CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 2 April 2022 Total £m	53 weeks ended 3 April 2021 Total £m
Revenue	2, 3	**10,885.1**	9,155.7
Share of result in associate – Ocado Retail Limited	3, 5, 29	**(18.6)**	64.2
Operating profit/(loss)	2, 3, 5	**572.2**	(30.7)
Finance income	5, 6	**33.9**	57.4
Finance costs	5, 6	**(214.4)**	(236.1)
Profit/(loss) before tax	4, 5	**391.7**	(209.4)
Income tax (expense)/credit	7	**(82.7)**	8.2
Profit/(loss) for the year		**309.0**	(201.2)
Attributable to:			
Owners of the parent		**306.6**	(198.0)
Non-controlling interests		**2.4**	(3.2)
		309.0	(201.2)
Earnings/(loss) per share			
Basic earnings/(loss) per share	8	**15.7p**	(10.1p)
Diluted earnings/(loss) per share	8	**15.1p**	(10.1p)
Reconciliation of profit before tax and adjusting items:			
Profit/(loss) before tax		**391.7**	(209.4)
Adjusting items	5	**131.2**	259.7
Profit before tax and adjusting items – non-GAAP measure		**522.9**	50.3
Adjusted earnings per share – non-GAAP measure			
Adjusted basic earnings per share	8	**21.7p**	1.4p
Adjusted diluted earnings per share	8	**20.9p**	1.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Profit/(loss) for the year		**309.0**	(201.2)
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	11	**357.0**	(1,352.0)
Tax (charge)/credit on retirement benefit schemes		**(127.6)**	256.5
Loss on disposal of investment held at fair value through other comprehensive income ("FVOCI")	16	**(3.7)**	–
		225.7	(1,095.5)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(13.5)**	(27.7)
– reclassified and reported in profit or loss		**(0.5)**	3.7
Cash flow hedges			
– fair value movements recognised in other comprehensive income	21	**91.3**	(215.5)
– reclassified and reported in profit or loss	21	**(10.5)**	26.5
Tax (charge)/credit on cash flow hedges		**(14.7)**	37.0
		52.1	(176.0)
Other comprehensive income/(expense) for the year, net of tax		**277.8**	(1,271.5)
Total comprehensive income/(expense) for the year		**586.8**	(1,472.7)
Attributable to:			
Owners of the parent		**584.4**	(1,469.5)
Non-controlling interests		**2.4**	(3.2)
		586.8	(1,472.7)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2022 £m	As at 3 April 2021 £m
Assets			
Non-current assets			
Intangible assets	14	**192.5**	232.0
Property, plant and equipment	15	**4,902.3**	5,058.6
Investment property		**15.0**	15.2
Investments in joint ventures and associates	29	**810.9**	825.8
Other financial assets	16	**4.5**	9.7
Retirement benefit asset	11	**1,043.9**	639.2
Trade and other receivables	17	**270.6**	261.4
Derivative financial instruments	21	**21.4**	0.3
		7,261.1	7,042.2
Current assets			
Inventories	5	**706.1**	624.6
Other financial assets	16	**17.6**	18.4
Trade and other receivables	17	**217.1**	209.6
Derivative financial instruments	21	**43.6**	32.8
Current tax assets		**–**	35.4
Cash and cash equivalents	18	**1,197.9**	674.4
		2,182.3	1,595.2
Total assets		**9,443.4**	8,637.4
Liabilities			
Current liabilities			
Trade and other payables	19	**1,960.9**	1,599.0
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	124.9
Borrowings and other financial liabilities	20	**247.2**	432.8
Derivative financial instruments	21	**3.2**	96.0
Provisions	22	**53.6**	43.1
Current tax liabilities		**34.0**	–
		2,370.8	2,295.8
Non-current liabilities			
Retirement benefit deficit	11	**5.7**	7.8
Trade and other payables	19	**188.2**	192.3
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**120.4**	68.6
Borrowings and other financial liabilities	20	**3,561.0**	3,659.9
Derivative financial instruments	21	**0.4**	10.7
Provisions	22	**91.8**	74.2
Deferred tax liabilities	23	**187.2**	42.3
		4,154.7	4,055.8
Total liabilities		**6,525.5**	6,351.6
Net assets		**2,917.9**	2,285.8
Equity			
Issued share capital	24	**19.7**	489.2
Share premium account		**910.6**	910.4
Capital redemption reserve		**2,680.4**	2,210.5
Hedging reserve	21	**17.6**	(54.8)
Cost of hedging reserve	21	**3.6**	4.6
Other reserve		**(6,542.2)**	(6,542.2)
Foreign exchange reserve		**(73.9)**	(59.9)
Retained earnings		**5,897.9**	5,325.2
Equity attributable to owners of the parent		**2,913.7**	2,283.0
Non-controlling interests		**4.2**	2.8
Total equity		**2,917.9**	2,285.8

