution centre and website enhancements to optimise user experience. Spend was slightly lower than last year due to the on-going move towards more cloud-based solutions and following the Technology transformation programme. Property maintenance spend largely relates to investment in our stores as well as investment in energy efficiency projects and reconfiguring our central London office building to rationalise the use of office space.

Proceeds from property disposals relate to the closure of six stores and the sale and leaseback of eight Food stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £5,234.2m at the year end, a decrease of 5.0% on last year.

CASH FLOW & NET DEBT

	52 weeks ended		
	30 March 2019 £m	31 March 2018 £m	Change £m
Adjusted operating profit	**601.0**	**670.6**	**(69.6)**
Depreciation and amortisation before adjusting items	544.9	580.6	(35.7)
Working capital	59.1	(96.8)	155.9
Defined benefit scheme pension funding	(37.9)	(41.4)	3.5
Capex and disposals	(264.8)	(345.9)	81.1
Interest and taxation	(184.7)	(200.5)	15.8
Investment in joint venture	(2.5)	–	(2.5)
Non-cash share based payment charges	19.2	18.9	0.3
Share transactions	(5.5)	(3.1)	(2.4)
Free cash flow before adjusting items	**728.8**	**582.4**	**146.4**
Adjusting items cash outflow	(145.3)	(164.9)	19.6
Free cash flow	**583.5**	**417.5**	**166.0**
Ordinary dividends paid	(305.0)	(305.0)	0.0
Free cash flow after shareholder returns	**278.5**	**112.5**	**166.0**
Opening net debt	**723.1**	**617.5**	**105.6**
Exchange and other non-cash movements	1.8	(6.9)	8.7
Closing net debt	**1,003.4**	**723.1**	**280.3**

The business generated free cash flow before adjusting items of £728.8m, up £146.4m on last year primarily as a result of working capital inflow, lower capital expenditure and lower interest and taxation payments. The working capital inflow was driven by the planned reductions in Clothing & Home inventory levels and the timing of creditors at year end.

Lower interest and taxation payments reflect both the repayment of a bond in December 2017 and lower taxable profit in the prior year.

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

Adjusting items in cash flow during the year were £145.3m. These included £27.3m in relation to our store closure programme, £24.9m in relation to organisational change, £20.9m for M&S Bank, £12.7m relating to the closure of stores in International markets and £11.1m in relation to our technology transformation programme. Total adjusting items in cash flow are anticipated to be a similar amount in 2019/20, prior to the implementation of IFRS 16.

After the payment of our final dividend from FY 17/18 and interim dividend from H1 18/19, net debt was down £280.3m on last year.

PENSION

Marks and Spencer plc (the Company) reached an agreement with the Trustee of its UK Defined Benefit Pension Scheme with regards to the triennial actuarial valuation as at 31 March 2018. This resulted in a statutory surplus of £652m and 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 and which are included in the calculation of the statutory surplus – see note 11).

At 30 March 2019, the IAS 19 net retirement benefit surplus was £914.3m (last full year £948.2m). The IAS 19 surplus includes the first partnership interest in the scheme assets, valued at £278.5m (note 11). The decrease in the surplus is largely due to a decrease in the discount rate partially offset by a change in mortality assumptions and by the return on scheme assets.

In April 2019, following the year-end, the UK Defined Benefit pension scheme purchased additional pensioner buy-in policies with two insurers for approximately £1.4bn. Together with the two policies purchased in March 2018, the Defined Benefit pension scheme has now, in total, hedged its longevity exposure for around two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Company's exposure to changes in longevity, interest rates, inflation and other factors.

IFRS 16

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

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

Operating profit and earnings before interest and tax (EBIT) before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the maturity of the lease.

Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019:

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

The application of IFRS 16 requires a reclassification of cash flow from operations to net cash used in financing activities, however, the impact to the Group is cash flow neutral. For further detail on IFRS 16 please see note 1 to the financial statements.

BREXIT

The continued delay in agreeing the nature and timing of the UK's exit from the European Union creates uncertainty that could impact the performance of our business. Whilst an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact.

Either outcome is expected to place increased pressure on how our business performs.

The potential impacts include:

- A continued deterioration in customer sentiment
- Operational complexity and costs due to restrictions on the movement of goods and stricter border controls
- Costs passed through from our suppliers
- Continuity of supply and supplier viability
- The impact of import and export duties
- Volatility in currency and corporate bond rates
- Tightening of the labour market
- Additional regulatory responsibilities and costs
- Increased complexity and cost in our international operations, including our franchise partners.

The Board continues to monitor the ongoing negotiations between the UK and the EU to assess the potential impact and any transitional arrangements that may be agreed.

Principal risks and uncertainties and financial risk management

The key business risks and uncertainties affecting the Company are considered to relate to competition from other retailers, the economic outlook, employee retention, new stores and distribution centres and the modernisation of the existing portfolio. The details of our principal risks and uncertainties and the key mitigating activities can be found below. In addition, the directors have taken into consideration the potential impact of the strategic review of the UK store estate announced by the ultimate parent, Marks and Spencer Group plc as part of its full year results announcement in November 2016. Copies of the Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Waterside House, 35 North Wharf Road, London W2 1NW or are available on the website www.marksandspencer.com/thecompany.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
1	BREXIT **An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.** The continued delay in agreeing the nature and timing of the UK's exit from the European Union (EU) creates uncertainty that will impact the performance of our business. While an orderly exit would allow business planning to more effectively address the consequences of change against a defined timeframe, a no deal outcome would have a more immediate and negative impact. Either outcome is expected to place increased pressure on how our business performs. The potential impact includes: - A continued deterioration in customer sentiment. - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls. - Costs passed through from our suppliers. - Continuity of supply and supplier viability. - Import and export duties. - Volatility in currency and corporate bond rates. - Tightening of the labour market. - Additional regulatory responsibilities and costs - Increased complexity and cost in our international operations, including our franchise activities.	- A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive "day 1" requirements. - An Operational Brexit Team has been established. - Updates are provided to the Board and Audit Committee outlining risks and actions being undertaken. - We are engaged with the government and industry bodies to represent M&S's views, including the UK Border Development Group with access to the Department for Environment, Food and Rural Affairs (Defra), HM Revenue and Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning. - Specific mitigation plans have been developed and are being refined for our core businesses. For example: - In Food, plans are in place to build additional stock cover in ambient and frozen in anticipation of a projected period of disruption. We have secured additional ambient warehouse capacity to hold product, extended our warehouse management systems and put plans in place with our fresh suppliers to build raw material stocks in key areas. We have also mapped the processes to import goods from the EU, including certification and import notification, and continue to maintain regular dialogue with our Top 30 food suppliers to track readiness. - While most Clothing & Home product is sourced from outside the EU, we have engaged with suppliers to ensure trade flows are maintained and are modelling the impact of changes to tariffs and border processes. We have also accelerated delivery of certain stock lines from key countries. - For International, we have developed plans to minimise operational and supply chain disruption to serve overseas operations. This includes building additional food stock cover in EU markets and setting up an ambient warehouse outside Paris. We have modified aspects of our supply chain for exporting from UK warehouses and to prepare for potential new customs requirements. We have also worked with our franchise partners and owned businesses to set up new import systems and evaluated options to maintain the flow of products across our operations in Ireland.
2	IMPROVING TRADING PERFORMANCE **A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment would adversely impact business performance.** The retail industry is highly competitive, both on the high street and online. M&S competes with a diverse range of retailers in both Food and Clothing & Home. These operate different models and formats through a variety of physical, digital and integrated distribution channels and offer a range of distinct product propositions, from the premium to the	- Targeted recruitment to strengthen the capabilities of our senior leadership teams in both Food and Clothing & Home has continued during the year. - Implementation of a revised operating model to create a family of accountable businesses who share M&S brand values, colleagues, technology and customer data. - Managing Directors for each of these businesses who have full accountability for their divisions including for marketing, supply chain, finance and technology.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	value end of the market, in the various markets in which we operate. Continued cost and pricing pressures, the migration of customer activity online and the consumer impact of the UK's departure from the European Union, as well as broader macroeconomic conditions, are all contributing to the challenge that is faced. A failure to successfully reshape the Clothing & Home and/or the Food business would have an adverse effect on business results.	- Establishment of business boards to enable executive oversight and effective governance of each business. - Development of, and delivery against, business-specific transformation plans incorporating revised disciplines around prices, availability, value, ranges and promotions across both businesses. - Continued progress against our stated target to deliver 30% of Clothing & Home sales online by 2023 including a programme of investment in technology and marketing to support an improved online proposition. - Announcement of the joint venture with Ocado for Food online. - Ongoing implementation of a cost reduction plan.
3	BUSINESS TRANSFORMATION A failure to execute our business transformation activities with pace and agility could impede our ability to improve operational efficiency and competitiveness. The business is undertaking a number of projects connected to the five-year transformation programme. The first phase of the programme is enabling the organisation and infrastructure to be fit for the future. Key activities include (although are not limited to): - Reshaping, modernising and managing the UK store estate (at a time when external factors such as falling property values and other retailers also exiting space create further complexity). - Modernising our supply chain and logistics activities to improve speed, operational effectiveness and reduce costs. - Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business (discussed further in the Technology Capability and Talent, Culture and Capability risks below). Underlying activities are significant in their own right but the level of interdependency and volume of change create additional delivery risk. Any delays in delivery of the transformation plan, or a key component, could adversely impact the planned improvements in business performance.	- Established programme governance to track progress against the overall transformation plan, resourcing and capability, and to monitor critical interdependencies. - High levels of cross-functional engagement to ensure consistency and collaboration in setting and achieving objectives. - Periodic independent audit reviews of key programme delivery. - Increased alignment of retail operations and property through the appointment of a single Managing Director. - Continued operation of the UK Retail & Property Board and Store Renewal Steering Group to oversee planned changes to our store estate. - The appointment of a single service provider to support the efficient and effective delivery of all store maintenance activities. - Ongoing delivery of "Fuse", looking at how we plan, buy and manage stock end to end across both Clothing & Home and Food businesses. - Targeted operational improvements at Castle Donington to improve our M&S.com fulfilment capacity. - Establishment of a simpler, single-tier Clothing & Home logistics network to reduce costs and working capital and improve speed. - Rollout of new warehouse management software.
4	FOOD ONLINE JOINT VENTURE A failure to effectively plan for and execute the go-live of the joint venture with Ocado on time would hamper achievement of our food online objectives. The joint venture (ocado.com) with Ocado Group Plc will enable us to take our food online in a profitable, scalable and sustainable way, operating as a fully aligned partnership with complementary skills and assets. Completion is scheduled for Autumn 2019, with our commitment to provide M&S product ranges and establish development capabilities to the joint venture from September 2020 at the latest. Delivery of this commitment is overlaid with the challenge of applying and managing existing resources effectively across our full transformation programme, including the joint venture, so that all necessary steps are in place to achieve timely completion and successful commencement of operations. Activities to be completed include: - Satisfaction of all contractual completion conditions.	- Identification of M&S-nominated directors to form part of the Ocado.com Board. - Co-appointment of an appropriate management team to lead Ocado.com. - Establishment of a dedicated M&S programme team with senior M&S leadership to support the Ocado.com set-up and ensure that M&S interfaces and processes are developed to support the M&S products going live online. This includes providing ongoing support of sourcing and branding activities to the joint venture. - Joint working group in place with Ocado Group Plc to establish the systems, processes and ways of working to coordinate sourcing, product development, product ranging, customer data and marketing.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	- Successful separation of the joint venture operations and establishment of associated services arrangements. - Creation of an effective oversight and governance framework. - Mobilisation of resources. - Development of appropriate M&S range and interfaces to ensure that M&S products are ready to go live in September 2020.	
5	FOOD SAFETY & INTEGRITY **Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.** - Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers, while also considering how external pressures on the food industry and wider economic or environmental changes could impact the integrity of our food, our reputation and shareholder value. - Many of these external pressures, including inflationary costs, labour quality and availability, increased regulatory scrutiny and the unknown impact of Brexit, are outside our control but are nevertheless being monitored.	- Clearly defined requirements through Terms of Trade, Codes of Practice, Standard Operating Procedures and Specifications "from farm to fork", including in-store processes. - Maintenance of a qualified and capable technical team. Professional status is maintained through training and an independently validated Continuing Professional Development Programme. - Clear accountabilities for policy and standard development at technical leadership level coupled with individual accountability for product safety at technologist level. - Long-established store, supplier and depot auditing programmes are in place, including unannounced visits and raw material testing. - Quarterly review of our control framework by the technical leadership through established governance procedures and the Customer Brand Protection Committee. - Established processes for the development and legal sign-off for product packaging. - Clear and tested crisis management plan to respond to future incidents. - Membership of the Food Industry Intelligence Forum at both Board and Operating Committee level. - Periodic Internal Audit reviews to consider process design and operating effectiveness.
6	CORPORATE COMPLIANCE & RESPONSIBILITY **Failure to deliver against our legal, regulatory or social commitments undermines our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers.** - Responsible corporate behaviour is a basic requirement of all businesses and the expectations of our customers and stakeholders (including regulators) are increasingly demanding. - The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on both business performance and market sentiment requiring continual improvements in how we operate as a business to maintain compliance. - Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as have an impact on our reputation and financial results. - Similarly, speed is vital to respond to heightened customer expectations, such as the environmental impact of food packaging. Public sentiment towards any business can change rapidly, especially in the age of social media, if expected standards are not met. - While our business operates appropriate controls, we recognise that potential non-compliance remains a risk and that there can be no room for complacency.	- Clear policies and procedures in place, including on human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health & safety, food safety, cyber and data security. - Immediate response to new requirements, such as for minimum alcohol pricing in Scotland, implemented during the last financial year. - Mandatory induction briefings and annual training for relevant colleagues on key regulations. - Oversight from committees and steering groups where necessary, including on data protection, fire health & safety, food safety and human rights. - In-house regulatory legal team, including specialist solicitors, with external expertise available as needed. - Dedicated non-legal regulatory specialists and advisers in place across the business responsible for driving compliance. - Ongoing engagement with regulators, legislators, trade bodies and policy makers. - Published, monitored and reported commitments in relation to environmental and social issues. - Established auditing and monitoring systems in place.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
		- Customer contact centre insight and analysis of live social media issues. - Continuous improvement initiatives such as in-store trial of plastic-free fruit and vegetable lines or launch of an initiative where customers can drop non-recyclable plastic at our stores, to be re-used in making equipment for use in stores and schools.
7	TECHNOLOGY CAPABILITY **Failure to rapidly improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably.** - The digital world continues to evolve at an unprecedented rate, enabling competitive advantage, influencing consumer behaviours or expectations and increasing demands on IT infrastructure. - We have clearly communicated our aim to be Digital First, and recognise the need to invest to achieve this. - In addition, our existing IT infrastructure needs to be more flexible to lower costs, leverage development opportunities and enable us to move with pace to meet customer and colleague needs. - As well as technology, we need to continue to develop the skills and capabilities of our people. This will be critical to providing a top-quartile, seamless customer experience.	- A technology transformation programme is ongoing, supported by project governance principles, to enable the Digital First ambitions and to deliver improved customer experience. - An established Technology Operating Model to drive clear accountabilities and efficiencies, including the adoption of industry standard agile methods. - Appointment of a leading technology company as our principal partner, coupled with consolidation of the technology supplier base. - Simplification of IT infrastructure through clearly defined technology roadmaps for all business areas, including the migration from an ageing mainframe environment and improvements to our website, such as the completed re-platform of our web sales site to the cloud. - Improvements to our in-store technology. - Development of strategic partnerships, such as with Microsoft and Founders Factory. - Establishment of Decoded – an externally developed and delivered training and qualification programme to improve digital people skills. - Cross-channel technology investment strategy in place and aligned to the family of businesses to mutually agreed priorities. - Quarterly reviews to track benefits realisation.
8	INFORMATION SECURITY **Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of stakeholder confidence, and/or loss of information for our customers, employees or business.** - The increasing sophistication and frequency of cyber-attacks, coupled with the General Data Protection Regulation (GDPR), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties to host and hold data also means the risk profile of our information security is changeable. - This risk is more pronounced due to the pace at which our business is changing and the volume of activities under way, both of which add to the complexity of maintaining a secure environment. - We recognise the importance of challenging our existing capabilities, supporting the education of our teams and maintaining vigilance across the business. This holistic approach is needed to reduce the likelihood of attack or breach in an environment that is undergoing significant change and facing an external threat that is changing at pace.	- A Data Governance function, overseen by the Data Governance Steering Group. - Mandatory data protection training for colleagues, including responsibilities for the use of personal data in compliance with GDPR. - Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security. - Dedicated Cyber Security function, comprising a multi-disciplinary team of cyber security specialists, with 24/7 monitoring and defence tools. - Established security controls, including policies and procedures and adoption of security technologies, subject to periodic independent testing and improvement. - Completion of a comprehensive maturity review by an independent consultancy during the last financial year covering network security, identity and access management, security software development, and project and programme assurance. - Third-party cyber maturity assessments performed and periodically refreshed. Targeted reviews of third-party control compliance.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
		- Ongoing monitoring of developments in cyber security threats, engaging with third-party specialists as appropriate. - Periodic penetration testing by Internal Audit. - Corporate Security team with ongoing focus on improving the physical security environment.
9	BUSINESS CONTINUITY & RESILIENCE **Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders.** - The effective operation of the Castle Donington distribution centre is vital as it is the sole fulfilment centre for our online Clothing & Home business. A major incident leading to a sustained period offline, while unlikely, would not only impact current sales but potentially also hinder the growth of the - M&S.com business and achievement of the one-third online target. - Operational risks also exist in other parts of the business, such as the high volumes of goods sourced from Bangladesh, and at the dedicated warehouses that store beers, wines & spirits and frozen goods in the UK. - Our ability to develop effective continuity plans, build resilience in our networks and capabilities to manage associated risks remains an area of focus.	- A dedicated Business Continuity team. - A Group Crisis Management team is in place and subject to periodic testing. - Business continuity plans for key areas of the business and critical points of failure, including offices, depots and IT sites, are developed and tested. - Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties. - Insurance cover to mitigate the impact of remediation and business interruption. - Participation in the Retail Business Continuity Association, which provides insight across the sector. - Regular participation at government-led exercises at key locations. - Membership of the National Counter Terrorism Information exchange. - Mechanisms for checking that suppliers have appropriate business continuity plans in place. - Ongoing contingency planning for Brexit.
10	THIRD-PARTY MANAGEMENT **An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, may have an impact on delivery of transformational initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.** - Our business is increasingly dependent on significant third-party relationships. These span M&S and include products and services, franchise relationships, our joint ventures and our banking partner. - To fully leverage these relationships we continue to focus on developing clear and consistently applied processes to track performance, ensuring that commercial expectations and outcomes are met and to put in place plans to manage potential business interruption risk created by such dependencies.	- Clear procurement and supplier management policies in place, including specific requirements for strategic suppliers with dedicated relationship ownership. - Defined service level agreements and key performance indicators in place for key contracts. - Established franchise governance and management processes with regular relationship meetings with partners for the UK and International businesses. - Integrated business planning processes to support franchise and joint venture reviews in International. - Customer satisfaction surveys introduced for franchise partners with agreed performance targets. - Regular review of franchise and joint venture markets. - Engagement of in-house legal and procurement teams. - Key supplier business contingency planning, selectively subject to review by our Business Continuity team.
11	TREASURY & FUNDING **An inability to maintain short and long term funding to meet business needs or to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rates, may have an adverse impact on business viability.** - Availability of, and access to, appropriate funds is crucial in supporting core business operations and the successful and timely delivery of our transformation plan. The Group's indebtedness primarily consists of bonds, bilateral facilities and finance leases. The Group's ability to make payments on its debt and to fund working	- A £1.1bn undrawn committed credit facility in place until April 2023 and £285.4m of cash on deposit. - Issuance of £250m Notes in July 2019, due July 2027, under the £3bn Euro Medium Term Note Programme. - Treasury executes forward buying of currency requirements and is 90% hedged for FY2019/20. - Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics, in line with our performance actuals and outlook.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	capital, capital expenditures and other expenses will depend on the Group's future operating performance and ability to generate cash from operations and to refinance its existing debt. - Brexit adds a further dimension to this financial risk because of the potential impact on currency movements, corporate bond rates, changes in credit regulations and the extent of government support of credit markets. - Additionally, we have a pensions fund commitment that requires active management and regular monitoring.	- Regular dialogue with the market and rating agencies. - Review of counterparty credit risk and limits in line with our risk appetite and treasury policy. - Pension fund assets fully offset pension scheme liabilities. At the last triennial review in March 2018, the fund had a surplus of £652m. - Purchase of additional buy-in policies for approximately £1.4bn subsequent to year end, resulting in the Defined Benefit pension scheme hedging its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment.
12	TALENT, CULTURE & CAPABILITY **A failure to attract, develop and motivate the right talent could slow down our ability to achieve operational and strategic objectives, including successful cultural and business transformation.** - As we transform our business, the calibre of our people is integral to delivering operational and strategic objectives and is especially important in our drive to be Digital First. - Attracting, developing and retaining quality individuals is influenced by many factors, a number of which are outside our control such as labour availability and the challenges facing the UK retail sector. - Our focus, however, cannot solely be outward looking – our existing workforce is one of our greatest assets. We need to ensure that our colleagues and culture are developed to drive a Digital First and customer-centric mindset and ensure that colleagues feel empowered to drive change at pace. - Building cross-functional experience for high-potential colleagues to accelerate their development and to better prepare them for more senior roles, as well as expanding our focus on early careers is important in helping us build a bigger pool of future potential talent.	- Talent is identified as a critical component of our people strategy and a key enabler in the delivery of our overall business strategy. - Targeted external hires to strengthen capability including in Womenswear and Menswear, Food transformation and logistics, digital, Bank & Services and cyber. - People key performance indicators are in place supported by talent reviews at all levels of the organisation. - Established biannual employee engagement survey, enhanced during the year to provide additional insight. - Clear focus and transparent action on fair pay, including gender, ethnicity, disability and age. - A dedicated forum to lead the inclusion and diversity agenda on behalf of the Operating Committee. - Simplified, outputs-focused framework for performance management. - Ongoing culture assessment and roll-out of revised M&S Behaviours. - Active engagement with our Business Involvement Group. - Employee suggestion process directly overseen by the Chief Executive's office.
13	BRAND, LOYALTY & CUSTOMER EXPERIENCE **An inability to successfully evolve our brand, customer experience and loyalty in line with expectations and innovations in the retail environment could have an impact on our ability to attract and retain customers and result in a decline in our market share.** - Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. - We are proud of our strong brand recognition, but external pressures make it more difficult for all businesses to drive brand relevance and attract and retain customers, especially in our target markets. Failure to do so creates the risk of a decline in market share. - Our organisational design and operating model need to support our aim to be a customer-centric, Digital First business and our Sparks loyalty programme, marketing strategies and cross-functional ways of working will be key enablers in achieving this, supported by meaningful measurement of customer experience.	- Brand and marketing teams aligned with the operating model to better address the specific needs of our family of businesses. - Chief Digital & Data Officer in post to head Insights and Loyalty programmes. - Investment in capability to measure customer experience through introduction of an end-to-end and multichannel net promoter score programme, supported by third-party expertise. - Established Customer Insight Unit and focus groups in place. - Review of our Sparks loyalty programme. - Increasing our presence and proactive monitoring of social media to observe and respond to trends in customer experience with initiatives such as Try Tuesday. - Targeted use of celebrity engagement.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and strategic report as set out on pages 1 – 11 as well as the Group's principal risks and uncertainties as set out on pages 12 -17. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements.