The financial statements were approved by the Board and authorised for issue on 24 May 2022. The financial statements also comprise notes 1 to 32.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

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

1. The "other reserve" was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.
2. Included within retained earnings is the fair value through other comprehensive income reserve.
3. On 8 July 2021, the Company reduced the nominal value of its 1,957,779,626 ordinary shares in issue at that date from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remains unchanged and each shareholder's proportionate interest in the share capital of the Company remains unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,385.7**	876.7
Income tax paid		**(7.7)**	(5.8)
Net cash inflow from operating activities		**1,378.0**	870.9
Cash flows from investing activities			
Proceeds on property disposals		**43.9**	2.9
Purchase of property, plant and equipment		**(192.8)**	(158.9)
Purchase of intangible assets		**(64.6)**	(47.8)
Sale/(purchase) of current financial assets		**0.8**	(6.7)
Purchase of non-current financial assets		**(3.3)**	–
Proceeds on disposal of non-current financial assets		**5.2**	–
Purchase of investments in associates and joint ventures[1]		**(37.8)**	8.7
Acquisition of subsidiary, net of cash acquired[2]		**(4.5)**	–
Loans to related parties		**(1.0)**	–
Interest received		**8.4**	9.2
Net cash used in investing activities		**(245.7)**	(192.6)
Cash flows from financing activities			
Interest paid[3]		**(216.6)**	(219.3)
Issuance of Medium Term Notes		**–**	300.0
Redemption of Medium Term Notes		**(163.6)**	(136.4)
Repayment of lease liabilities		**(216.0)**	(184.3)
Payment of liability to the Marks & Spencer UK Pension Scheme		**–**	(17.2)
Shares issued on exercise of employee share options	24	**0.3**	–
Purchase of own shares by employee trust		**–**	(0.8)
Cash received from settlement of derivatives		**–**	14.0
Net cash used in financing activities		**(595.9)**	(244.0)
Net cash inflow from activities		**536.4**	434.3
Effects of exchange rate changes		**(8.2)**	(3.3)
Opening net cash		**669.7**	238.7
Closing net cash	27	**1,197.9**	669.7

1. Current year includes £33.8m outflow in relation to contingent consideration settled with Ocado Retail Limited and £4.0m outflow on the acquisition of 27% of the issued share capital of Nobody's Child Limited. Last year includes inflow of £11.2m upon finalisation of the completion statement in relation to the investment in Ocado Retail Limited and outflow of £2.5m in relation to Founders Factory Retail Limited.
2. £4.5m outflow on the acquisition of 77.7% of the issued share capital of The Sports Edit Limited.
3. Includes interest paid on the Partnership liability to the Marks & Spencer UK Pension Scheme of £nil (last year: £6.4m) and interest paid on lease liabilities of £128.3m (last year: £132.3m).

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public limited company domiciled and incorporated in England and Wales under the Companies Act 2006. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom.

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

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

Basis of preparation

The financial statements have been prepared for the 52 weeks ended 2 April 2022 (last year: 53 weeks ended 3 April 2021) in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has considered the business activities as set out on pages 10 to 25, the financial position of the Group, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 36 to 44, the Group's financial risk management objectives and exposures to liquidity and other financial risks as set out in note 21 and the principal risks and uncertainties as set out on pages 47 to 54.

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

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

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

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

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

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

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

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

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

New accounting standards adopted by the Group

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

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

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

New accounting standards in issue but not yet effective

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

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

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

Alternative performance measures

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

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

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

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

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

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy or operational changes that are not considered by the Group to be part of the normal operating costs of the business.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges and reversals of previous impairments arising from the write-off of assets and other property charges that are significant in nature and/or value. Impairment charges are recognised in operating profit before adjusting items where they relate to stores not previously impaired.
- Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.
- Amortisation of the identified intangible assets arising as part of the investment in Ocado Retail Limited.
- Remeasurement of contingent consideration including discount unwind.
- Directly attributable gains and expenses resulting from the Covid-19 pandemic.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Accounting convention

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

Basis of consolidation

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

Subsidiaries

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

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

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

Associates

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

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

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

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

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to our franchise partners or the customer and the control of goods is transferred to the buyer. Online sales are recognised when items are delivered, as this is when the performance obligation is deemed to have been satisfied. Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue.

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

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

Supplier income

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

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

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

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

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

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

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

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

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

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

M&S Bank

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

Dividends

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

Government grants

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

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

Government grant income is disclosed in note 30.

Pensions

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

For defined benefit ("DB") pension schemes, the difference between the fair value of the assets and the present value of the DB obligation is recognised as an asset or liability in the statement of financial position. The DB 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 DB scheme is recognised in full.

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

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

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

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

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

Intangible assets

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

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

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

C. Software intangibles Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project. When the Group incurs configuration and customisation costs as part of a cloud-based software-as-a-service agreement, and where this does not result in the creation of an asset which the Group has control over, then these costs are expensed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and five 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. Costs include professional fees and, for qualifying assets, borrowing costs. Leasehold buildings with lease premiums and ongoing peppercorn lease payments are considered in-substance purchases and are therefore included within the buildings category of property, plant and equipment.

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

- Freehold land – not depreciated.
- Buildings – depreciated to their residual value over their estimated remaining economic lives of 25-50 years.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

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

Any impairment in value, or reversal of an impairment, is recognised within the income statement.

Leasing

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

Inventories

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

Provisions

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

Share-based payments

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

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

Foreign currencies

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

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

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

Taxation

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

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

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

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

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

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

Financial instruments

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

The table below sets out the Group's accounting classification of each class of its financial assets and liabilities:

	Note	Measurement
Financial assets:		
Other investments	16	FVTPL[1]
Unlisted equity investments	16	FVOCI[2]
Trade receivables	17	Amortised cost
Lease receivables	17	Amortised cost
Other receivables	17	Amortised cost
Cash and cash equivalents	18	Amortised cost
Derivative financial instruments	21	FVTPL
Financial liabilities:		
Borrowings and overdrafts	20	Amortised cost
Trade payables	19	Amortised cost
Other payables	19	Amortised cost
Contingent consideration	19	FVTPL
Accruals	19	Amortised cost
Lease liabilities	20	Amortised cost
Derivative financial instruments	21	FVTPL

1. Fair value through profit or loss.
2. Fair value through other comprehensive income.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A. Trade and other receivables Trade receivables are recorded initially at transaction price and subsequently measured at amortised cost, except those which, due to factoring arrangements, are held within a "hold to collect and sell" business model and are measured at FVOCI. Trade receivables measured at amortised cost are carried at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an "expected credit loss" model).

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

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

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

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

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

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

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

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

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

Derivative financial instruments and hedging activities

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

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

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

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

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 which was issued in August 2020. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. While the Group no longer holds any fair value hedge relationships, these amendments allow the Group to retain any balances from discontinued IBOR linked hedge relationships on the balance sheet as these are now deemed to be based on the replacement rate.

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

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

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

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

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

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

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

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

Reserves

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

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

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

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

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical accounting judgements

Adjusting items

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 2 April 2022. The directors have made the judgement that these amounts meet the requirements of recoverability on the basis that paragraph 11(b) of IFRIC 14 applies, enabling a refund of surplus assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, and a surplus of £1,043.9m has been recognised.

Assessment of control over Ocado Retail Limited

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

Determining the lease term

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

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

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

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

Determining whether forecast purchases are highly probable

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

The Group has applied judgement in assessing whether forecast purchases are "highly probable". In making this assessment, the Group has considered the most recent budgets and plans. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements is initially hedged, approximately 14 months prior to a season, with incremental hedges layered on over time as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, a reduction in the supply pipeline of inventory does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

Climate change impact

Climate change is a global challenge and an emerging risk to businesses, people and the environment across the world. Although commitments we have made to date form part of the cash flow projections within our going concern and impairment assessments, the impact of climate change is not judged to have been a key driver in determining the outcomes of these exercises and is therefore not currently classified as a key source of estimation uncertainty. The Group will continue to review this classification as the assessment of the impacts, risks and opportunities presented by climate change and the Group's commitments to address the challenges presented evolve over the coming years.

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £161.4m (last year: £95.3m) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

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

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs.

- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications to the store, the terms of the lease agreement, and the condition of the property.

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

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

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

Impairment of property, plant and equipment and intangibles

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

Inventory provisioning

The Group assesses the recoverability of inventories by applying assumptions around the future saleability and estimated selling prices of items.