The Strategic Report was approved by the Board on September 2019 and signed on its behalf by

Nick Folland
Director

REPORT OF THE DIRECTORS

Profit and dividends

The consolidated profit for the financial year, after taxation, amounts to £38.2m (last year £73.8m). The directors have declared dividends as follows:

		2019 £m	2018 £m
Ordinary shares:			
Paid interim dividend	3.9p (last year 3.9p)	111.2	111.2
Paid final interim dividend	6.8p (last year 6.8p)	193.8	193.8
Total ordinary dividend	10.7 per share (last year 10.7p)	305.0	305.0

Share capital

The Company's issued ordinary share capital, as at 30 March 2019 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note C18 to the financial statements.

Significant agreements

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The £400m Medium Term Notes (MTN) issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 to various institutions and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The $300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.
- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control, the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as practicable (while not being required to do anything that would breach such a third-party arrangement).
- Where a third-party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate the Relationship Agreement.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

Amanda Mellor	(resigned on 1 February 2019)
Stephen Rowe	
Scilla Grimble	(appointed on 31 March 2018, resigned 12 September 2018)
Humphrey Singer	(appointed on 10 August 2018)
Nick Folland	(appointed on 1 February 2019)

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law.

Qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 30 March 2019 and remain in force, in relation to certain losses and liabilities which the directors may incur to third parties in the course of acting as directors or employees of the Company or of any associated company.

Colleague involvement

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement, and information on our approach to our workforce, are highlighted throughout this Annual Report and specifically on pages 15 to 17 and on page 44 of the Marks and Spencer Group plc Annual Report 2019.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. Approximately 18,969 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 114-116 of the Marks and Spencer Group plc Annual Report 2019.

There are websites for both pension schemes – the defined contribution scheme (Your M&S UK Pension Saving Plan) and the defined benefit scheme (the Marks & Spencer UK Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

M&S was one of the first major companies to remove the default retirement age in 2001 and has continued to see an increase in employees wanting to work past the state retirement age.

Employees with disabilities

The Company is clear in its policy that people with health conditions should have full and fair consideration for all vacancies.

M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria,and endeavouring to retain employees in the workforce if they become disabled during employment. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work, and this year marked 15 years since we launched the Marks & Start programme.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries is given in note 20 to the financial statements.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse and logistic operators and providers of services relating to the Company's e-commerce platform.

Groceries Supply Code of Practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and The Groceries Supply Code of Practice (the "Code") impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and Code, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator ("GCA").

M&S submitted its report, covering the period from 1 April 2018 to 30 March 2019, to the Audit Committee on 16 May 2019.

In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been seven instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and they have all now been resolved or closed. One additional Code reference made by a supplier before 1 April 2018 was also resolved during the reporting period.

Total Global M&S Greenhouse gas emissions 2018/2019

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below.

	FY18/19 000 tonnes	2017/18 000 tonnes	% change
Direct emissions (scope 1)	167	182	(8)
Indirect emissions from energy (scope 2)	193	248	(22)
Total gross/location-based emissions (scope 1 and 2)	**360**	**430**	**(16)**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**19**	**23**	**(17)**
Green tariffs and bio-methane procured	202	273	(26)
Remaining market-based emissions	**158**	**157**	**1**
Carbon offsets	158	157	1
Total net operational emissions	**0**	**0**	**-**

Emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2018 BEIS conversion factors. As these emissions account for less than 10% of M&S's total carbon footprint, we also engage with suppliers to address the most significant sources. M&S has an approved Science Based Target for reducing emissions. Full disclosure in accordance with Task Force on Climate Disclosure guidance can be found at cdp.net.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 30 March 2019. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose at any time with reasonable accuracy the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance statement

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- Management of the Group conduct periodic reviews of the Group's risks and mitigation. Each business unit is responsible for identifying, assessing and managing the risks in their respective areas on a half yearly basis. These are then collated to give a consolidated view of the business risk areas;
- Management regularly monitors and considers developments in the accounting regulations and best practice in financial reporting, and, where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting;
- The Group's consolidation is subject to various levels of review by the Group finance function; and
- The financial statements are subject to external audit.

Further information about the Group's corporate governance is provided in the Chairman's Governance Overview set out on pages 34 and 35 in the Marks and Spencer Group plc 2019 Annual Report, which does not form part of this report.

REPORT OF THE DIRECTORS

Disclosure of information to auditor

Each director confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware and that each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Independent auditor

A resolution to reappoint Deloitte LLP as auditor of the Company has been approved by the directors and shareholders at the time of signing these financial statements.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on September 2019 and signed on its behalf by

NICK FOLLAND
Director
London, September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Marks and Spencer plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company statements of cash flows;
- the Reconciliations of movement in net debt and net debt to the consolidated statement of financial position; and
- the related notes 1 to 29 and C1 to C25.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Disclosure of adjusting items; • Accounting for the UK store rationalisation programme; • Impairment of UK store assets; • Inventory provisioning for UK Clothing & Home; • Valuation of UK defined benefit obligation; and • IFRS 16 *Leases* disclosures. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £20.0 million (2018: £24.5 million) using a benchmark of adjusted profit before tax but excluding the impact of certain adjusting items, as set out on page 30 of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

Scoping	We performed a full scope audit on three components of the business (UK, India and Ireland) representing 99% of the Group's revenue, 95% of the Group's adjusted profit before tax, 92% of the Group's profit before tax, 80% of the Group's total assets, and 99% of the Group's total liabilities.
Significant changes in our approach	Our audit approach is consistent with the previous year, with the exception of: • Manual adjustments to reported revenue has been removed as a key audit matter on account of the quantum of adjustments applied and the limited scope of judgement involved; and • IFRS 16 *Leases* disclosures has been included as a key audit matter due to the inherent level of judgement involved in determining the quantum of the impact and the level of audit effort required in evaluating the appropriateness of the supporting disclosures.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

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

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

Disclosure of adjusting items

Key audit matter description

The Group has reported adjusted profit before tax of £523.2 million, which is derived from statutory profit before tax of £108.7 million adjusted for a number of items which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items.

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • Assessed the design and implementation of key controls pertaining to the identification and disclosure of adjusting items; • Performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature; • Assessed the identification and consistency of items reported as adjusting year on year in light of the latest guidance published by the European Securities and Markets Authority ('ESMA') and the FRC; • Performed tests over a representative sample of adjusting items through agreement to supporting evidence; • Used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which displayed characteristics of being material, significant or one-off in nature; and • Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.
Key observations	We are satisfied that the items included in arriving at adjusted profit and the related disclosures within the financial statements are appropriate.

Accounting for the UK store rationalisation programme

Key audit matter description	In February 2018 the Board approved a list of stores marked for closure as part of the UK store rationalisation programme, with a total charge of £321.1 million recorded in the prior year in respect of impairment, accelerated depreciation and property exit costs. In the current year, a further charge of £222.1 million has been recognised as a result of: • Management revisiting its assessment if stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market; • Further accelerated depreciation of stores identified for closure in the prior year (as they approach their planned closure dates); • Accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme. Further information is set out in notes 1 and 5 to the financial statements. Our key audit matter was focussed on the following areas of risk: • Accuracy and completeness of provisions encompassing onerous contracts, store strip-out costs, restructuring and dilapidations are incomplete or inaccurate; • Specific assumptions applied in the discounted cash flow analysis prepared by management including the discount rate, sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs are inappropriate; and • Significant property transactions such as disposals and lease surrenders are accounted for correctly. We consider this to represent a key audit matter reflecting the level of judgement applied by management. Our audit work focussed on assessing the Group's UK store exit model and evaluating the continued appropriateness of the key assumptions used in determining the extent of provisioning required.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

How the scope of our audit responded to the key audit matter

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

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

Key observations

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

Impairment of UK store assets

Key audit matter description

As at 30 March 2019 the Group held £2,859.9 million of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 *Impairment of Assets*, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £52.8 million has been recognised within adjusting items as set out in notes 5 and 14 to the financial statements.

As described in note 14 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period, all of which involve a high degree of estimation uncertainty (as disclosed in note 1), particularly in light of current retail market conditions and the impact of wider economic uncertainty.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

How the scope of our audit responded to the key audit matter

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

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

Key observations

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

Inventory provisioning for UK Clothing & Home

Key audit matter description

As at 30 March 2019, the Group held UK Clothing & Home inventories of £496.1 million (2018: £591.5 million). As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value. As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the quantum of gross inventory.

How the scope of our audit responded to the key audit matter

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

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

Key observations

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

Valuation of UK defined benefit obligation	
Key audit matter description	As described in the Accounting Policies in note 1 and in note 10 to the financial statements, the Group has a defined benefit pension plan for its UK employees. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred membership on 1 April 2017. As at 30 March 2019, the Group recorded a net retirement benefit asset of £923.4 million (2018: £959.7 million), being the net of scheme assets of £10,224.7 million (2018: £9,989.3 million) and scheme liabilities of £9,301.3 million (2018: £9,029.6 million). £9,175.1 million of this liability relates to the UK scheme (2018: £8,907.6 million). Our key audit matter related to the valuation of UK scheme liabilities on account of the sensitivity to changes in key assumptions such as the discount rate, inflation and mortality estimates. The setting of the assumptions identified above is complex and an area of significant judgement whereby changes in any of these assumptions could lead to a material movement in the net surplus. The increase / (decrease) in scheme surplus caused by a change in each of the key assumptions is set out in note 10 to the financial statements.
How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • Assessed the design and implementation of relevant controls pertaining to the estimation and valuation of the pension liability; • Evaluated the appropriateness of the assumptions applied in the valuation of scheme liabilities, and the information contained within the supporting actuarial valuation reports for each scheme in conjunction with our internal pension specialist team; • Assessed the integrity of key inputs through agreement of a representative sample of membership scheme records; • Performed sensitivity analysis on the key variables within the valuation model in accordance with external benchmarking data; and • Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.
Key observations	We are satisfied that the assumptions applied in determining the valuation of the defined benefit obligation are appropriate.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

IFRS 16 *Leases* disclosures

Key audit matter description

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

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

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

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

How the scope of our audit responded to the key audit matter

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

- Assessed the design and implementation of key controls pertaining to the determination of the IFRS 16 transition impact disclosures;
- Assessed the appropriateness of the discount rates applied in determining lease liabilities with input from our valuation specialists;
- Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;
- Considered completeness by testing the reconciliation to the Group’s operating lease commitments (disclosed per note 24 to the financial statements), and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and
- Assessed whether the disclosures within the financial statements are appropriate in light of the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Key observations

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

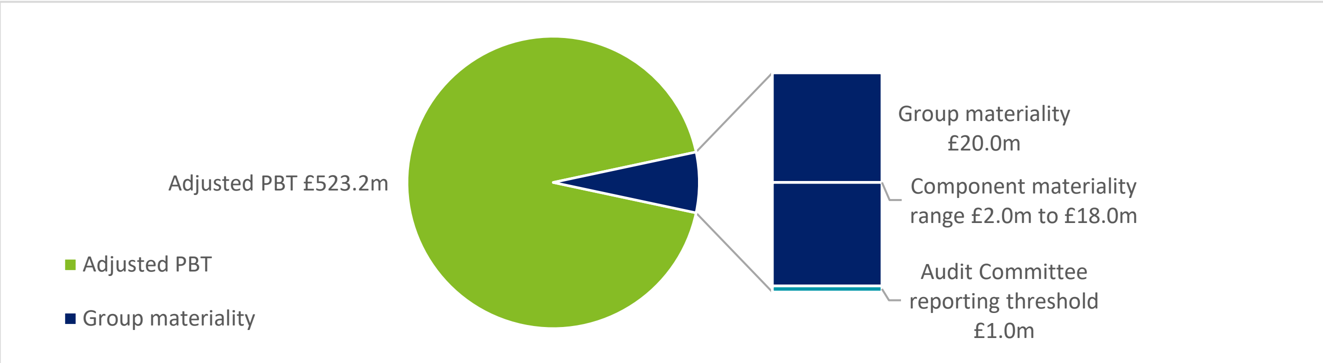
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£20.0 million (2018: £24.5 million)	£18 million (2018: £22.1 million)
Basis for determining materiality	The principal measure considered in both the current and prior year was a benchmark of 5% of adjusted profit before tax but excluding the impact of certain adjusting items, which would give a materiality of £21.5 million. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: • M&S Bank charges (PPI) - £20.9 million • UK logistics - £14.3 million • UK store impairments and associated charges within £62.1 million adjusting item in note 5 - £52.8 million In light of recent trading performance, the continued challenging market conditions in which the Group operates, and the broader level of uncertainty associated with the UK's exit from the European Union we applied professional judgement to reduce materiality to £20.0 million.	We used 0.8% of revenue as the basis of materiality and then further capped this at 90% of Group materiality.
Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the Group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	Revenue has been used as it is a primary measure of performance used by the Company.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

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

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

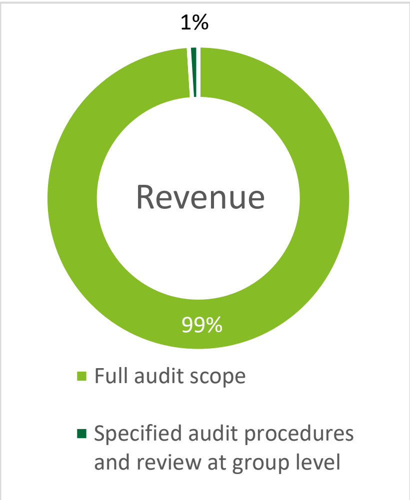
An overview of the scope of our audit

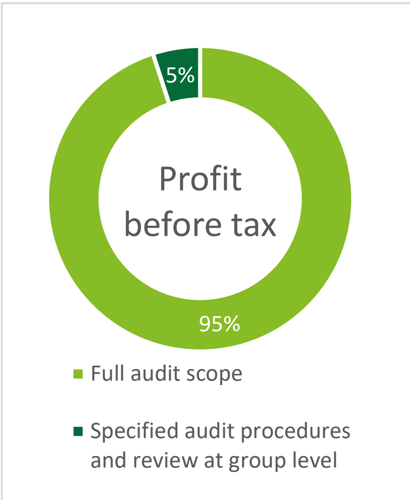
Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level.