At 2 April 2022, the Group had recognised a total UK Clothing & Home inventory provision of £48.3m (last year: £78.2m), which included £nil (last year: £24.2m) relating specifically to the estimated impact of the Covid-19 pandemic. During 2021/22, UK Clothing & Home performance has been strong, with better-than-expected sell-through of inventory originally provided for and the Group has updated its assumptions regarding future trading performance. After utilising £10.2m of these provisions in the period, the Group has released the remaining £14.0m, resulting in no UK Clothing & Home inventory provisions in relation to Covid-19 remaining on the balance sheet at 2 April 2022. See note 5 for further details on the assumptions and associated sensitivities.

Post-retirement benefits

The determination of pension net interest income and the defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate and mortality rates. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. The fair value of unquoted investments within total plan assets is estimated with consideration of fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates.

2 SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

1. Sales before adjusting items is revenue before adjusting items stated prior to adjustments for UK Clothing & Home brand consignment sales of £23.9m.
2. Revenue is stated prior to adjusting items of £nil (last full year: £11.2m) (see note 5).
3. Operating profit/(loss) before adjusting items is stated as gross profit less operating costs prior to adjusting items. Reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

2 SEGMENTAL INFORMATION CONTINUED

Other segmental information

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

1. These costs are allocated to a reportable segment where they are directly attributable. Where costs are not directly attributable, a proportional allocation is made to each segment based on an appropriate cost driver.
2. Includes £0.2m (last year: £0.3m) depreciation charged on investment property.

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

3 EXPENSE ANALYSIS

	2022 Total £m	2021 Total £m
Revenue	**10,885.1**	9,155.7
Cost of sales	**(7,130.3)**	(6,244.1)
Gross profit	**3,754.8**	2,911.6
Selling and administrative expenses	**(3,244.1)**	(3,018.9)
Other operating income	**80.1**	12.4
Share of results of Ocado Retail Limited	**(18.6)**	64.2
Operating profit/(loss)	**572.2**	(30.7)

The figures above include £136.8m (last year: £252.9m) adjusting item charges within operating profit/(loss) (see note 5). These are further analysed against the categories of revenue (£nil; last year: £11.2m), cost of sales (£17.0m gain; last year: £86.3m gain), selling and administrative expenses (£155.9m; last year: £313.8m), other operating income (£34.6m; last year: £nil) and share of results of Ocado Retail Limited (£32.5m; last year: £14.2m).

The selling and administrative expenses are further analysed below:

	2022 Total £m	2021 Total £m
Employee costs[1,2]	**1,420.6**	1,339.1
Occupancy costs	**344.3**	223.9
Repairs, renewals and maintenance of property	**122.2**	95.8
Depreciation, amortisation and asset impairments and write-offs[3]	**586.4**	791.7
Other costs[4]	**770.6**	568.4
Selling and administrative expenses	**3,244.1**	3,018.9

1. There are an additional £65.1m (last year: £68.8m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 10A.
2. Last year included furlough income (see note 30).
3. Includes £0.2m (last year: £0.3m) depreciation charged on investment property.
4. Includes costs such as logistics, IT, marketing and sundry costs.

Adjusting items categorised as selling and administrative expenses are further analysed as: employee costs of £0.1m (last year: £100.4m); occupancy costs £5.9m (last year: £6.1m); depreciation, amortisation and asset impairments/reversals and write-offs £64.9m (last year: £188.6m); and other costs £85.0m (last year: £18.7m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 PROFIT/(LOSS) BEFORE TAXATION

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

	2022 £m	2021 £m
Net foreign exchange (gains)/losses	(14.5)	2.9
Cost of inventories recognised as an expense	6,086.3	5,427.6
Write-down of inventories recognised as an expense	197.6	117.0
Depreciation of property, plant and equipment[1]		
– owned assets	290.5	312.1
– right-of-use assets	167.8	153.1
Amortisation of intangible assets	93.6	131.6
Impairments and write-offs of intangible assets and property, plant and equipment	100.1	252.0
Impairment reversals of property, plant and equipment	(62.1)	(73.1)
Impairments of right-of-use assets	25.4	52.7
Impairment reversals of right-of-use assets	(28.9)	(36.9)

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

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

	2022 £m	2021 £m
Annual audit of the Company and the consolidated financial statements	1.7	1.6
Audit of subsidiary companies	0.6	0.6
Total audit fees	**2.3**	2.2
Audit-related assurance services	0.2	0.2
Total non-audit services fees	**0.2**	0.2
Total audit and non-audit services	**2.5**	2.4