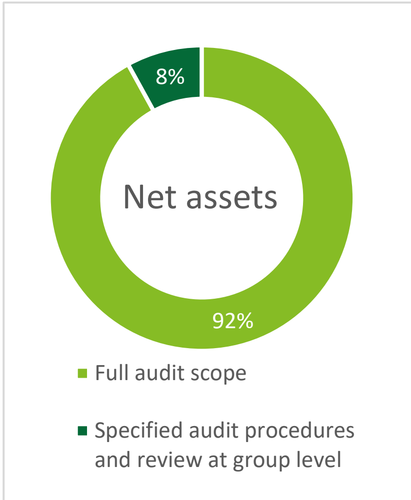
Based on our assessment, and consistent with the prior year, we focused our group audit scope on the retail businesses in the UK, India and Ireland, which were subject to a full audit. This work was performed by the group audit team.

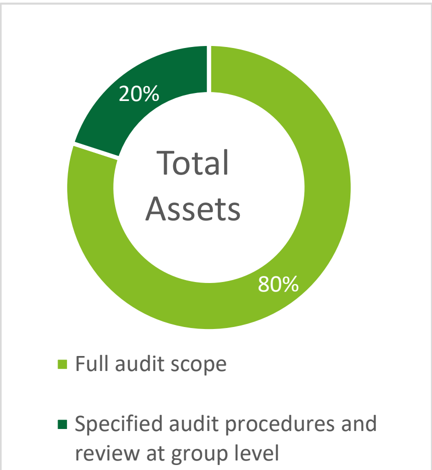
These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. Whilst we audit the revenues received by the Group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

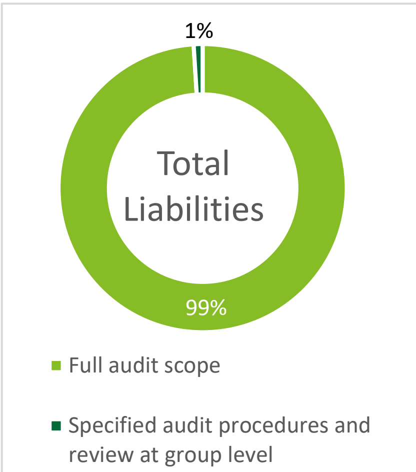
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.











INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

The most significant component of the Group is its retail business in the UK, which accounts for 91% (2018: 90%) of the Group's reported revenue of £10,377.3 million (2018: £10,698.2 million, and generates operating profit of £76.9 million (2018: £66.4 million). The group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the group audit team, conducted 10 distribution centre and 25 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

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

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

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

Other information

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, M&S Group plc internal audit, internal legal counsel, and the M&S Group plc Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to Groceries Supply Code of Practice ('GSCOP') requirements;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, real estate, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the disclosure of adjusting items; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act 2006, pensions legislation and UK and overseas tax legislation. The key laws and regulations which had a fundamental effect on the operations of the Group included GSCOP, employment law and health and safety legislation.

Audit response to risks identified

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARKS AND SPENCER PLC CONTINUED

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

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

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

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

Use of our report

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

Jane Makrakis FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

9 September 2019

CONSOLIDATED INCOME STATEMENT

		52 weeks ended 30 March 2019			52 weeks ended 31 March 2018		
	Notes	Profit before adjusting items £m	Adjusting items £m	Total £m	Profit before adjusting items £m	Adjusting items £m	Total £m
Revenue	2, 3	10,377.3	–	10,377.3	10,698.2	–	10,698.2
Operating profit	2, 3, 5	601.0	(414.5)	186.5	670.6	(468.3)	202.3
Finance income	6	33.8	–	33.8	24.1	–	24.1
Finance costs	6	(111.6)	–	(111.6)	(113.8)	–	(113.8)
Profit before tax	4, 5	523.2	(414.5)	108.7	580.9	(468.3)	112.6
Income tax expense	7	(105.1)	54.5	(50.6)	(125.4)	86.6	(38.8)
Profit for the year		418.1	(360.0)	58.1	455.5	(381.7)	73.8
Attributable to:							
Owners of the parent		414.3	(360.0)	54.3	452.1	(381.7)	70.4
Non-controlling interests		3.8	–	3.8	3.4	–	3.4
		418.1	(360.0)	58.1	455.5	(381.7)	73.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Profit for the year		58.1	73.8
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	10	(79.9)	200.9
Tax credit/(charge) on items that will not be reclassified		14.0	(39.0)
		(65.9)	161.9
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		(15.4)	(23.4)
– reclassified and reported in profit and loss		–	(36.2)
Fair value movement on available for sale assets		–	2.5
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		132.0	(208.7)
– reclassified and reported in profit or loss		(16.0)	85.0
– amount recognised in inventories		–	57.5
Tax (charge)/credit on cash flow hedges and net investment hedges		(19.0)	19.7
		81.6	(103.6)
Other comprehensive income for the year, net of tax		15.7	58.3
Total comprehensive income for the year		73.8	132.1
Attributable to:			
Owners of the parent		70.0	128.7
Non-controlling interests		3.8	3.4
		73.8	132.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 March 2019 £m	As at 31 March 2018 £m
Assets			
Non-current assets			
Intangible assets	13	499.9	599.2
Property, plant and equipment	14	4,028.5	4,393.9
Investment property		15.5	15.5
Investment in joint ventures		4.0	7.0
Other financial assets	15	14.7	16.0
Retirement benefit asset	10	931.5	970.7
Trade and other receivables	16	200.7	209.0
Derivative financial instruments	20	19.8	27.1
		5,714.6	6,238.4
Current assets			
Inventories		700.4	781.0
Other financial assets	15	2,690.3	2,564.3
Trade and other receivables	16	322.5	308.4
Derivative financial instruments	20	40.3	7.1
Cash and cash equivalents	17	285.4	207.7
		4,038.9	3,868.5
Total assets		9,753.5	10,106.9
Liabilities			
Current liabilities			
Trade and other payables	18	1,461.3	1,405.9
Partnership liability to the Marks & Spencer UK Pension Scheme	11	71.9	71.9
Borrowings and other financial liabilities	19	513.1	125.6
Derivative financial instruments	20	7.3	73.8
Provisions	21	124.5	98.8
Current tax liabilities		26.2	50.0
		2,204.3	1,826.0
Non-current liabilities			
Retirement benefit deficit	10	17.2	22.5
Trade and other payables	18	322.4	333.8
Partnership liability to the Marks & Spencer UK Pension Scheme	11	200.5	263.6
Borrowings and other financial liabilities	19	1,279.5	1,670.6
Derivative financial instruments	20	2.8	30.7
Provisions	21	250.1	193.1
Deferred tax liabilities	22	222.6	256.6
		2,295.1	2,770.9
Total liabilities		4,499.4	4,596.9
Net assets		5,254.1	5,510.0
Equity			
Issued share capital	23	712.5	712.5
Share premium account		386.1	386.1
Capital redemption reserve		8.0	8.0
Hedging reserve		(2.9)	(65.3)
Foreign exchange reserve		(44.7)	(29.3)
Retained earnings		4,195.2	4,500.5
Total shareholders' equity		5,254.2	5,512.5
Non-controlling interests in equity		(0.1)	(2.5)
Total equity		5,254.1	5,510.0

The financial statements were approved by the Board and authorised for issue on 9 September 2019. The financial statements also comprise the notes on pages 52 to 100.

Humphrey Singer Chief Finance Officer

Registered Number: 00214436

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Foreign exchange reserve £m	Retained earnings[1] £m	Total £m	Non-controlling interest £m	Total £m
As at 2 April 2017	712.5	386.1	8.0	17.3	–	30.5	4,515.8	5,670.2	(5.9)	5,664.3
Profit for the year	–	–	–	–	–	–	70.4	70.4	3.4	73.8
Other comprehensive (expense)/income:										
Foreign currency translation										
– movement recognised in other comprehensive income	–	–	–	0.2	–	(23.6)	–	(23.4)	–	(23.4)
– reclassified and reported in profit and loss	–	–	–	–	–	(36.2)	–	(36.2)	–	(36.2)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	200.9	200.9	–	200.9
Tax charge on items that will not be reclassified	–	–	–	–	–	–	(39.0)	(39.0)	–	(39.0)
Revaluation of available for sale asset	–	–	–	–	–	–	2.5	2.5	–	2.5
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	–	–	–	(211.0)	–	–	2.3	(208.7)	–	(208.7)
– reclassified and reported in profit or loss	–	–	–	51.0	–	–	34.0	85.0	–	85.0
– amount recognised in inventories	–	–	–	57.5	–	–	–	57.5	–	57.5
Tax on cash flow hedges and net investment hedges	–	–	–	19.7	–	–	–	19.7	–	19.7
Other comprehensive income/(expense)	–	–	–	(82.6)	–	(59.8)	200.7	58.3	–	58.3
Total comprehensive income/(expense)	–	–	–	(82.6)	–	(59.8)	271.1	128.7	3.4	132.1
Transactions with owners:										
Dividends	–	–	–	–	–	–	(305.0)	(305.0)	–	(305.0)
Credit for share-based payments	–	–	–	–	–	–	18.6	18.6	–	18.6
Deferred tax on share schemes	–	–	–	–	–	–	–	–	–	–
As at 31 March 2018	712.5	386.1	8.0	(65.3)	–	(29.3)	4,500.5	5,512.5	(2.5)	5,510.0

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Foreign exchange reserve £m	Retained earnings[1] £m	Total £m	Non-controlling interest £m	Total £m
As at 1 April 2018	712.5	386.1	8.0	(65.3)	–	(29.3)	4,500.5	5,512.5	(2.5)	5,510.0
Adjustment on initial application of IFRS 9	–	–	–	(10.7)	10.7	–	(0.5)	(0.5)	–	(0.5)
Adjusted opening shareholders equity	712.5	386.1	8.0	(76.0)	10.7	(29.3)	4,500.0	5,512.0	(2.5)	5,509.5
Profit for the year	–	–	–	–	–	–	54.3	54.3	3.8	58.1
Other comprehensive (expense)/income:										
Foreign currency translation										
– movement recognised in other comprehensive income	–	–	–	–	–	(15.4)	–	(15.4)	–	(15.4)
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	(79.9)	(79.9)	–	(79.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	–	14.0	14.0	–	14.0
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	–	–	–	130.5	1.5	–	–	132.0	–	132.0
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	–	(16.0)	–	(16.0)
Tax on cash flow hedges and net investment hedges	–	–	–	(18.5)	(0.5)	–	–	(19.0)	–	(19.0)
Other comprehensive income/(expense)	–	–	–	96.0	1.0	(15.4)	(65.9)	15.7	–	15.7
Total comprehensive income/(expense)	–	–	–	96.0	1.0	(15.4)	(31.5)	70.0	3.8	73.8
Cash flow hedges recognised in inventories	–	–	–	(42.7)	–	–	–	(42.7)	–	(42.7)
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	–	8.1	–	8.1
Transactions with owners:										
Dividends	–	–	–	–	–	–	(305.0)	(305.0)	–	(305.0)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	(1.4)	(1.4)
Purchase of shares held by employee trusts	–	–	–	–	–	–	(6.8)	(6.8)	–	(6.8)
Credit for share-based payments	–	–	–	–	–	–	19.2	19.2	–	19.2
Deferred tax on share schemes	–	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
As at 30 March 2019	712.5	386.1	8.0	(14.6)	11.7	(44.7)	4,175.3	5,254.2	(0.1)	5,254.1

1. Amounts 'reclassified and reported in profit or loss' includes the revaluation of the cross currency swaps, offsetting the revaluation of the USD hedged bonds within finance costs.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flows from operating activities			
Cash generated from operations	25	1,041.0	944.1
Income tax paid		(105.7)	(94.3)
Net cash inflow from operating activities		935.3	849.8
Cash flows from investing activities			
Proceeds on property disposals		48.1	3.2
Purchase of property, plant and equipment		(217.8)	(274.9)
Proceeds on disposal of Hong Kong business		–	22.9
Purchase of intangible assets		(95.1)	(74.3)
(Purchase)/sale of current financial assets		(128.1)	0.8
Interest received		7.4	6.0
Purchase of investment in joint venture		(2.5)	–
Net cash used in investing activities		(388.0)	(316.3)
Cash flows from financing activities			
Interest paid[1]		(86.4)	(112.2)
Cash inflow/(outflow) from borrowings		(46.7)	43.8
Payment of obligations under finance leases		(3.3)	(2.6)
Payment of liability to the Marks & Spencer UK Pension Scheme		(61.6)	(59.6)
Equity dividends paid		(305.0)	(305.0)
Purchase of own shares by employee trust		(5.5)	(3.1)
Issuance/(redemption) of Medium Term Notes		1.4	(328.2)
Movement in parent company loan		2.1	1.7
Net cash used in financing activities		(505.0)	(765.2)
Net cash inflow/(outflow) from activities		42.3	(231.7)
Effects of exchange rate changes		(0.2)	(3.5)
Opening net cash		171.0	406.2
Closing net cash	26	213.1	171.0

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

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		723.1	617.5
Net cash inflow/(outflow) from activities		42.3	(231.7)
Increase/(decrease) in current financial assets		126.0	(2.4)
Decrease in debt financing		110.2	346.6
Exchange and other non-cash movements		1.8	(6.9)
Movement in net debt		280.3	105.6
Closing net debt	26	1,003.4	723.1

NOTES TO THE FINANICAL STATEMENTS

1 ACCOUNTING POLICIES

General information

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

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

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

Basis of preparation

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

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

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

New accounting standards adopted by the Group

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

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

With the exception of the adoption of IFRS 9 and IFRS 15, the adoption of the above standards and interpretations has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

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

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

The adoption of IFRS 9 has not had a material impact on either the Consolidated Income Statement or the Consolidated Statement of Financial Position. The Group has adopted IFRS 9 using the modified transition approach and has therefore adjusted opening retained earnings for the impact of IFRS 9 on the opening bad debt provision and has not restated the prior period comparatives. The impact of the adoption of the new standard is shown in note 28 which includes additional disclosures relating to hedge accounting (including a new cost of hedging reserve), credit risk management and impairment of financial assets.

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

With the exception of the adoption of IFRS 16, the adoption of the above standards and interpretations will not lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Alternative Performance Measures

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

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

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

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

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum to the financial statement line item or applicable disclosure note or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusting items for the 52-week period ended 30 March 2019:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from the write-off of assets and other property charges that are considered to be significant in nature and/or value.
- Significant non-cash charges relating to the Group's defined benefit scheme arising from equalisation of guaranteed minimum pensions (GMP) and other pension equalisation.
- Significant costs arising from establishing the new joint venture with Ocado.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

Other adjusting items, in the prior year, including profit on sale of Hong Kong and charges for potential liabilities for employee related matters. In the current year, a credit in relation to the finalisation of charges for certain employee related matters provided for during the prior year.

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

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

Accounting convention

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

Basis of consolidation

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

Subsidiaries

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

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

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

Revenue

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

Supplier income

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

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

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

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

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

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

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

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

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 16.

M&S Bank

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

Dividends

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

Pensions

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

Any impairment in value is recognised within the income statement.

Leasing

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

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

Leasehold prepayments

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

Cash and cash equivalents

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

Inventories

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

Provisions

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

Share-based payments

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Foreign currencies

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

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

Taxation

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

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

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

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

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

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

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

Financial instruments

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

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

The Group designates certain hedging derivatives as either:

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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 key sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

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

UK Defined Benefit pension surplus Where a surplus on a defined benefit scheme arises, the rights of the Trustees to prevent the Group

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

Key sources of estimation uncertainty
UK store estate The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £222.1m (last year £321.1m) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

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

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs.
- Estimation of the sale proceeds for freehold stores which is dependent upon location specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.
- Estimation of future contractual lease costs to be incurred including uncertainty with regards to the cost of termination, potential sub-let (including estimation of nature, timing and value including any potential void periods and based on assessment of location specific retail property market factors).

See notes 5 and 14 for further detail.

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

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

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

Useful lives and residual values of property, plant and equipment and intangibles Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 13 and 14 for further details. Refer to the UK store estate section above for specific sources of estimation uncertainty in relation to the useful lives and residual values of property, plant and equipment for stores identified as part of the UK store estate programme.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Impairment of property, plant and equipment and intangibles Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite lived brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. In calculating the discount rate the Group has taken into account volatility in the inputs to the calculation that are reflective of the market uncertainty for Brexit.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash- Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles particularly where the store carrying value exceeds fair value less cost to sell. See notes 13 and 14 for further details on the Group's assumptions and associated sensitivities.

Post-retirement benefits The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, pensionable salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. See note 10 for further details on the impact of changes in the key assumptions and estimates.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

2 SEGMENTAL INFORMATION

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

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

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

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

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

	52 weeks ended 30 March 2019				52 weeks ended 31 March 2018 (restated[3])			
	Management[1] £m	Logistics Adjustment[2] £m	Adjusting items £m	Statutory £m	Management[1] £m	Logistics Adjustment[2] £m	Adjusting items £m	Statutory £m
Clothing & Home revenue	3,537.3	–	–	3,537.3	3,671.0	–	–	3,671.0
Food revenue	5,903.4	–	–	5,903.4	5,940.0	–	–	5,940.0
UK revenue	9,440.7	–	–	9,440.7	9,611.0	–	–	9,611.0
Franchised	409.1	–	–	409.1	360.6	–	–	360.6
Owned	527.5	–	–	527.5	726.6	–	–	726.6
International revenue	936.6	–	–	936.6	1,087.2	–	–	1,087.2
Group revenue	10,377.3	–	–	10,377.3	10,698.2	–	–	10,698.2
Clothing & Home gross profit[3]	2,021.2				2,090.6			
Food gross profit[3]	1,834.7				1,854.8			
UK gross profit	3,855.9	(384.9)	–	3,471.0	3,945.4	(370.0)	–	3,575.4
UK operating costs	(3,409.6)	384.9	(376.2)	(3,400.9)	(3,450.3)	370.0	(434.3)	(3,514.6)
M&S Bank	27.6	–	(20.9)	6.7	40.3	–	(34.7)	5.6
M&S Energy	0.1	–	–	0.1	–	–	–	–
UK operating profit	474.0	–	(397.1)	76.9	535.4	–	(469.0)	66.4
International operating profit	127.0	–	(17.4)	109.6	135.2	–	0.7	135.9
Group operating profit	601.0	–	(414.5)	186.5	670.6	–	(468.3)	202.3
Finance income	33.8	–	–	33.8	24.1	–	–	24.1
Finance costs	(111.6)	–	–	(111.6)	(113.8)	–	–	(113.8)
Profit before tax	523.2	–	(414.5)	108.7	580.9	–	(468.3)	112.6

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

Other segmental information

	2019			2018		
	UK[1] £m	International £m	Total £m	UK[1] £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	283.1	13.9	297.0	322.4	13.2	335.6
Depreciation and amortisation	613.0	13.1	626.1	572.5	22.0	594.5
Impairment and asset write-offs	126.3	1.6	127.9	228.3	5.3	233.6
Total assets	9,453.4	300.1	9,753.5	9,799.1	307.8	10,106.9
Non-current assets	5,514.9	199.7	5,714.6	6,028.4	210.0	6,238.4

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2019 Total £m	2018 Total £m
Revenue	10,377.3	10,698.2
Cost of sales	(6,547.2)	(6,650.9)
Gross profit	3,830.1	4,047.3
Selling and administrative expenses	(3,271.1)	(3,426.2)
Other operating income	42.0	49.5
Operating profit before adjusting items	601.0	670.6
Adjusting items (see note 5)[2]	(414.5)	(468.3)
Operating profit	186.5	202.3

The selling and administrative expenses are further analysed below:

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

1. There are an additional £61.0m (last year £57.9m) of employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures note 9A.
2. The £414.5m adjusting items charges for the year are further analysed against the categories of selling and administrative expense (£418.8m; last year: £485.2m) and other operating income (£19.8m; last year: £28.9m) accordingly; employee costs £40.8m (last year £47.9m); occupancy costs £113.6m (last year £124.7m); depreciation, amortisation and asset impairments and write-offs £209.1m (last year £247.5m); other expenses £31.2m (last year £18.5m); and other operating income £19.8m (last year £28.9m).

4 PROFIT BEFORE TAXATION

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS

The total adjusting items reported for the 52 week period ended 30 March 2019 is a net charge of £438.6m (last year £468.3m).

The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2019 £m	2018 £m
Strategic programmes – UK store estate	14, 21	222.1	321.1
Strategic programmes – UK organisation	14, 21	51.8	30.7
Strategic programmes - Operational transformation		16.4	–
Strategic programmes – IT restructure	21	15.6	15.5
Strategic programmes – UK logistics	14, 21	14.3	13.1
Strategic programmes – Changes to pay and pensions	21	6.2	12.9
Strategic programmes – International store closures and impairments	21	5.3	5.0
UK store impairments and other property charges	14, 21	62.1	17.6
M&S Bank charges incurred in relation to the insurance mis-selling provision		20.9	34.7
GMP and other pension equalisation	14, 21	20.5	–
Establishing the Ocado joint venture		3.4	–
Other	21	(24.1)	17.7
Adjustments to profit before tax		414.5	468.3

Strategic programmes – UK store estate (£222.1m)
In November 2016, the Group announced a strategic programme to transform the UK store estate. During 2017/18 the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £222.1m in the year which relates in part to the accelerated and expanded store closure programme which now includes a number of Simply Foods stores. The charge primarily relates to accelerated depreciation (due to shortening the useful economic life) and impairment of buildings and fixtures and fittings. Refer to notes 14 and 21 for further detail on these charges.

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

Strategic programmes – Organisation (£51.8m)
During 2016/17 the Group announced a wide ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building.

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

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

As the Group executes the three phases of the transformation strategy further material organisational costs are likely to occur in order to meet the transformation objective. These costs are considered to be adjusting items as the costs are part of the strategic programme, significant in value, and are consistent with the disclosure of other similar charges in prior years

Strategic programmes – Operational transformation (£16.4m)
The Group is undertaking a number of key transformation initiatives with the aim of re-engineering end-to-end supply chain, removing costs, complexity and working capital. Part of this transformation has included a fundamental review of the Group's Clothing & Home and Food end-to-end processes. A charge of £16.4m has been recognised primarily for consultancy costs for the transformation and simplification of our supply chain and operations across Clothing & Home and Food.

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

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

These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the programme.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – UK Logistics (£14.3m)
In 2017/18 as part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result, the Group announced the closure of two existing distribution centres. A net charge of £14.3m has been recognised in the year for redundancy, accelerated depreciation and project costs.

The Group considers these costs to be adjusting items as they are significant in value and relate to a significant strategic initiative of the Group. Treatment of the costs as being adjusting items is consistent with the treatment of charges in previous periods in relation to the creation of a single-tier logistics network. Further charges are expected in 2019/20 of c.£12m.

Strategic programmes – Changes to pay and pensions (£6.2m)
In May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. As part of these proposals the Group committed to making transition payments to affected employees in relation to the closure of the UK DB scheme, expected to be c.£25m in total over the three years commencing 2017/18. The charge in the year in relation to these transition payments to employees is £6.2m.

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

Strategic programmes – International store closures and impairments (£5.3m)
In 2016/17 the Group announced its intention to close its owned stores in 10 international markets. A net charge of £5.3m has been recognised in the year reflecting an updated view of the estimated final closure costs for certain markets and those costs which can only be recognised as incurred.

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

UK store impairments and property charges (£62.1m)
The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, the Group has revised future projections for UK stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £52.8m has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 14 for further details on the impairments.

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

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

M&S Bank charges incurred in relation to the insurance mis-selling provision (£20.9m)
The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the year is £20.9m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each year to the results of the Group. The estimated liability for redress will continue to be reviewed in 2019/20 to ensure it reflects the best estimate of likely settlement, which could lead to further charges or releases.

GMP and other pension equalisation (£20.5m)
The Group has recognised a non-cash charge of £20.5m in respect of the Group's defined benefit pension liability arising from equalisation of GMP following a high court ruling in October 2018 and other pension equalisation charges. Additional detail on the Group's GMP assessment is detailed in note 10.

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Other (£24.1m)

In the prior year, a provision was recorded as charge to cover the potential costs of probable liabilities for certain employee related matters. During the year, the methodology for calculating the liability for these employee related matters has been clarified and the project finalised, resulting in a £24.1m release of the provision.

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

The prior year profit on disposal is analysed as follows:

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

6 FINANCE INCOME/COSTS

	2019 £m	2018 £m
Bank and other interest receivable	7.6	6.0
Other finance income	0.4	0.4
Pension net finance income (see note 10F)	25.8	17.7
Finance income	33.8	24.1
Interest on bank borrowings	(0.6)	(1.2)
Interest payable on syndicated bank facility	(2.3)	(2.3)
Interest payable on medium-term notes	(77.4)	(90.0)
Interest payable on finance leases	(1.7)	(1.9)
Ineffectiveness on financial instruments	(3.5)	(2.3)
Unwind of discount on provisions	(17.3)	(5.2)
Unwind of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 11)	(8.8)	(10.9)
Finance costs	(111.6)	(113.8)
Net finance costs	(77.8)	(89.7)

NOTES TO THE FINANICAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE

A. Taxation charge

	2019 £m	2018 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	78.4	65.4
– adjustments in respect of prior years	(4.6)	7.5
UK current tax	73.8	72.9
Overseas current taxation		
– current year	8.9	10.3
– adjustments in respect of prior years	(0.8)	(0.2)
Total current taxation	81.9	83.0
Deferred tax		
– origination and reversal of temporary differences	(32.8)	(36.4)
– recognition of previously unrecognised tax losses	–	(1.4)
– adjustments in respect of prior years	2.3	(3.1)
– changes in tax rate	(0.8)	(3.3)
Total deferred tax (see note 22)	(31.3)	(44.2)
Total income tax expense	50.6	38.8

B. Taxation reconciliation

The effective tax rate was 46.6% (last year: 34.4%) and is explained below.

	2019 £m	2018 £m
Profit before tax	108.7	112.6
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	20.7	21.4
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	1.2	3.0
Other income and expenses that are not taxable or allowable for tax purposes	15.0	14.8
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(1.1)	(3.3)
Overseas profits taxed at rates different to those of the UK	0.8	(3.4)
Overseas tax losses where there is no relief anticipated in the foreseeable future	(6.2)	–
Adjustments to the current and deferred tax charges in respect of prior periods	(3.1)	4.2
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	–	8.0
– UK store and strategic programme impairments where no tax relief is available	14.0	(1.2)
– International store closures and impairments	0.8	(8.3)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	8.9	3.4
– other	(0.4)	0.2
Total income tax expense	50.6	38.8

NOTES TO THE FINANICAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

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

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

C. Current Tax Reconciliation

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

	2019 £m	2018 £m
Profit before taxation	108.7	112.6
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	20.7	21.4
Disallowable accounting depreciation and other similar items	68.0	78.7
Deductible capital allowances	(59.4)	(70.6)
Adjustments in relation to employee share schemes	2.7	2.8
Adjustments in relation to employee pension schemes	10.7	9.2
Overseas profits taxed at rates different to those of the UK	0.8	(3.4)
Overseas tax losses where there is no tax relief anticipated in the foreseeable future	(1.4)	–
Other income and expenses that are not taxable or allowable	4.4	0.5
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	–	9.5
– UK store and strategic programme impairments where no tax relief is available	32.0	35.3
– International store closures and impairments	0.8	(16.2)
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	12.6	5.1
– other	(4.6)	3.4
Current tax charge	87.3	75.7
Represented by:		
UK current year current tax	78.4	65.4
Overseas current year current tax	8.9	10.3
	87.3	75.7
UK adjustments in respect of prior years	(4.6)	7.5
Overseas adjustments in respect of prior years	(0.8)	(0.2)
Total current taxation (note 7A)	81.9	83.0

8 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	6.8p	6.8p	193.8	193.8
Paid interim dividend	3.9p	3.9p	111.2	111.2
	10.7p	10.7p	305.0	305.0

The directors have approved a final dividend of 4.1p per share (last year: 6.8p per share) which in line with the requirements of IAS 10 'Events after the Reporting Period', has not been recognised within these results.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

9 EMPLOYEES

A. Aggregate remuneration

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

	2019 Total £m	2018 Total £m
Wages and salaries	1,293.2	1,359.7
Social security costs	85.0	91.7
Pension costs	77.4	76.7
Share-based payments (see note 12)	19.2	18.9
Employee welfare and other personnel costs	53.8	56.6
Capitalised staffing costs	(17.6)	(24.7)
Total aggregate remuneration[1]	1,511.0	1,578.9

1. Excludes amounts recognised within adjusting items of £40.8m (last year: £47.9m) (see notes 3 and 5) such as the transition payments the Group has committed to in respect of removal of premia, redundancy costs associated with the UK and International strategic programmes and GMP and other pension equalisation costs.

Details of key management compensation are given in note 27.

B. Average monthly number of employees

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

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

	2019 £'000	2018 £'000
Highest paid director	1,667.3	1,120.0
Aggregate emoluments of all other directors	1,568.6	1,266.0

Two directors (last year: two) accrued retirement benefits under a defined benefit scheme.

Two directors (last year: none) exercised share options in relation to the Group's long-term incentive plans.

Four directors (last year: three) were awarded share options in relation to the Group's long-term incentive plan.

10 RETIREMENT BENEFITS

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

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

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 11).

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 RETIREMENT BENEFITS CONTINUED

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

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

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one-third of the pensioner portfolio. A further buy-in took place subsequent to year end for an additional £1.4bn (note 29). Together with the two policies purchased in March 2018, the DB pension scheme has now, in total, hedged its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

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

A. Pensions and other post-retirement liabilities

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

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

B. Financial assumptions

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

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

C. Demographic assumptions

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

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

D. Sensitivity analysis

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 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 11), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 96% of interest rate movements and 94% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that lead 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 11). In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Group.

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

	2019			2018		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	4,373.9	367.2	4,741.1	4,472.9	369.4	4,842.3
– Corporate Bonds	6.1	731.8	737.9	5.9	685.4	691.3
– Asset backed securities and structured debt	-	296.6	296.6	–	339.2	339.2
Scottish Limited Partnership Interest (see note 11)	-	278.5	278.5	–	345.4	345.4
Equity investments						
– Developed markets	398.0	57.9	455.9	460.8	102.8	563.6
– Emerging markets	103.7	-	103.7	151.7	–	151.7
Growth Asset Funds						
– Global Property	-	328.4	328.4	–	274.0	274.0
– Hedge and Reinsurance	24.3	412.4	436.7	18.2	406.2	424.4
– Private Equity and Infrastructure	-	223.3	223.3	–	222.5	222.5
Derivatives						
– Interest and inflation rate swaps	15.9	148.4	164.3	7.7	6.4	14.1
– Foreign exchange contracts and other derivatives	0.1	127.5	127.6	0.1	154.8	154.9
Cash and Cash equivalents	51.1	122.2	173.3	41.8	92.5	134.3
Other						
– Buy In Insurance	-	1,273.7	1,273.7	–	1,277.9	1,277.9
– Secure Income Asset Funds	-	842.2	842.2	–	466.7	466.7
– Other	41.5	-	41.5	87.0	–	87.0
	5,014.6	5,210.1	10,224.7	5,246.1	4,743.2	9,989.3

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

10 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

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

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

G Scheme assets

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

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

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

H. Pensions and other post-retirement liabilities

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

11 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 ongoing involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and as such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.4bn (last year: £1.5bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until June 2022 from the Partnership. The second limited partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £272.4m (last year: £335.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Groups' financial statements as it a transferable financial instrument. During the year to 30 March 2019 an interest charge of £8.8m (last year: £10.9m) was recognised in the income statement representing the unwinding of the discount included in this obligation. The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £278.5m (last year: £345.4m).

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

12 SHARE-BASED PAYMENTS

This year a charge of £19.2m was recognised for share based payments (last year: charge of £18.9m). Of the total share-based payments charge, £9.2m (last year: £11.0m) relates to the Save As You Earn share option scheme and a charge of £4.1m (last year charge of £2.3m) relates to the Performance Share Plan. The remaining charge of £5.6m (last year £5.6m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 63 to 75 of the Marks and Spencer Group plc Annual Report 2019 which does not form part of this report. These shares relate to the shares in the parent company, Marks and Spencer Group plc, rather than the Company.

A. Save As You Earn Scheme

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

12 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:

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

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

Volatility has been estimated by taking the historical volatility in the Marks and Spencer Group plc share price over a three-year period.

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

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

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

B. Performance Share Plan

The Performance Share Plan is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the Plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against a balanced scorecard of financial measures which for 2017/18 include Earnings Per Share (EPS), Return on Capital Employed (ROCE), and Total Shareholder Return (TSR). The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 63 to 75 of the Marks and Spencer Group plc Annual Report 2019 which does not form part of this report. Awards under this scheme have been made in each year since 2005.

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

C. Deferred Share Bonus Plan*

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

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

D. Restricted Share Plan*

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

12 SHARE-BASED PAYMENTS CONTINUED

E. Republic of Ireland Save As You Earn Scheme

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

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

F. Marks and Spencer Employee Benefit Trust

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

G. ShareBuy

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer Software £m	Computer software under developmen t £m	Total £m
At 1 April 2017					
Cost	131.9	112.3	1,368.3	82.5	1,695.0
Accumulated amortisation and impairments	(53.5)	(98.9)	(809.9)	(23.7)	(986.0)
Net book value	78.4	13.4	558.4	58.8	709.0
Year ended 31 March 2018					
Opening net book value	78.4	13.4	558.4	58.8	709.0
Additions	–	–	0.2	74.1	74.3
Transfers and reclassifications	–	–	94.2	(89.2)	5.0
Asset Impairments	–	–	–	–	–
Asset write-offs	–	–	(5.8)	(1.7)	(7.5)
Amortisation charge	–	(5.3)	(175.4)	–	(180.7)
Exchange difference	(1.0)	–	0.3	(0.2)	(0.9)
Closing net book value	77.4	8.1	471.9	41.8	599.2
At 31 March 2018					
Cost	130.9	112.3	1,400.0	65.6	1,708.8
Accumulated amortisation, impairments and write-offs	(53.5)	(104.2)	(928.1)	(23.8)	(1,109.6)
Net book value	77.4	8.1	471.9	41.8	599.2
Year ended 30 March 2019					
Opening net book value	77.4	8.1	471.9	41.8	599.2
Additions	–	–	10.3	84.8	95.1
Transfers and reclassifications	–	–	81.0	(75.7)	5.3
Asset write-offs	–	–	(5.9)	(8.4)	(14.3)
Amortisation charge	–	(5.3)	(179.1)	–	(184.4)
Exchange difference	0.1	–	(1.1)	–	(1.0)
Closing net book value	77.5	2.8	377.1	42.5	499.9
At 30 March 2019					
Cost	131.0	112.3	1,402.2	74.6	1,720.1
Accumulated amortisation and impairments and write-offs	(53.5)	(109.5)	(1,025.1)	(32.1)	(1,220.2)
Net book value	77.5	2.8	377.1	42.5	499.9

Goodwill relate to the following groups of cash generating units (CGU's):

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

Impairment testing

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

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

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m, and is held at a net book value of £2.8m (last year: £8.1m). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

13 INTANGIBLE ASSETS CONTINUED

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital adjusted for the specific risks relating to each asset or CGU, and were 9.1% for the UK and per una (last year: 8.6%) and 17.3% for India (last year: 14.8%).

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

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

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

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

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

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

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions, given the level of headroom, could lead to an impairment.