5 ADJUSTING ITEMS

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

	Notes	**2022 £m**	2021 £m
Included in revenue			
Sparks loyalty programme transition		**–**	(11.2)
		–	(11.2)
Included in operating profit			
Strategic programmes – UK store estate	15, 22	**(161.4)**	(95.3)
Strategic programmes – UK logistics	15, 22	**21.9**	(2.2)
Strategic programmes – Organisation	15, 22	**14.3**	(133.7)
Strategic programmes – International store closures and impairments	22	**0.4**	(3.6)
Store impairments, impairment reversals and other property charges	15, 22	**60.0**	6.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited	29	**(32.5)**	(14.2)
Directly attributable gains resulting from the Covid-19 pandemic		**17.8**	90.8
M&S Bank charges incurred in relation to insurance mis-selling provision		**(16.0)**	(2.4)
Franchise restructure		**(41.3)**	–
Intangible asset impairments	14	**–**	(79.9)
Sparks loyalty programme transition		**–**	(5.4)
Establishing the investment in Ocado Retail Limited		**–**	(1.7)
GMP and other pension equalisation	11	**–**	(1.0)
		(136.8)	(241.7)
Included in net finance costs			
Remeasurement of contingent consideration including discount unwind		**5.6**	(6.8)
		5.6	(6.8)
Adjustments to profit before tax		**(131.2)**	(259.7)

Strategic programmes – UK store estate (£161.4m)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – UK logistics (£21.9m credit)

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

In February 2020, the next phase of the single-tier programme was announced with the closure of two further distribution centres across 2020/21 and 2021/22. A net credit of £21.9m has been recognised in the period, reflecting the gain on disposal of distributions centres and an updated view of estimated closure costs. Total programme costs to date are £17.9m with further net charges of £43.3m expected over the next three financial years.

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

Strategic programmes – Organisation (£14.3m credit)

During 2020/21, the Group announced a commitment to integrate more flexible management structures into store operations as well as streamline the business at store and management level in the UK and Republic of Ireland as part of the ‘Never the Same Again’ transformation. The changes resulted in a reduction of c.8,200 roles across central support centres, regional management and stores. A credit of £2.4m has been recognised in the period based on the finalisation of redundancy costs associated with these changes. No provision remains at the year end and there are no further charges anticipated.

During 2016/17, the Group announced a wide-ranging strategic review across a number of areas of the business which included UK organisation and the programme to centralise our London Head Office functions into one building. In previous years, an impairment charge of £11.9m was recognised in relation to the sub-let of previously closed offices. In the period, this impairment charge has been fully reversed with a credit of £11.9m recognised. This relates to the updating of assumptions and market fluctuations over the life of the sublet of previously closed offices. Total costs of centralising our London Head Office functions into one building incurred to date are c.£86m. Any future charges will relate to the updating of assumptions and market fluctuations over the life of the sublet lease.

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

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

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

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

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

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

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

Included within directly attributable expenses resulting from the Covid-19 pandemic of £163.6m at 2019/20, was an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m; and International: £5.7m), reflecting management’s best estimate of the impact on the Group of the Covid-19 pandemic. Accordingly, of the total £204.8m inventory provision, £157.0m was recognised in adjusting items and £47.8m in the underlying results. The total remaining provision held as at 3 April 2021 was £36.7m.

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

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

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

5 ADJUSTING ITEMS CONTINUED

The £17.8m directly attributable net gains from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period, and treatment as adjusting items is consistent with the treatment of charges of a consistent nature recognised in 2019/20. No future charges are expected. Any future credits relating to these items will continue to also be classified as adjusting.

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

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

In response to the strong Group performance and lifting of government restrictions, the Group has revised future cash flow projections for UK and International stores (excluding those stores that have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £2.9m (last year: £66.4m) has been incurred primarily in respect of the impairment of assets associated with these stores. In addition, a credit of £63.4m (last year: £73.3m) has been incurred for the reversal of store impairments recognised in previous periods, where revised future cash flow projections more than support the carrying value of the stores, reflecting improved trading expectations compared to those assumed at the prior year end. Refer to note 15 for further details on the impairments.

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

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

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

Intangible assets of £366.0m were acquired as part of the investment in Ocado Retail Limited in 2019/20 relating to the Ocado brand and acquired customer relationships. These intangibles are being amortised over their useful economic lives of 10-40 years with an amortisation charge of £17.6m recognised in the period. In addition, a further deferred tax charge of £14.9m has been recognised predominantly relating to the substantial enactment of the Finance Act 2021 during the period increasing the UK's main corporation tax rate from 19% to 25% from 1 April 2023.