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

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 1 April 2017				
Cost	3,008.4	7,750.3	96.0	10,854.7
Accumulated depreciation, impairments and write-offs	(461.6)	(5,583.2)	(17.9)	(6,062.7)
Net book value	2,546.8	2,167.1	78.1	4,792.0
Year ended 31 March 2018				
Opening net book value	2,546.8	2,167.1	78.1	4,792.0
Additions	0.2	56.5	204.6	261.3
Transfers and reclassifications	10.2	186.6	(200.8)	(4.0)
Disposals	(2.1)	(15.4)	–	(17.5)
Asset impairments	(104.8)	(103.3)	–	(208.1)
Asset write-offs	(16.5)	1.5	(3.0)	(18.0)
Depreciation charge	(18.8)	(395.0)	–	(413.8)
Exchange difference	2.9	(0.8)	(0.1)	2.0
Closing net book value	2,417.9	1,897.2	78.8	4,393.9
At 31 March 2018				
Cost	2,963.4	7,059.0	96.8	10,119.2
Accumulated depreciation, impairments and write-offs	(545.5)	(5,161.8)	(18.0)	(5,725.3)
Net book value	2,417.9	1,897.2	78.8	4,393.9
Year ended 30 March 2019				
Opening net book value	2,417.9	1,897.2	78.8	4,393.9
Additions	0.9	30.9	170.1	201.9
Transfers and reclassifications	(3.2)	166.7	(168.8)	(5.3)
Disposals	(2.5)	(0.4)	–	(2.9)
Asset impairments	(11.5)	(58.2)	–	(69.7)
Asset write-offs	(35.3)	(8.6)	–	(43.9)
Depreciation charge	(89.7)	(352.0)	–	(441.7)
Exchange difference	(2.7)	(1.1)	–	(3.8)
Closing net book value	2,273.9	1,674.5	80.1	4,028.5
At 30 March 2019				
Cost	2,923.9	5,729.1	98.1	8,751.1
Accumulated depreciation, impairments and write-offs	(650.0)	(4,054.6)	(18.0)	(4,722.6)
Net book value	2,273.9	1,674.5	80.1	4,028.5

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

14 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

Impairment of property, plant and equipment

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

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

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

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates range from 9% to 21% (last year: 8% to 15%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

Impairments – UK stores (excluding store estate programme)

During the year the Group has recognised an impairment charge of £52.8m and no impairment reversals as a result of UK store impairment testing unrelated to the UK store estate programme (year ended 31 March 2018: £11.9m). These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.3%, adjusted to 0% where management believe the current trading performance and future expectations of the store do not support the growth rate of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The rate used to discount the forecast cash flows for UK stores is 9.1%.

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

A reduction in sales of 2% from the three-year plan would result in an increase in the impairment charge of £7.1m and a 20 basis point reduction in gross profit margin would increase the impairment charge by £2.2m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. Reasonably possible changes of the other key assumptions, including reducing the long term growth rate to 0% across all stores, would not result in an increase to the impairment charge.

Impairments – UK stores store estate programme

During the year, the Group has recognised an impairment charge of £16.9m relating to the on-going UK store estate programme (year ended 31 March 2018: £196.2m). The impairment charge relates to the accelerated and expanded store closure programme and has been recognised within adjusting items (see note 5).

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

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

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £31.4m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £4.9m. Neither a 25 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

15 OTHER FINANCIAL ASSETS

	2019 £m	2018 £m
Non-current		
Unlisted investments	9.9	9.9
Other investments[1]	4.8	6.1
	14.7	16.0
Current		
Short-term investments[2]	141.8	13.7
Amounts owed by parent company	2,548.5	2,550.6
	2,690.3	2,564.3

1. Other investments represents shares in Marks and Spencer Group plc held for issue against vested employee schemes.
2. Includes £5.0m (last year: £5.8m) of money market deposit held by Marks and Spencer plc in an escrow account, as part of the Group's self-funded captive insurance scheme.

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

16 TRADE AND OTHER RECEIVABLES

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

Trade and other receivables that were past due but not impaired amounted to £7.2m (last year: £21.3m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit losses (see note 20). Included in accrued income is £21.9m (last year: £28.2m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

17 CASH AND CASH EQUIVALENTS

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

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

18 TRADE AND OTHER PAYABLES

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

18 TRADE AND OTHER PAYABLES CONTINUED

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

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

The Group operates a number of supplier financing arrangements, under which suppliers can obtain accelerated settlement on invoices from the finance provider. The Group settles these amounts in accordance with each suppliers agreed payment terms. The Group's trade creditors balance includes £200.0m (last year: £212.0m) relating to payments due to M&S suppliers under these arrangements. During the year ended 30 March 2019 the arrangements were used by 183 suppliers, with a maximum facility available of £381.0m.

19 BORROWINGS AND OTHER FINANCIAL LIABILITIES

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

1 Bank loans and overdrafts in the prior year include a £5.0m loan from the Hedge End Park Limited joint venture that was repaid during the year (see note 27).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$500m and US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, the £375m (last year: £425m) was swapped from fixed to floating rate.

Finance leases

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

20 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.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity and funding risk

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

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

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

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

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 18)) and derivatives is as follows:

	Bank loans and overdrafts £m	Medium-term notes £m	Finance lease liabilities[2] £m	Partnership liability to the Marks & Spencer UK pension (note 11) £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total Derivative assets and liabilities £m
Timing of cash flows								
Within one year	(88.4)	(86.1)	(2.3)	(71.9)	(248.7)	30.0	(88.2)	(58.2)
Between one and two years	–	(486.1)	(2.3)	(71.9)	(560.3)	21.9	(18.1)	3.8
Between two and five years	–	(466.3)	(6.9)	(215.5)	(688.7)	270.0	(248.5)	21.5
More than five years	–	(1,207.2)	(168.9)	–	(1,376.1)	223.1	(198.5)	24.6
	(88.4)	(2,245.7)	(180.4)	(359.3)	(2,873.8)	545.0	(553.3)	(8.3)
Effect of discounting	–	585.9	132.4	23.8	742.1			
At 1 April 2018	(88.4)	(1,659.8)	(48.0)	(335.5)	(2,131.7)			
Timing of cash flows								
Within one year	(72.3)	(487.2)	(2.3)	(71.9)	(633.7)	58.0	(20.6)	37.4
Between one and two years	–	(62.7)	(2.3)	(71.9)	(136.9)	24.2	(16.2)	8.0
Between two and five years	–	(751.3)	(6.8)	(143.6)	(901.7)	282.4	(241.4)	41.0
More than five years	–	(895.5)	(160.3)	-	(1,055.8)	230.8	(191.5)	39.3
	(72.3)	(2,196.7)	(171.7)	(287.4)	(2,728.1)	595.4	(469.7)	125.7
Effect of discounting	–	522.9	125.2	15.0	663.1			
At 30 March 2019	(72.3)	(1,673.8)	(46.5)	(272.4)	(2,065.0)			

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

The present value of finance lease liabilities is as follows:

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

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

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

	AAA+ £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	**Total £m**
Short-term investments[1]	–	–	2.6	9.8	33.6	7.9	2.7	1.5	58.1
Derivative assets[2]	–	–	–	–	–	8.0	–	2.9	10.9
At 31 March 2018	–	–	2.6	9.8	33.6	15.9	2.7	4.4	69.0

	AAA+ £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	Total £m
Short-term investments[1]	–	–	–	16.4	168.3	83.9	–	0.7	269.3
Derivative assets[2]	–	–	–	16.9	21.0	11.8	–	0.3	50.0
At 30 March 2019	–	–	–	33.3	189.3	95.7	–	1.0	319.3

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

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

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

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

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

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

- Significant financial difficulties of the debtor.
- Probability that the debtor would enter bankruptcy.
- Default of late payments, the extent to which they were overdue being determined on a case-by-case basis with reference to the knowledge and communication with the debtor and their relationship with the business.

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

(c) Foreign currency risk

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

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

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

	2019 %	2018 %
Committed and uncommitted borrowings	–	1.0
Medium-term notes	4.8	4.7
Finance leases	4.3	4.3

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 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.

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

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

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

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

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

1. Cross-currency interest rate swaps.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

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

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

Movement in hedged items and hedging instruments

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

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

Movement in hedged items and hedging instruments

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

Sensitivity analysis

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

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

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

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 31 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	-	3.2
Derivative financial assets	60.1	-	60.1	(10.1)	50.0
Cash and cash equivalents	34.8	(34.8)	-	-	-
	119.8	(56.5)	63.3	(10.1)	53.2
Trade and other payables	(264.6)	21.7	(242.9)	-	(242.9)
Derivative financial liabilities	(10.1)	-	(10.1)	10.1	-
Bank loans and overdrafts	(107.1)	34.8	(72.3)	-	(72.3)
	(381.8)	56.5	(325.3)	10.1	(315.2)

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

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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

	2019				2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	–	0.7	–	0.7	–	2.0	–	2.0
Derivatives used for hedging	–	59.4	–	59.4	–	32.2	–	32.2
Short- term investments	–	141.8	–	141.8	–	13.7	–	13.7
Unlisted investments[1]	–	–	9.9	9.9	–	–	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	–	(0.4)	–	(0.4)	–	(0.2)	–	(0.2)
Derivatives used for hedging	–	(9.7)	–	(9.7)	–	(104.3)	–	(104.3)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.9m in unlisted equity securities measured at fair value through other comprehensive income (last year £9.9m measured as available-for-sale) (see note 15) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

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

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

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

Fair value of financial instruments

With the exception of the Group's Medium Term Notes and the Partnership liability to the Marks & Spencer UK Pension Scheme (note 11), there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

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

Capital policy

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

21 PROVISIONS

	Property £m	Restructuring £m	Other £m	2019 £m	2018 £m
At 1 April 2018	233.3	28.4	30.2	291.9	260.7
Provided in the year	181.5	29.2	3.6	214.3	187.0
Released in the year	(22.8)	(2.4)	(25.5)	(50.7)	(28.8)
Utilised during the year	(63.3)	(32.3)	(1.0)	(96.6)	(133.0)
Exchange differences	(0.1)	(0.3)	–	(0.4)	2.2
Discount rate unwind	17.3	–	–	17.3	5.2
Reclassification from trade and other payables	(0.1)	(1.1)	–	(1.2)	(1.4)
At 30 March 2019	345.8	21.5	7.3	374.6	291.9
Analysed as:					
Current				124.1	98.8
Non-current				250.1	193.1

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

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

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia. The release during the year relates to the finalisation of charges for certain employee related matters provided for during the prior year.

Please see note 5 for further information on these provisions.

22 DEFERRED TAX

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

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

Deferred tax assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciatio n £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 2 April 2017	(43.3)	(62.2)	(169.4)	2.7	(272.2)	(9.4)	(281.6)
Credited to income statement	8.0	32.0	1.2	1.3	42.5	1.7	44.2
Credited/(charged) to equity/other comprehensive income	–	–	(39.8)	19.9	(19.9)	0.5	(19.4)
Other Balance Sheet movement	1.4	–	–	–	1.4	(1.2)	0.2
At 31 March 2018	(33.9)	(30.2)	(208.0)	23.9	(248.2)	(8.4)	(256.6)
At 1 April 2018	(33.9)	(30.2)	(208.0)	23.9	(248.2)	(8.4)	(256.6)
Credited/(charged) to income statement	3.8	24.1	(1.6)	(0.3)	26.0	5.3	31.3
Credited/(charged) to equity/other comprehensive income	–	–	14.4	(11.5)	2.9	(0.2)	2.7
At 30 March 2019	(30.1)	(6.1)	(195.2)	12.1	(219.3)	(3.3)	(222.6)

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

23 ORDINARY SHARE CAPITAL

	2019		2018	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each	2,850,039,477	712.5	2,850,039,477	712.5

24 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

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

B. Other material contracts

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

See note 11 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

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

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

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

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

NOTES TO THE FINANICAL STATEMENTS CONTINUED

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

Cash flows from operating activities

	2019 £m	2018 £m
Profit on ordinary activities after taxation	58.1	73.8
Income tax expense	50.6	38.8
Finance costs	111.6	113.8
Finance income	(33.8)	(24.1)
Operating profit	186.5	202.3
Decrease/(increase) in inventories	73.8	(38.2)
(Increase)/decrease in receivables	(1.0)	28.8
Decrease in payables	(13.7)	(87.4)
Adjusting items net cash outflows	(124.4)	(153.1)
Non-cash share-based payment charges	19.2	18.9
Depreciation, amortisation and write-offs	544.9	580.6
Defined benefit pension funding	(37.9)	(41.4)
Adjusting items M&S Bank	(20.9)	(34.7)
Adjusting operating profit items	414.5	468.3
Cash generated from operations	1,041.0	944.1

Adjusting items net cash outflows relate to the utilisation of the provisions for International store closures and impairments, strategic programme costs associated with both the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, UK store impairments and property charges; GMP and other pension equalisation and establishing the Ocado joint venture. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

26 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 2 April 2017 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2018 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 29)	(70.3)	(18.1)	–	(88.4)
Less: amounts treated as financing (see below)	7.9	43.8	–	51.7
	(62.4)	25.7	–	(36.7)
Cash and cash equivalents (see note 17)	468.6	(257.4)	(3.5)	207.7
Net cash per statement of cash flows	406.2	(231.7)	(3.5)	171.0
Current financial assets (see note 15)	2,566.7	(2.4)	–	2,564.3
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(7.9)	(43.8)	–	(51.7)
Medium-term notes (see note 19)	(1,911.4)	328.2	(1.5)	(1,584.7)
Finance lease liabilities (see note 19)	(48.7)	2.6	(1.9)	(48.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(387.4)	59.6	–	(327.8)
Debt financing	(2,355.4)	346.6	(3.4)	(2,012.2)
Net debt	617.5	112.5	(6.9)	723.1

NOTES TO THE FINANICAL STATEMENTS CONTINUED

	At 1 April 2018 £m	Cash flow £m	Exchange and other non-cash movements £m	At 30 March 2019 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 29)	(88.4)	11.1	5.0	**(72.3)**
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	**–**
	(36.7)	(35.6)	**–**	**(72.3)**
Cash and cash equivalents (see note 17)	207.7	77.9	(0.2)	**285.4**
Net cash per statement of cash flows	171.0	42.3	(0.2)	**213.1**
Current financial assets (see note 15)	2,564.3	126.0	–	**2,690.3**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	**–**
Medium-term notes (see note 19)	(1,584.7)	(1.4)	(1.2)	**(1,587.3)**
Finance lease liabilities (see note 19)	(48.0)	3.3	(1.8)	**(46.5)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(327.8)	61.6	–	**(266.2)**
Debt financing	(2,012.2)	110.2	2.0	**(1,900.0)**
Net debt	723.1	278.5	1.8	**1,003.4**

B. Reconciliation of net debt to statement of financial position

	2019 £m	2018 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17)	**285.4**	207.7
Current financial assets (see note 15)	**2,690.3**	2,564.3
Bank loans and overdrafts (see note 19)	**(72.3)**	(88.4)
Medium-term notes – net of hedging derivatives	**(1,624.3)**	(1,621.7)
Finance lease liabilities (see note 19)	**(46.5)**	(48.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11 and 20)	**(272.4)**	(335.5)
	960.2	678.4
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**43.2**	44.7
Total net debt	**1,003.4**	723.1

27 RELATED PARTY TRANSACTIONS

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

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

C. Marks & Spencer UK Pension Scheme
Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 10 and 11.

D. Key management compensation
The Group has determined that the key management personnel constitute the Board and the members of the Operating Committee. For the prior year, the members of the Board were considered to be key management personnel for the whole year, and members of the Operating Committee with effect from November 2016 when the terms of reference of the Operating Committee were ratified.

	2019 £m	2018 £m
Salaries and short-term benefits	**7.0**	6.9
Share-based payments	**1.1**	0.4
Total	**8.1**	7.3

E. Other related party transactions
There were no related party transactions during the year to 30 March 2019 (last year: nil).

F. Transactions with parent company
During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £305.0m (last year: £305.0m) and has decreased its loan to its parent company by £2.1m (last year: decrease of £1.6m). The outstanding balance was £2,548.5m (last year: £2,550.6m) and was non-interest bearing. There were no other related party transactions.

NOTES TO THE FINANICAL STATEMENTS CONTINUED

28 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

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

IFRS 9

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

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

Consolidated Statement of Financial Position	As at 31 March 2018 £m	IFRS 9 Adjustment £m	1 April 2018 restated £m
Non-current assets			
Other financial assets	16.0	–	16.0
Current assets			
Trade and other receivables	308.4	(0.6)	307.8
Current liabilities			
Provisions	98.8	(0.1)	98.7
Equity			
Retained earnings	4,471.2	(0.5)	4,470.7
Hedging reserve	(65.3)	(10.7)	(76.0)
Cost of hedging reserve	–	10.7	10.7

NOTES TO THE FINANICAL STATEMENTS CONTINUED

28 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

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

	£m
Closing retained earnings as at 31 March 2018	4,471.2
Increase in provision for trade receivables	(0.6)
Decrease in provision for other receivables	0.1
Adjustment to retained earnings from adoption of IFRS 9 on 1 April 2018	(0.5)
Opening retained earnings on 1 April 2018	4,470.7

Classification and measurement

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

	FVPL £m	FVOCI £m	Available for sale £m	Amortised cost £m
Financial assets at 31 March 2018	47.9	–	16.0	176.5
Reclassify available for sale financial assets to FVOCI	–	16.0	(16.0)	–
Opening balance at 1 April 2018	47.9	16.0	–	176.5

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

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

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

	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount £m	New carrying amount £m	Difference in carrying amount £m
Non-current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	2.3	2.3	–
Other financial assets	Available for sale	FVOCI	16.0	16.0	–
Derivative financial instruments	FVPL	FVPL	27.1	27.1	–
Current financial assets					
Other financial assets	FVPL	FVPL	13.7	13.7	–
Trade and other receivables	Amortised cost	Amortised cost	174.2	173.6	(0.6)
Derivative financial instruments	FVPL	FVPL	7.1	7.1	–
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	1,355.9	1,355.9	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	125.6	125.6	–
Derivative financial instruments	FVPL	FVPL	73.8	73.8	–
Non-current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	52.7	52.7	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	1,670.6	1,670.6	–

NOTES TO THE FINANICAL STATEMENTS CONTINUED

28 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

Derivatives and hedging activities

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

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

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

Impairment of financial assets

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

- Trade receivables.
- Other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is illustrated above, while a detailed description of the methodology is included with the credit risk disclosures in note 20.

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

29 SUBSEQUENT EVENTS

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

In July 2019 Marks and Spencer plc issued £250,000,000 Notes due 10 July 2027 under the £3,000,000,000 Euro Medium Term Note Programme.

Company statement of comprehensive income

	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 (Restated[1]) £m
(Loss)/profit for the year	(19.3)	392.4
Other comprehensive (expense)/income:		
Items that will not be classified to profit or loss		
Remeasurements of retirement benefit schemes	(150.8)	220.3
Tax credit/(charge) on retirement benefit schemes	26.0	(37.7)
	(124.8)	182.6
Items that will be reclassified subsequently to profit or loss		
Fair value movement on available-for-sale assets	-	2.5
Cash flow hedges		
– fair value movements in other comprehensive income	129.6	(197.9)
– reclassified and reported in net profit	(16.0)	54.0
– amount recognised in inventories	-	59.5
Tax (charge)/credit on cash flow hedges	(18.4)	20.2
	95.2	(61.7)
Other comprehensive (expense)/income for the year, net of tax	(29.6)	120.9
Total comprehensive (expense)/income for the year	(48.9)	513.3

[1]Refer to note C22 for more details on restatements.

The loss attributable to shareholders of the Company for the year is £19.3m (last year profit of £392.4m).

Company statement of financial position

	Notes	As at 30 March 2019 £m	As at 31 March 2018 (Restated[1]) £m
Assets			
Non-current assets			
Intangible assets	C7	412.9	516.9
Property, plant and equipment	C8	2,519.0	2,713.6
Investments in group undertakings	C9	923.7	923.7
Investment in joint ventures		3.4	5.9
Other financial assets	C10	14.7	15.9
Retirement benefit asset	C4	1,402.2	1,517.7
Trade and other receivables	C11	96.2	91.2
Derivative financial instruments	C15	19.8	27.1
		5,391.9	5,812.0
Current assets			
Inventories		647.2	742.0
Other financial assets	C10	135.6	5.8
Trade and other receivables	C11	3,140.5	6,360.1
Derivative financial instruments	C15	40.7	7.2
Cash and cash equivalents	C12	217.0	130.4
		4,181.0	7,245.5
Total assets		9,572.9	13,057.5
Liabilities			
Current liabilities			
Trade and other payables	C13, C22	2,771.5	5,782.8
Borrowings and other financial liabilities	C14	512.9	123.6
Derivative financial instruments	C15	14.4	77.0
Provisions	C16	104.9	92.4
Current tax liabilities		4.6	27.2
		3,408.3	6,103.0
Non-current liabilities			
Retirement benefit deficit	C4	8.1	10.4
Trade and other payables	C13	526.9	548.3
Borrowings and other financial liabilities	C14	1,273.4	1,664.2
Derivative financial instruments	C15	2.8	30.8
Provisions	C16	240.1	187.3
Deferred tax liabilities	C17	255.6	286.1
		2,306.9	2,727.1
Total liabilities		5,715.2	8,830.1
Net assets		3,857.7	4,227.4
Equity			
Issued share capital	C18	712.5	712.5
Share premium account		386.1	386.1
Capital redemption reserve		8.0	8.0
Hedging reserve		(6.2)	(67.3)
Retained earnings	C22	2,757.3	3,188.1
Total equity		3,857.7	4,227.4

[1]Refer to note C22 for more details on restatements.

The financial statements were approved by the Board and authorised for issue on 9 September 2019. The financial statements also comprise the notes on pages 105 to 143.

Humphrey Singer Chief Finance Officer

Registered number:

00214436

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of Hedging Reserve £m	Retained earnings (Restated[1]) £m	Total £m
At 2 April 2017 (Restated[1])	712.5	386.1	8.0	18.4	–	2,875.7	4,000.7
Profit for the year	–	–	–	–	–	392.4	392.4
Other comprehensive income:							
Remeasurements of retirement benefit schemes (As previously stated[1])						183.9	183.9
Remeasurements of retirement benefit schemes (Restatement[1])						36.4	36.4
Remeasurements of retirement benefit schemes (Restated[1])	–	–	–	–	–	220.3	220.3
Tax charge on retirement benefit schemes	–	–	–	–	–	(37.7)	(37.7)
Fair value movement in equity on available-for-sale	–	–	–	–	–	2.5	2.5
Cash flow hedges							
– fair value movements in other comprehensive income	–	–	–	(219.4)	–	21.5	(197.9)
– reclassified and reported in profit or loss	–	–	–	54.0	–	–	54.0
– amount recognised in inventories	–	–	–	59.5	–	–	59.5
Tax on cash flow hedges	–	–	–	20.2	–	–	20.2
Other comprehensive income (Restated[1])	–	–	–	(85.7)	–	206.6	120.9
Total comprehensive income (Restated[1])	–	–	–	(85.7)	–	599.0	513.3
Transactions with owners:							
Dividends	–	–	–	–	–	(305.0)	(305.0)
Credit for share-based payments	–	–	–	–	–	18.1	18.1
Deferred tax on share schemes	–	–	–	–	–	0.3	0.3
At 31 March 2018 (Restated[1])	712.5	386.1	8.0	(67.3)	–	3,188.1	4,227.4
At 1 April 2018 (Restated[1])	**712.5**	**386.1**	**8.0**	**(67.3)**	–	**3,188.1**	**4,227.4**
Adjustment on initial application of IFRS 9	–	–	–	(10.7)	10.7	(0.5)	(0.5)
Adjusted opening shareholders equity	712.5	386.1	8.0	(78.0)	10.7	3,187.6	4,226.9
Loss for the year	–	–	–	–	–	(19.3)	(19.3)
Other comprehensive (expense)/income:							
Remeasurements of retirement benefit schemes	–	–	–	–	–	(150.8)	(150.8)
Tax credit on retirement benefit schemes	–	–	–	–	–	26.0	26.0
Cash flow hedges							
– fair value movements in other comprehensive income	–	–	–	128.1	1.5	–	129.6
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	(16.0)
Tax on cash flow hedges	–	–	–	(17.9)	(0.5)	–	(18.4)
Other comprehensive (expense)/income	–	–	–	94.2	1.0	(124.8)	(29.6)
Total comprehensive (expense)/income	–	–	–	94.2	1.0	(144.1)	(48.9)
Cash flow hedges recognised in inventories	–	–	–	(42.2)	–	–	(42.2)
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	8.1
Transactions with owners:							
Dividends	–	–	–	–	–	(305.0)	(305.0)
Credit for share-based payments	–	–	–	–	–	19.4	19.4
Deferred tax on share schemes	–	–	–	–	–	(0.6)	(0.6)
At 30 March 2019	**712.5**	**386.1**	**8.0**	**(17.9)**	**11.7**	**2,757.3**	**3,857.7**

[1]Refer to note C22 for more details on restatements.

Company statement of cash flows

	Notes	52 weeks ended 30 March 2019 £m	52 weeks ended 31 March 2018 £m
Cash flows from operating activities			
Cash generated from operations	C20	894.3	1,017.3
Income tax paid		(97.3)	(86.5)
Net cash inflow from operating activities		797.0	930.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(211.4)	(236.2)
Proceeds from sale of property, plant and equipment		48.1	3.2
Purchase of intangible assets		(95.0)	(85.4)
Proceeds from sale of intangible assets		–	–
Sale of non-current financial assets		2.5	–
Sale/(purchase) of current financial assets		17.0	(0.5)
Interest received		1.5	8.4
Net cash used in investing activities		(237.3)	(310.5)
Cash flows from financing activities			
Interest paid		(89.6)	(104.6)
Cash (outflow)/inflow from borrowings		(50.0)	45.0
Issuance/(redemption) of Medium Term Notes		1.4	(328.2)
Movement in intercompany loans treated as financing		(57.5)	(400.2)
Decrease in obligations under finance leases		(2.5)	(2.3)
Equity dividends paid		(305.0)	(305.0)
Purchase of shares in ultimate parent company held in employee trust		(5.5)	(3.1)
Net cash used in financing activities		(508.7)	(1,098.4)
Net cash inflow/(outflow) from activities		51.0	(478.1)
Opening net cash		93.8	571.9
Closing net cash	C12	144.8	93.8

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer 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 Clothing and Home and Food retailer.

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

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

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

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.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 20 of the Group financial statements.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement. The loss for the year was £19.3m (last year profit of £392.4m).

The prior year balance sheet has been restated for a capital withdrawal not previously accounted for and recognition of the second partnership interest. Refer to note C22 for further details.

New accounting standards adopted by the Company

Impact of application of IFRS 16 Leases

There will be a significant impact on the Company balance sheet as at 31 March 2019. It is expected on a pre-tax basis that a right of use asset of approximately £2.3bn and lease liability of approximately £3.6bn will be recognised, along with the derecognition of onerous lease provisions of approximately £0.2bn and other working capital balances (including lease incentives) of approximately £0.6bn, which results in an overall adjustment to retained earnings of approximately £0.4bn.

Operating profit and EBIT before adjusting items increase due to the depreciation expense being lower than the lease expense it replaces. The overall impact on profit before tax and adjusting items depends on the relative maturity of the lease portfolio. Rounded to the nearest £10m, it is estimated that for the 52 weeks ended 30 March 2019 profit before tax when applying IFRS 16 is c£80m lower than that reported in these financial statements under current accounting standards, including IAS 17 Leases.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Company 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 Company 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.

Impairment of investments in subsidiary undertakings Investments in subsidiaries are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on the fair value prepared on the basis of management's assumptions and estimates.

In addition, 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 in note 1 of the Group financial statements.

C2 DIVIDENDS

	2019 per share	2018 per share	2019 £m	2018 £m
Dividends on equity ordinary shares				
Paid final dividend	6.8p	6.8p	193.8	193.8
Paid special dividend	-	-	-	-
Paid interim dividend	3.9p	3.9p	111.2	111.2
	10.7p	10.7p	305.0	305.0

In addition, the directors have proposed and paid a final dividend of 4.1p per share (last year 6.8p per share) amounting to a dividend of £116.9m in respect of the year ended 30 March 2019. In line with the requirement of IAS 10 'Events after the reporting period,' this dividend has not been recognised within these results.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C3 EMPLOYEES

A. AGGREGATE REMUNERATION

The aggregate remuneration and associated costs of Marks and Spencer plc employees were:

	2019 Total £m	2018 Total £m
Wages and salaries	1,133.0	1,177.5
Social security costs	71.6	74.6
Other pension costs	69.9	68.5
Share based payments	19.1	18.7
Employee welfare and other personnel costs	48.6	51.4
Capitalised staffing costs	(17.6)	(24.7)
Total aggregate renumeration	1,324.6	1,366.0

B. AVERAGE MONTHLY NUMBER OF EMPLOYEES

	2019	2018
Stores		
- management and supervisory categories	5,480	6,004
- other	63,957	66,540
Head office		
- management and supervisory categories	2,968	3,088
- other	832	856
Operations		
- management and supervisory categories	81	89
- other	1,066	1,153
Total average number of employees	74,384	77,730

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 50,578 (last year 53,273).

C4 RETIREMENT BENEFITS

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

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

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note C5).

The DC plan is a pension plan under which the Company pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Company 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 Company and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 53,536 active members (last year 54,001) and some 26,709 deferred members (last year 19,984).

The total Company retirement benefit cost was £33.4m (last year £54.3m). Of this, income of £32.7m (last year £14.7m) relates to the DB pension scheme, £64.9m (last year £68.8m) to the DC plan and £1.2m (last year £0.2m) relates to other retirement benefit schemes.

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one-third of the pensioner portfolio. A further buy-in took place subsequent to year end for an additional £1.4bn (note 29). Together with the two policies purchased in March 2018, the DB pension scheme has now, in total, hedged its longevity exposure for approximately two thirds of the pensioner cash flow liabilities for pensions in payment. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

	2019 £m	2018 £m
Total market value of assets	10,577.0	10,425.0
Present value of scheme liabilities	(9,174.8)	(8,907.3)
Net funded pension plan asset	1,402.2	1,517.7
Unfunded retirement benefit	(2.5)	(2.5)
Post-retirement healthcare	(5.6)	(7.9)
Net retirement benefit asset	1,394.1	1,507.3

	2019 £m	2018 £m
Analysed in the statement of financial position as:		
Retirement benefit asset	1,402.2	1,517.7
Retirement benefit deficit	(8.1)	(10.4)
	1,394.1	1,507.3

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

B. FINANCIAL ASSUMPTIONS

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

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

C. DEMOGRAPHIC ASSUMPTIONS

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

		2019	2018
Current pensioners (at age 65)	– males	22.0	22.3
	– females	24.9	25.2
Deferred pensioners (at age 65)	– males	23.8	24.1
	– females	26.7	27.0

D SENSITIVITY ANALYSIS

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

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

E. ANALYSIS OF ASSETS

The investment strategy of the DB pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits.

In addition to its interest in the Scottish Limited Partnership (refer to note C5), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 96% of interest rate movements and 94% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

By funding its DB pension schemes, the Company 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 lead 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 Company is exposed to additional risks through its obligation to the DB pension scheme via its interest in the Scottish Limited Partnership (see note C5). In particular, under the legal terms of the Partnership, a default by the Company 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 Company.

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

	2019			2018		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	4,366.7	367.2	4,733.9	4,460.8	369.3	4,830.1
– Corporate Bonds	–	731.8	731.8	–	685.4	685.4
– Asset backed securities and structured debt	–	296.6	296.6	–	339.2	339.2
Scottish Limited Partnership Interest (see note C5)	–	749.4	749.4	–	892.1	892.1
Equity investments						
– Developed markets	351.0	57.9	408.9	412.3	102.8	515.1
– Emerging markets	101.3	–	101.3	144.7	–	144.7
Growth Asset Funds						
– Global Property	–	328.4	328.4	–	274.0	274.0
– Hedge and Reinsurance	–	412.4	412.4	–	406.3	406.3
– Private Equity and Infrastructure	–	223.3	223.3	–	222.5	222.5
Derivatives						
– Interest and inflation rate swaps	–	148.4	148.4	0.4	6.4	6.8
– Foreign exchange contracts and other derivatives	0.1	127.5	127.6	0.1	154.8	154.9
Cash and Cash equivalents	36.4	122.2	158.6	29.8	92.5	122.3
Other						
– Buy In Insurance	–	1,273.7	1,273.7	–	1,277.9	1,277.9
– Secure Income Asset Funds	–	842.2	842.2	–	466.7	466.7
– Other	40.5	–	40.5	87.0	–	87.0
	4,896.0	5,681.0	10,577.0	5,135.1	5,289.9	10,425.0

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

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

At year end, the DB pension scheme indirectly held 41,841 (last year 41,046) ordinary shares in Marks and Spencer Group plc through its investment in UK Equity Index Funds.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

F. ANALYSIS OF AMOUNT CHARGED AGAINST PROFITS

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

	2019 £m	2018 (Restated[1]) £m
Current service cost	-	-
Administration costs	3.7	3.3
Past service costs	(18.0)	-
Net interest income	(54.3)	(50.6)
Total	(68.6)	(47.3)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	(209.2)	76.8
Actuarial gain – experience	19.1	27.2
Actuarial loss – demographic assumptions	(90.2)	(85.1)
Actuarial gain/(loss) – financial assumptions	431.1	(239.2)
Components of defined benefit gain recognised in other comprehensive income	150.8	(220.3)

[1]Refer to note C22 for more details on restatements.

G. SCHEME ASSETS

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

	2019 £m	2018 (Restated[1]) £m
Fair value of scheme assets at start of year	10,425.0	10,569.6
Interest income based on discount rate	285.6	283.8
Actual return on scheme assets excluding amounts included in net interest income	209.2	(76.8)
Employer contributions	5.0	3.9
Benefits paid	(344.1)	(352.2)
Administration costs	(3.7)	(3.3)
Fair value of scheme assets at end of year	10,577.0	10,425.0

[1]Refer to note C22 for more details on restatements.

H. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

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

	2019 £m	2018 £m
Present value of obligation at start of year	8,917.7	9,332.7
Current service cost	-	-
Past service cost	18.0	-
Interest cost	231.3	233.2
Benefits paid	(344.1)	(352.2)
Acquisition of Canadian pension liability	-	1.1
Actuarial loss – experience	19.1	27.2
Actuarial gain – demographic assumptions	(90.2)	(85.1)
Actuarial loss/(gain) – financial assumptions	431.1	(239.2)
Present value of obligation at end of year	9,182.9	8,917.7
Analysed as:		
Present value of pension scheme liabilities	9,174.8	8,907.3
Unfunded pension plans	2.5	2.5
Post-retirement healthcare	5.6	7.9
Present value of obligation at end of year	9,182.9	8,917.7

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C5 MARKS & SPENCER UK PENSION SCHEME INTEREST IN THE SCOTTISH LIMITED PARTNERSHIP

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

The Partnership holds £1.4bn (last year £1.5bn) of properties which have been leased back to Marks and Spencer plc at market rates. The Company retains control over these properties, including the flexibility to substitute alternative properties into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further £36.4m annually from 2017 until 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £272.4m (last year £335.5m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 30 March 2019 an interest charge of £8.8m (last year £10.9m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the DB Pension Scheme assets, valued at £278.5m (last year £345.4m). It is also included as a liability on the Company's statement of financial position as it is a transferable financial instrument. The second partnership interest included within the DB Pension Scheme assets, valued at £470.9m (last year £547.1m) is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19 on consolidation, though is included on the Company's Statement of Financial Position. Similarly, the associated liability is not included on consolidation, rather the annual distribution is recognised as a contribution to the scheme each year.

C6 SHARE-BASED PAYMENTS

Disclosures for the Company are not provided here as the impact on the income statement, and the assets and liabilities of the Company are not materially dissimilar to that of note 12 in the Company's consolidated financial statements.

C7 INTANGIBLE ASSETS

	Computer software £m	Computer software under development £m	Total £m
At 1 April 2017			
Cost or valuation	1,312.6	70.8	1,383.4
Accumulated amortisation	(759.1)	(6.4)	(765.5)
Net book value	553.5	64.4	617.9
Year ended 31 March 2018			
Opening net book value	553.5	64.4	617.9
Additions	–	74.1	74.1
Transfers	100.5	(89.2)	11.3
Disposals	–	–	–
Asset write-offs and impairments	(3.8)	(1.6)	(5.4)
Amortisation charge	(181.0)	–	(181.0)
Closing net book value	469.2	47.7	516.9
At 31 March 2018			
Cost or valuation	1,315.5	55.9	1,371.4
Accumulated amortisation	(846.3)	(8.2)	(854.5)
Net book value	469.2	47.7	516.9
Year ended 30 March 2019			
Opening net book value	469.2	47.7	516.9
Additions	10.2	84.8	95.0
Transfers	65.3	(70.5)	(5.2)
Disposals	–	–	–
Asset write-offs and impairments	(5.9)	(8.4)	(14.3)
Amortisation charge	(179.5)	–	(179.5)
Closing net book value	359.3	53.6	412.9
At 30 March 2019			
Cost or valuation	1,308.7	61.8	1,370.5
Accumulated amortisation	(949.4)	(8.2)	(957.6)
Net book value	359.3	53.6	412.9

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 1 April 2017				
Cost	1,088.0	7,083.5	80.2	8,251.7
Accumulated depreciation and write-offs	(194.8)	(5,040.5)	(1.3)	(5,236.6)
Net book value	893.2	2,043.0	78.9	3,015.1
Year ended 31 March 2018				
Opening net book value	893.2	2,043.0	78.9	3,015.1
Additions	–	50.7	196.5	247.2
Transfers	7.5	174.2	(193.0)	(11.3)
Disposals	(2.1)	(5.3)	–	(7.4)
Asset impairments	(58.2)	(79.6)	–	(137.8)
Asset write-offs	(5.7)	(11.2)	(3.0)	(19.9)
Depreciation charge	(10.5)	(361.8)	–	(372.3)
Closing net book value	824.2	1,810.0	79.4	2,713.6
At 31 March 2018				
Cost	1,054.7	6,388.0	83.7	7,526.4
Accumulated depreciation and write-offs	(230.5)	(4,578.0)	(4.3)	(4,812.8)
Net book value	824.2	1,810.0	79.4	2,713.6
Year ended 30 March 2019				
Opening net book value	824.2	1,810.0	79.4	2,713.6
Additions	36.2	27.2	165.5	228.9
Transfers	8.6	140.5	(143.9)	5.2
Disposals	(26.3)	(0.5)	–	(26.8)
Asset impairments	(10.5)	(25.4)	–	(35.9)
Asset write-offs	(29.2)	(13.0)	–	(42.2)
Depreciation charge	(107.7)	(216.1)	–	(323.8)
Closing net book value	695.3	1,722.7	101.0	2,519.0
At 30 March 2019				
Cost	1,043.0	5,096.7	105.3	6,245.0
Accumulated depreciation and write-offs	(347.7)	(3,374.0)	(4.3)	(3,726.0)
Net book value	695.3	1,722.7	101.0	2,519.0

The net book value above includes land and buildings of £27.7m (last year £34.1m) and equipment of £nil (last year £nil) where the Company is a lessee under a finance lease.

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

Impairment of property, plant and equipment

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

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

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

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made for each territory. The pre-tax discount rates for the UK was 9.1% (last year 8.6%). 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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

During the year the Group has recognised an impairment charge of £26.8m and no impairment reversals as a result of UK store impairment testing unrelated to the UK store estate programme. These impairments have been recognised within adjusting items (see note 3).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2.3%, adjusted to 0% where management believe the current trading performance and future expectations of the store do not support the growth rate of 2.3%. This rate combines the long-term inflation rate of 1.8% with a 0.5% real uplift for growth. This is higher than the rate used in the prior year, reflecting our confidence in the ability of the strategic programme to transform the business and achieve a higher terminal growth rate. The rate used to discount the forecast cash flows for UK stores is 9.1%.

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

A reduction in sales of 2% from the three-year plan would result in an increase in the impairment charge of £3.4m and a 20 basis point reduction in gross profit margin would increase the impairment charge by £1.4m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £2.4m. Reasonably possible changes of the other key assumptions, including reducing the long term growth rate to 0% across all stores, would not result in an increase to the impairment charge.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £9.1m relating to the on-going UK store estate programme. The impairment charge relates to the accelerated and expanded store closure programme and has been recognised within adjusting items (see note 3).

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

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

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £6.1m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £2.5m. Neither a 25 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS

A. INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
At 1 April 2017			
Cost	1,324.4	0.5	1,324.9
Provision for impairment	(378.3)	–	(378.3)
Net book value	946.1	0.5	946.6
Year ended 31 March 2018			
Opening net book value	946.1	0.5	946.6
Additions	–	–	–
Provision for impairment	(22.9)	–	(22.9)
Closing net book value	923.2	0.5	923.7
At 31 March 2018			
Cost	1,153.9	0.5	1,154.4
Provision for impairment	(230.7)	–	(230.7)
Net book value	923.2	0.5	923.7
Year ended 30 March 2019			
Opening net book value	923.2	0.5	923.7
Additions	46.0	–	46.0
Provision for impairment	(46.0)	–	(46.0)
Closing net book value	923.2	0.5	923.7
At 30 March 2019			
Cost	1,199.9	0.5	1,200.4
Provision for impairment	(276.7)	–	(276.7)
Net book value	923.2	0.5	923.7

For impairment testing purposes the carrying value of the investment held by the Company is compared to the net assets of the subsidiary companies adjusted for impairments of fixed assets held by the subsidiaries calculated on the same basis as note C8.

B. SUBSIDIARY UNDERTAKINGS

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

				Proportion of shares held by:	
	Registered address	Country of incorporation	Share Class	Company	A subsidiary
Amethyst Leasing (Holdings) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Amethyst Leasing (Properties) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Andis SARL	48, Rue de la Chaussée-d'Antin 75009 Paris, France	France	€1,060 Ordinary	–	100%
Aprell Limited[1]	24-29 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	–	100%
Busyexport Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Founders Factory Retail Limited	Founders Factory, Northcliffe House, Young Street, London W8 5EH	United Kingdom	£0.0001 Ordinary	0.004%	–
			£0.001 Preferred	100%	–
Hedge End Park Limited	33,Holborn, London, EC1N 2HT	United Kingdom	£1 B Ordinary	50%	–
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	£1 Ordinary	–	99.99%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
M&S (Spain) S.L.	Calle Fuencarrel No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	–	100%
M&S Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
M&S Poland sp ZO.O (Liquidated 9 May 2019)	UL Marynarska 11, XI piętro 02-674 Warsaw, Poland	Poland	PLN 50.00 Ordinary	–	100%
Marks and Spencer Services S.R.O	Vyskocilova 14814, 14000 Praha 4, Michle, Czech Republic	Czech Republic	Registered Capital	–	100%
Manford (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	–	100%
Marks and Spencer Company Archive CIC	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	Membership	–[2]	–
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100%	–
Marks & Spencer Outlet Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Sparks Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100%	–
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 and Spencer (Bradford) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9, Canton Road, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	–	100%
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	–	100%
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, India Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	–	100%
Marks and Spencer (Ireland) Limited[1]	24-27 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	–	100%
Marks and Spencer (Israel) Limited	31, Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	83.33%	–
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100%	–
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€450 Ordinary	–	100%
Marks and Spencer (Northern Ireland) Limited	8, Laganbank Road, Belfast, BT1 3LR	United Kingdom	£1 Ordinary	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

				Proportion of shares held by:	
	Registered address	Country of incorporation	Share Class	Company	A subsidiary
Marks and Spencer (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	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 (Singapore) Investments Pte. Ltd	77, Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	–	100%
Marks and Spencer 2005 (Brooklands Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Hedge End Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kensington Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Parman House Kingston Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Pudsey Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Warrington Gemini Store) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Chester Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi Istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	–	100%
Marks and Spencer (Commercial Shanghai) Limited	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	–	100%
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	–	100%
			CZK 100,000 Ordinary	–	100%
			CZK 1,000,000 Ordinary	–	100%
Marks and Spencer Guernsey Investments LLP	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	Partnership interest	–	–[3]

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Marks and Spencer Hungary Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer Investments	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%
Marks and Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	–	80%
Marks and Spencer Romania SA (in liquidation)	No. 26Z Timisoara Boulevard, Anchor Plaza, 3rd Floor premises 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	–	100%
Marks and Spencer Property Developments Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer (Property Investments) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer Property Holdings Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	
Marks and Spencer Reliance India Pvt Ltd	4th floor, Court House, Lokmanya, Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	–	51%
			INR 10 Class B	–	100%
			INR 10 Class C5	–	0%
Marks and Spencer Scottish Limited Partnership	2-28 St. Nicholas Street, Aberdeen, AB10 1BU	United Kingdom	Partnership interest	–[5]	–
Marks and Spencer Shared Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€450 Ordinary	–	100%
M.S. General Insurance L.P	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	Partnership interest	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 Nederland (Retail) BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Netherlands	€100.00 Ordinary	–	100%
M&S Mode International BV	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%
MSF Slovakia S.R.O. (Liquidated 26 April 2019)	Ivanská cesta 16 , Bratislava, 821 Slovakia 04 , Slovakia	Slovakia	Registered capital	–	100%
Marks and Spencer France Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	€1.14 Ordinary	100%	–
Minterton Services Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ou MSF Estonia	Paldiski mnt 102, Tallin, 13522, Estonia	Estonia	Registered capital	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Per Una Italia SRL (in liquidation)	Via Giotto 25-59100 Prato, Italy	Italy	€ Quota	100%	-
Ruby Properties (Cumbernauld) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Enfield) Limited (Strike off requested)	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Hardwick) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Long Eaton) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Thorncliffe) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Tunbridge) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Simply Food (Property Investments)	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Simply Food (Property Ventures) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
St. Michael (Textiles) Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
St Michael Finance plc	Waterside House, 35, North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	–	100%
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	–	100%
UAB MSF Lithuania	A. Goštauto g. 40B, Viliniaus m., Lithuania	Lithuania	LTL 100 Ordinary	–	100%

1. The Company has guaranteed all of the liabilities and commitments referred to in Section 357(1) (b) of the Companies Act 2014 in respect of the whole of the financial year ending 30 March 2019 for Marks and Spencer (Ireland) Limited and Aprell Limited. These subsidiaries are availing of the exemption under Section 357 of the Companies Act 2014 not to file their statutory financial statements.
2. The company is a Community Interest Company, not established or conducted for private gain. It is limited by guarantee of its members and does not have any share capital.
3. The designated members of the LLP are Teranis Limited, Ignazia Limited, Aprell Limited and Marks and Spencer (Ireland) Limited.
4. INR 10 Class C shares 100% owned by JV partner.
5. Marks and Spencer plc is the general partner.

C. UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

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

Name	Registered address	Share Class	Company number	Proportion of shares held by: Company	A subsidiary
Marks and Spencer Simply Foods Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	04739922	100%	–
Marks & Spencer Outlet Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	04039568	100%	–
Marks and Spencer International Holdings Limited	Waterside House, 35, North Wharf Road, London, W2 1NW	£1 Ordinary	02615081	100%	–

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £38.4m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C10 OTHER FINANCIAL ASSETS

	2019 £m	2018 £m
Non-current		
Unlisted investments	9.9	9.9
Other investments[1]	4.8	6.0
	14.7	15.9
Current		
Other investments	135.6	5.8

1. Non-current other investments are £4.8m (last year £6.0m) shares in Marks and Spencer Group plc held for employee share schemes.

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

C11 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Non-current		
Prepayments and accrued income	96.2	91.2
	96.2	91.2
Current		
Trade receivables	118.8	112.8
Less: Provision for impairment of receivables	(10.2)	(6.1)
Trade receivables – net	108.6	106.7
Other receivables	14.1	13.6
Prepayments and accrued income	165.6	156.1
Amounts owed by parent company	2,562.7	2,563.3
Amounts owed by subsidiary companies	289.5	3,520.4
	3,140.5	6,360.1

Trade receivables that were past due but not impaired amounted to £4.9m (last year £21.1m) and are mainly sterling denominated. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

As at 30 March 2019, £192.9m (last year £629.7m) of the intercompany receivable is interest bearing. Overall the interest receivable during the year was £8.8m (last year £9.9m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,659.3m (last year £5,454.0m) of intercompany receivables are interest-free.

C12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £144.8m (last year £93.8m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.71% (last year is 0.05%). These deposits have an average maturity of 2 days (last year 3 days).

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2019 £m	2018 £m
Cash at bank and in hand	217.0	130.4
Bank loans and overdrafts	(72.2)	(86.6)
Bank loans and overdrafts treated as financing	-	50.0
	144.8	93.8

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C13 TRADE AND OTHER PAYABLES

	2019 £m	2018 (Restated) £m
Current		
Trade and other payables	969.0	873.9
Social security and other taxes	29.4	42.3
Accruals	438.5	360.8
Deferred income	50.9	46.5
Amounts owed to subsidiaries	1,283.7	4,459.3
	2,771.5	5,782.8
Non-current		
Other payables	3.0	4.6
Accruals	265.8	279.4
Deferred income	258.1	264.3
Other payables, accruals and deferred income	526.9	548.3

As at 30 March 2019, £627.5m (last year £975.7m) of the intercompany payable is interest bearing. Overall the interest payable during the year was £14.4m (last year £12.9m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £656.2m (last year £3,660.0m) of intercompany payables are interest-free.

Amounts owed to subsidiaries for the year ended 31 March 2018 has been restated. Refer to note C22 for further details.

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

	2019 £m
Year ended 30 March 2019	
Opening balance	194.2
Issues	408.5
Released to the income statement	(420.7)
Closing balance	182.0

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

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

C14 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2019 £m	2018 £m
Current		
Bank loans and overdrafts[1]	72.2	86.6
Finance lease liabilities	0.1	0.1
6.125% £400m Medium Term Notes 2019[2]	399.8	-
Interest accrued on Medium Term Notes	37.1	36.9
Revaluation of Medium Term Notes	3.7	-
	512.9	123.6
Non-current		
6.125% £400m Medium Term Notes 2019[2]	–	400.1
6.125% £300m Medium Term Notes 2021[2]	298.7	298.2
3.00% £300m Medium Term Notes 2023[2]	297.4	296.9
4.75% £400m Medium Term Notes 2025[2]	399.3	397.5
7.125% US$300m Medium Term Notes 2037[3,4]	192.1	192.0
Revaluation of Medium Term Notes	45.8	38.1
Finance lease liabilities	40.1	41.4
	1,273.4	1,664.2
Total	1,786.3	1,787.8

1. Bank loans and overdrafts in the prior year include a £5.0m loan from the Hedge End Park Limited joint venture that was repaid during the year (see note C21).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 BORROWINGS AND OTHER FINANCIAL LIABILITIES CONTINUED

Finance leases

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

C15 FINANCIAL INSTRUMENTS

Treasury policy

Marks and Spencer plc is the main treasury entity of the Group and as a result the treasury function is managed through this company. The term Company and Group are therefore interchangeable in the risk analysis below. The Company 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 Company'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 Company'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, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity and funding risk

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

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

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

In addition to the existing borrowings, the Company has a Euro Medium Term Note programme of £3.0bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

The contractual maturity of the Company's non-derivative financial liabilities (excluding trade and other payables (see note C13)) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets[2] £m	Derivative liabilities[2] £m	Total £m
Timing of cash flows								
Within one year	(86.6)	–	(86.1)	(1.8)	(174.5)	30.3	(92.0)	(61.7)
Between one and two years	–	–	(486.1)	(1.8)	(487.9)	21.9	(18.1)	3.8
Between two and five years	–	–	(466.3)	(5.3)	(471.6)	270.0	(248.5)	21.5
More than five years	–	–	(1,207.2)	(148.2)	(1,355.4)	223.1	(198.5)	24.6
	(86.6)	–	(2,245.7)	(157.1)	(2,489.4)	545.3	(557.1)	(11.8)
Effect of discounting and foreign exchange	–	–	585.9	115.7	701.6			
At 1 April 2018	(86.6)	–	(1,659.8)	(41.4)	(1,787.8)			
Timing of cash flows								
Within one year	(72.2)	–	(487.2)	(1.7)	(561.1)	59.0	(28.6)	30.4
Between one and two years	–	–	(62.7)	(1.7)	(64.4)	24.2	(16.2)	8.0
Between two and five years	–	–	(751.3)	(5.2)	(756.5)	282.4	(241.4)	41.0
More than five years	–	–	(895.5)	(140.7)	(1,036.2)	230.8	(191.5)	39.3
	(72.2)	–	(2,196.7)	(149.3)	(2,418.2)	596.4	(477.7)	118.7
Effect of discounting and foreign exchange	–	–	522.9	109.1	632.0			
At 30 March 2019	(72.2)	–	(1,673.8)	(40.2)	(1,786.2)			

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

The present value of finance lease liabilities is as follows:

	2019 £m	2018 £m
Within one year	(0.1)	(0.1)
Later than one year and not later than five years	(0.4)	(0.4)
Later than five years	(39.7)	(40.9)
Total	(40.2)	(41.4)

(b) Counterparty risk

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

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

The table below analyses the Company'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	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	–	–	0.5	4.4	–	–	–	4.9
Derivative assets[2]	–	–	–	–	8.0	–	2.9	10.9
At 31 March 2018	–	–	0.5	4.4	8.0	–	2.9	15.8

	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	–	–	0.5	145.0	80.0	–	–	225.5
Derivative assets[2]	–	–	17.3	21.0	11.8	–	0.3	50.4
At 30 March 2019	–	–	17.8	166.0	91.8	–	0.3	275.9

1. Includes cash on deposit held by Marks & Spencer plc.
2. Derivative balances have been assessed per counterparty. Where a counterparty has both derivative assets and derivative liabilities, the net position is reflected in the table above
3. Standard & Poor's Global Ratings equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's Global Ratings, Moody's or Fitch where applicable. Excludes all intercompany derivatives executed on behalf of group companies by Marks and Spencer PLC as none of the entities have credit ratings.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £118.8m (last year £112.8m), other receivables £14.1m (£13.6m), cash and cash equivalents £217.0m (last year £130.4m) and derivatives £60.5m (last year £34.3m).

Impairment of financial assets

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

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

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

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

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

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

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

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

	Current	Up to 30 days past due	31-60 days past due	61-90 days past due	91-180 days past due	181 days or more past due	Total
	£m	£m	£m	£m	£m	£m	£m
Gross carrying amount - trade receivables	111.5	3.0	0.6	0.9	1.1	1.7	118.8
Expected loss rate	7.03%	3.18%	9.20%	18.17%	28.45%	100.0%	8.57%
Lifetime expected credit loss	7.9	–	0.1	0.2	0.3	1.7	10.2
Net carrying amount	**103.6**	**3.0**	**0.5**	**0.7**	**0.8**	**–**	**108.6**

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

Trade receivables expected loss provision	£m
31 March 2018 – calculated under IAS 39	6.1
Amounts restated through opening retained earnings	0.6
Opening loss allowance as at 1 April 2018 calculated under IFRS 9	**6.7**
Increase in loss allowance recognised in profit and loss during the year	3.7
Receivables written off during the year as uncollectable	(0.2)
At 30 March 2019	**10.2**

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

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

- Significant financial difficulties of the debtor.
- Probability that the debtor would enter bankruptcy.
- Default of late payments, the extent to which they were overdue being determined on a case-by-case basis with reference to the knowledge and communication with the debtor and their relationship with the business.

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

(c) Foreign currency risk

Transactional foreign currency exposures arise 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 and Home products from Asia.

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

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £1,985.1m (last year £2,167.0m) with a weighted average maturity date of six months (last year six months).

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

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

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

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

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

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

After taking into account the hedging derivatives entered into by the Company, the currency and interest rate exposure of the Company's financial liabilities excluding short-term, is set out below:

	2019			2018		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,339.1	447.2	1,786.3	1,276.2	511.6	1,787.8
	1,339.1	447.2	1,786.3	1,276.2	511.6	1,787.8

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

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

(d) Interest rate risk

The Company is exposed to interest rate risk in relation to sterling variable rate financial assets and liabilities.

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

At the balance sheet date, fixed rate borrowings amounted to £1,339.1m (last year £1,276.2m) representing the public bond issues and finance leases, amounting to 75% (last year 71%) of the Group's gross borrowings.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	2019 %	2018 %
Committed and uncommitted borrowings	–	1.0
Medium-term notes	4.8	4.7
Finance leases	4.1	4.1

The interest rate swaps are recognised at their fair value (IFRS 13 level 2 measurement). The Group has considered and elected to apply credit/ debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are 6 monthly compared with 12 monthly on the receive fixed legs and related debt.

Derivative financial instruments

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

	30 March 2019					
	Current				Non Current	
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,194.0	588.1	200.0	193.5	203.0	175.0
Carrying amount assets / (liabilities)	20.7	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%[1]	100%	100%	100%	100%[1]	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits & subsidiary FX exposures	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[2]	92.3	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness[2]	(92.3)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3%	GBP/EUR 1.12, GBP/USD 1.32	3.2%
Amounts recognised within finance costs in profit and loss[3]	–	3.9	–	(3.5)	–	0.1
Balance on cash flow hedge reserve at 30 March 2019	(7.9)	N/A	N/A	(8.4)	1.0	N/A
Balance on cost of hedging reserve at 30 March 2019	–	N/A	N/A	(14.6)	–	N/A

1. Percentage of the amount permitted under treasury policy in relation to layered hedges on a rolling basis.
2. The £1.4m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge for certain intercompany loans/deposits which are represented in the £5.3m as the net foreign exchange gains and losses under this strategy.
3. Amount in relation to cross currency swaps represents ineffectiveness.

		31 March 2018			
		Notional Value		Fair Value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	- cash flow hedges	151.8	1,169.0	1.8	(73.4)
	- held for trading	383.6	274.5	5.4	(3.6)
Interest rate swaps	- fair value hedges	–	–	–	–
		535.4	1,443.5	7.2	(77.0)
Non-current					
Cross currency swaps	- cash flow hedges	–	193.5	–	(26.7)
Forward foreign exchange contracts	- cash flow hedges	47.4	140.7	0.4	(4.0)
Interest rate swaps	- fair value hedges	425.0	–	26.7	–
		472.4	334.2	27.1	(30.7)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments continued

		Notional Value		Fair Value	30 March 2019
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	- cash flow hedges	865.4	328.6	26.7	(6.0)
	- held for trading	283.4	304.7	8.7	(8.4)
Interest rate swaps	- fair value hedges	200.0	–	5.3	-
		1,348.8	633.3	40.7	(14.4)
Non-current					
Cross currency swaps	- cash flow hedges	–	193.5	4.7	(0.7)
Forward foreign exchange contracts	- cash flow hedges	84.8	118.2	0.5	(2.1)
Interest rate swaps	- fair value hedges	175.0	–	14.6	–
		259.8	311.7	19.8	(2.8)

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

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Hedge reserve 2037 debt £m	Deferred tax £m	Total hedge reserve £m
IAS 39 closing balance	–	–	–	–	60.7	(8.8)	0.4	30.8	(15.8)	67.3
Adjustment on adoption of IFRS 9	0.8	(13.9)	2.4	(10.7)	(0.8)	–	–	13.9	(2.4)	10.7
Opening Balance 1 April 2018 under IFRS 9	0.8	(13.9)	2.4	(10.7)	59.9	(8.8)	0.4	44.7	(18.2)	78.0
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	(108.9)	–	–	(19.2)	–	(128.1)
Add: Costs of hedging deferred and recognised in OCI	(0.8)	(0.7)	–	(1.5)	–	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	42.2	–	–	–	–	42.2
Less: Reclassified from OCI to profit or loss	–	–	–	–	–	–	–	15.8	–	15.8
Less: Reclassified from OCI to profit or loss - included in finance costs	–	–	–	–	–	0.4	(0.2)	–	–	0.2
Less: Deferred tax	–	–	0.5	0.5	–	–	–	–	9.8	9.8
Closing Balance 30 March 2019	–	(14.6)	2.9	(11.7)	(6.8)	(8.4)	0.2	41.3	(8.4)	17.9

1. Cross-currency interest rate swaps.

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

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

Movement in hedged items and hedging instruments

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

Movement in hedged items and hedging instruments

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

Sensitivity analysis

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

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

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

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2018				
Impact on income statement: gain/(loss)	9.0	(9.4)	–	–
Impact on other comprehensive income: (loss)/gain	(15.7)	10.7	247.8	(254.5)
At 30 March 2019				
Impact on income statement: gain/(loss)	5.5	(4.3)	–	–
Impact on other comprehensive income: (loss)/gain	(4.3)	2.6	262.4	(262.4)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 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)	Gross financial (liabilities)/ assets set off	Net financial assets/ (liabilities) per statement of financial position	Related amounts not set off in the statement of financial position	Net
	£m	£m	£m	£m	£m
At 31 March 2018					
Trade and other receivables	31.3	(29.9)	1.4	–	1.4
Derivative financial assets	34.3	–	34.3	(34.3)	–
Cash and cash equivalents	46.3	(46.0)	0.3	–	0.3
	111.9	(75.9)	36.0	(34.3)	1.7
Trade and other payables	(276.4)	29.9	(246.5)	–	(246.5)
Derivative financial liabilities	(107.8)	–	(107.8)	34.3	(73.5)
Bank loans and overdrafts	(82.5)	46.0	(36.5)	–	(36.5)
	(466.7)	75.9	(390.8)	34.3	(356.5)

	Gross financial assets/ (liabilities)	Gross financial (liabilities)/ assets set off	Net financial assets/ (liabilities) per statement of financial position	Related amounts not set off in the statement of financial position	Net
	£m	£m	£m	£m	£m
At 30 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	-	3.2
Derivative financial assets	60.6	-	60.6	(17.2)	43.4
Cash and cash equivalents	34.8	(34.8)	-	-	-
	120.3	(56.5)	63.8	(17.2)	46.6
Trade and other payables	(264.6)	21.7	(242.9)	-	(242.9)
Derivative financial liabilities	(17.2)	-	(17.2)	17.2	-
Bank loans and overdrafts	(107.1)	34.8	(72.3)	-	(72.3)
	(388.9)	56.5	(332.4)	17.2	(315.2)

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

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments includes interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	2019				2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	–	8.7	–	8.7	–	5.5	–	5.5
Derivatives used for hedging	–	51.8	–	51.8	–	28.9	–	28.9
Short- term investments	–	135.6	–	135.6	–	5.8	–	5.8
Unlisted investments[1]	–	–	9.9	9.9	–	–	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	–	(8.4)	–	(8.4)	–	(3.7)	–	(3.7)
Derivatives used for hedging	–	(8.8)	–	(8.8)	–	(104.1)	–	(104.1)

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

The Marks & Spencer DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,577.0m (last year £10,425.0m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,008.6m (last year £7,152.4m). Additionally, the pension scheme assets include £3,216.1m (last year £2,836.9m) of Level 3 financial assets. See note 3 for information on the Group's retirement benefits.

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

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

Fair value of financial instruments

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

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

Capital policy

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

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

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C16 PROVISIONS

	Property £m	Restructuring £m	Other £m	2019 Total £m	2018 Total £m
At start of year	**238.1**	**15.2**	**26.4**	**279.7**	155.0
Provided in the year	170.6	14.3	6.0	190.9	185.8
Released in the year	(31.1)	(1.2)	(25.2)	(57.5)	(19.0)
Utilised during the year	(62.6)	(20.9)	(0.9)	(84.4)	(47.1)
Discount rate unwind	17.4	-	-	17.4	5.0
Transfer	-	(1.1)	-	(1.1)	-
At end of year	**332.4**	**6.3**	**6.3**	**345.0**	279.7
Analysed as:					
Current				**104.9**	92.4
Non-current				**240.1**	187.3

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

Restructuring provisions primarily relate to the estimated costs of several strategic programmes and the transition to a single tier UK distribution network. These provisions are expected to be utilised within the next year.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts in respect of pay and premia. The release during the year relates to the finalisation of charges for certain employee related matters provided for during the prior year.

C17 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method, measured on the tax rates that are expected to apply in the period of reversal.

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

Deferred tax (liabilities)/assets

	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
At 1 April 2017	(35.4)	(60.4)	(210.2)	1.5	(304.5)
Credited/(charged) to the income statement	9.9	30.4	(8.8)	4.1	35.6
Charged to equity	–	–	(37.7)	20.5	(17.2)
At 31 March 2018	(25.5)	(30.0)	(256.7)	26.1	(286.1)
At 1 April 2018	**(25.5)**	**(30.0)**	**(256.7)**	**26.1**	**(286.1)**
Credited/(charged) to the income statement	**2.5**	**22.7**	**(6.4)**	**(3.4)**	**15.4**
Charged to equity	–	–	**26.0**	**(10.9)**	**15.1**
At 30 March 2019	**(23.0)**	**(7.3)**	**(237.1)**	**11.8**	**(255.6)**

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

The deferred tax liability on land and building temporary differences is reduced by the benefit of capital losses with a tax value of £61.1m (last year £53.8m).

On 15 September 2016, the Finance Bill received Royal Ascent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

The Company has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind.

C18 ORDINARY SHARE CAPITAL

	2019 Shares	2019 £m	2018 Shares	2018 £m
Issued and fully paid ordinary shares of 25p each	**2,850,039,477**	**712.5**	2,850,039,477	712.5

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C19 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2019 £m	2018 £m
Commitments in respect of properties in the course of construction	89.7	118.8
Commitments in respect of computer software under development	5.4	17.2
	95.1	136.0

B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Company has a commitment to purchase 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 Company's behalf.

See note C5 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

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

	2019 £m	2018 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	402.2	389.3
Later than one year and not later than five years	1,567.7	1,523.3
Later than five years and not later than ten years	1,606.3	1,616.6
Later than ten years and not later than 15 years	1,001.2	1,163.6
Later than 15 years and not later than 20 years	286.2	308.9
Later than 20 years and not later than 25 years	131.9	154.8
Later than 25 years	726.5	786.8
Total	5,722.0	5,943.3

The total future sublease payments to be received are £212.6m (last year £24.1m).

Of the total commitments under operating leases disclosed above, £299.5m (last year £172.5m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme.

C20 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2019 £m	2018 £m
(Loss)/profit on ordinary activities after taxation	(19.3)	392.4
Income tax expense	43.6	(8.2)
Finance costs	118.1	113.3
Finance income	(64.7)	(61.1)
Operating profit	77.7	436.4
Decrease/(increase) in inventories	99.0	(53.8)
(Increase)/decrease in receivables	(16.6)	3.3
Increase/(decrease) in payables	59.9	(290.5)
Adjusting items net cash outflows	(125.1)	(103.9)
Depreciation, amortisation and asset impairments	500.3	530.8
Non-cash share-based payment charges	19.1	18.7
Defined benefit pension funding	(37.8)	(41.0)
Adjusting operating profit items	317.8	517.3
Cash generated from operations	894.3	1,017.3

Adjusting items net cash outflows relate to the utilisation of the provisions strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, UK store impairments and property charges, GMP and other pension equalisation and establishing the Ocado joint venture. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C21 RELATED PARTY TRANSACTIONS

A. Marks and Spencer Group plc

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £305.0m (last year £305.0m) and has decreased its loan to its parent company by £2.1m (last year decrease of £1.6m). The outstanding balance was £2,548.5m (last year £2,550.6m) and was non-interest bearing.

Transactions between the Company and its subsidiaries, which are related parties, are summarised below:

	2019 Transactions £m	2018 Transactions £m
Trading sales	(324.5)	(350.9)
Rental expense	(148.8)	(150.8)
Rent receivable	24.2	23.9
Interest	5.7	2.9

B. Hedge End joint venture

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

C. Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes C4 and C5.

D. Key management compensation

Payments and benefits relating to key management are set out in note 27 of the Group financial statements.

C22 RESTATEMENTS

Capital Withdrawal

During the year ended 1 April 2017, a withdrawal of capital under the terms of the partnership agreement of £140,000,000 was made by Marks and Spencer Plc from the Marks and Spencer Scottish Limited Partnership. This was accounted for as an intercompany payable within the financial statements for the years ended 1 April 2017 and 31 March 2018. This has now been accounted for as a credit through the income statement and therefore the year ended 31 March 2018 has been restated in these financial statements to reflect an increase in opening retained earnings and reduction in the payable to the Marks and Spencer Scottish Limited Partnership. The impact to the Statement of Financial Position can be seen below.

Retirement benefits

As explained within note C5, the second partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a £36.4m annually from 2017 until 2031. The second partnership interest included within the DB Pension Scheme assets, valued at £470.9m (last year £547.1m) is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19 on consolidation, though is included on the Company's Statement of Financial Position.

2018 was the first year of payments related to the second partnership interest. The actuarial valuation of the second partnership Interest was calculated incorrectly as it did not take into account the reduction in the value of the second partnership interest asset as a result of the cash payment. Instead, the cash payment was shown as a company contribution. The correction to the postings changes the actuarial loss to an actuarial gain for the prior period. However, the gain/loss in the Statement of Changes in Equity agrees to the actuarial adjustments in the pensions note C4. An intercompany creditor of £36.4m remains, which does not represent a real intercompany balance. This amount needs to be reversed and taken to reserves as part of the actuarial revaluation. Following this adjustment, the actuarial revaluation amounts in the Statement of Changes in Equity will agree to the pensions note in C4. The impact to the finance statements can be seen below.

Statement of Comprehensive Income

	Previously reported £m	Adjustments £m	Restated £m
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Remeasurements of retirement benefit schemes	183.9	36.4	220.3
Other comprehensive income for the year, net of tax	84.5	36.4	120.9
Total comprehensive income for the year	476.9	36.4	513.3

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C22 RESTATEMENTS CONTINUED

Statement of Financial Position

	Previously reported £m	Adjustments £m	Restated £m
Current liabilities			
Trade and other payables	5,959.2	(176.4)	5,782.8
Amounts owed to subsidiaries	4,635.7	(176.4)	4,459.3
Equity			
Retained earnings	3,011.7	176.4	3,188.1

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

IFRS 9 and IFRS 15 were new accounting standards adopted in the year and effective for the Company from 1 April 2018. IFRS 15 has not had a material impact on the financial statements of the Company and the impact of adoption is disclosed within note C1. As IFRS 9 has a more extensive impact on the opening balances of the financial statements of the Company on adoption the impact has been disclosed in detail below.

IFRS 9

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

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

Consolidated Statement of Financial Position	As at 31 March 2018 £m	IFRS 9 Adjustment £m	1 April 2018 restated £m
Non-current assets			
Other financial assets	15.9	–	15.9
Current assets			
Trade and other receivables	6,360.1	(0.6)	6,359.5
Current liabilities			
Provisions	92.4	(0.1)	92.3
Equity			
Retained earnings	3,011.7	(0.5)	3,011.2
Hedging reserve	(67.3)	(10.7)	(78.0)
Cost of hedging reserve	–	10.7	10.7

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

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

	£m
Closing retained earnings as at 31 March 2018	3,011.7
Increase in provision for trade receivables	(0.6)
Decrease in provision for other receivables	0.1
Adjustment to retained earnings from adoption of IFRS 9 on 1 April 2018	(0.5)
Opening retained earnings on 1 April 2018	3,011.2

Classification and measurement

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

	FVPL £m	FVOCI £m	Available for sale £m	Amortised cost £m
Financial assets at 31 March 2018	117.2	–	15.9	3,753.0
Reclassify available for sale financial assets to FVOCI	–	15.9	(15.9)	–
Opening balance at 1 April 2018	117.2	15.9	–	3,753.0

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

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

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

	Original classification (IAS 39)	New classification (IFRS 9)	Original carrying amount £m	New carrying amount £m	Difference in carrying amount £m
Non-current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	–	–	–
Other financial assets	Available for sale	FVOCI	15.9	15.9	–
Derivative financial instruments	FVPL	FVPL	27.1	27.1	–
Current financial assets					
Other financial assets	FVPL	FVPL	5.8	5.8	–
Trade and other receivables	Amortised cost	Amortised cost	120.3	119.7	(0.6)
Derivative financial instruments	FVPL	FVPL	7.2	7.2	–
Current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	1,296.6	1,296.6	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	123.6	123.6	–
Derivative financial instruments	FVPL	FVPL	77.0	77.0	–
Non-current financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	548.3	548.3	–
Borrowings and other financial liabilities	Amortised cost	Amortised cost	1,664.2	1,664.2	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 IMPACT OF NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR CONTINUED

Derivatives and hedging activities

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

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

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

Impairment of financial assets

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

- Trade receivables.
- Other receivables.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Company's retained earnings and equity is illustrated above, while a detailed description of the methodology is included with the credit risk disclosures in note C15.

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

C24 ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking and controlling party is Marks and Spencer Group plc.

Marks and Spencer Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 30 March 2019. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

C25 SUBSEQUENT EVENTS

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

On 3 July 2019 the Company launched a £250m 8-year GBP bond, unsecured at 3.25%. The bond was fully subscribed.

GLOSSARY

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.

	FY18/19 £m	FY17/18 £m
Food		
Like-for-Like	5,630.4	5,764.0
Net new space	273.0	176.0
Total Food revenue	5,903.4	5,940.0
Clothing & Home		
Like-for-Like	3,479.3	3,534.2
Net new space	58.0	136.8
Total Clothing & Home revenue	3,537.3	3,671.0

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

	FY18/19 £m	FY17/18 £m	%
International Revenue			
At constant currency	936.6	1,081.3	(13.4)
Impact of FX retranslation	-	5.9	
At reported currency	936.6	1,087.2	(13.9)

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

	FY18/19 £m	FY17/18 £m	%
UK Food revenue			
Easter adjusted LFL	5,630.4	5,713.6	(1.5)
Impact of Easter	-	50.1	
Like-for-Like	5,630.4	5,764.0	(2.3)
Net new space	273.0	176.0	
Statutory total	5,903.4	5,940.0	(0.6)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
International owned retained and franchise revenue growth at constant currency	Movement in revenue per the Income Statement	Sales from closure markets	The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of the International exit programme and exchange rate fluctuations on the period-on-period reported results.

	FY18/19 £m	FY17/18 £m	%
International Revenue			
Reported currency	936.6	1,087.2	(13.9)
Owned exit	-	(66.4)	100
Owned retained and franchise	936.6	1,020.8	(8.2)
Impact of FX retranslation	-	(6.1)	100

			Owned retained and franchise at constant currency	936.6	1,014.7	(7.7)
Gross margin	Gross profit margin[1]	Certain downstream logistics costs (see note 2)	Where referred to throughout the Annual Report, gross margin is calculated as gross profit before adjusting items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.			
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to the Board and the Operating Committee.			
Profit before tax and adjusting items	Profit before tax	Adjusting items (see note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report within the Marks and Spencer Group plc Annual Report for explanation of why this measure is used within incentive plans.			
Balance Sheet Measures						
Net debt	None	Reconciliation of net debt (see note 26)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the UK pension scheme less cash, cash equivalents and unlisted and short term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.			
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statements excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusting items. This measure is used in the calculation of return on capital employed			
Cash Flow Measures						
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure and interest paid. This measure shows the cash retained by the Group in the year.			
Other Measures						
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination.			

[1]Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.