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

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

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

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share and fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £16.0m (last year: £2.4m).

The treatment of this in adjusting items is in line with previous charges in relation to settlement of Payment Protection Insurance (PPI) claims and, although it is recurring, it is significant in quantum in the context of the total charges recognised for PPI mis-selling to-date and is not considered representative of the normal operating performance of the Group. As previously noted, while the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue. The total charges recognised in adjusting items since September 2012 for PPI is £326.3m which exceeds the total offset against profit share of £259.0m to date, and this deficit will be deducted from the Group's share of future profits from M&S Bank.

Franchise restructuring (£41.3m)

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

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

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

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

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

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. During the period, £33.8m of contingent consideration was settled, following the achievement of the first and second performance targets (see note 21). A credit of £5.6m has been recognised in the period, representing the revaluation of the contingent consideration payable. The change in fair value is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The remeasurement will be recognised in adjusting items until the final contingent consideration payment is made in 2024/25.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 FINANCE INCOME/COSTS

	2022 £m	2021 £m
Bank and other interest receivable	**3.7**	2.9
Other finance income	**5.9**	1.8
Pension net finance income (see note 11H)	**13.2**	47.2
Interest income of subleases	**5.5**	5.5
Finance income before adjusting items	**28.3**	57.4
Finance income in adjusting items	**5.6**	–
Finance income	**33.9**	57.4
Other finance costs	**(0.8)**	(0.6)
Interest payable on syndicated bank facility	**(4.7)**	(3.9)
Interest payable on Medium Term Notes	**(79.6)**	(86.4)
Interest payable on commercial paper facility	**–**	(0.4)
Interest payable on lease liabilities	**(121.1)**	(130.4)
Unwind of discount on provisions	**(3.8)**	(2.7)
Unwind of discount on Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	**(4.4)**	(4.9)
Finance costs before adjusting items	**(214.4)**	(229.3)
Finance costs in adjusting items	**–**	(6.8)
Finance costs	**(214.4)**	(236.1)
Net finance costs	**(180.5)**	(178.7)

7 INCOME TAX (CREDIT)/EXPENSE

A. Taxation charge

	2022 £m	2021 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
– current year	**66.8**	3.7
– adjustments in respect of prior years	**(1.0)**	(12.1)
UK current tax	**65.8**	(8.4)
Overseas current taxation		
– current year	**9.6**	0.2
– adjustments in respect of prior years	**2.2**	(0.2)
Total current taxation	**77.6**	(8.4)
Deferred tax		
– origination and reversal of temporary differences	**14.9**	6.7
– adjustments in respect of prior years	**0.7**	(5.9)
– changes in tax rate	**(10.5)**	(0.6)
Total deferred tax (see note 23)	**5.1**	0.2
Total income tax expense/(credit)	**82.7**	(8.2)

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 21.1% (last year: 3.9%) and is explained below.

	2022 £m	2021 £m
Profit/(loss) before tax	**391.7**	(209.4)
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**74.4**	(39.8)
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**7.8**	5.2
Tax benefit arising from UK super deduction regime	**(6.2)**	–
Other income and expenses that are not taxable or allowable for tax purposes	**6.1**	8.6
Joint venture results accounted for as profit after tax	**(2.5)**	(14.6)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(10.5)**	–
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.7
Movement in unrecognised overseas deferred tax assets	**–**	0.9
Adjustments to the current and deferred tax charges in respect of prior periods	**1.9**	(18.2)
Capital losses no longer recognised	**–**	25.8
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**3.9**	8.5
– International store closures and impairments	**–**	(1.0)
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**2.2**	13.0
– Amortisation arising as a part of the investment in Ocado Retail Limited	**6.2**	2.7
Total income tax expense/(credit)	**82.7**	(8.2)

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

During the period, no payments have been made to the Marks and Spencer Scottish Limited Partnership and as such the tax impact to the income tax expense in the period was £nil (last year: £4.1m charge). Under this structure, tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first Partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

The Finance Act 2021 contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The Group has therefore remeasured its UK deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2023. This has resulted in the recognition of a deferred tax credit of £10.5m in the income statement.

On 20 December 2021, the OECD published their proposals in relation to Global Anti-Base Erosion Rules, which provide for an internationally co-ordinated system of taxation to ensure that large multinational groups pay a minimum level of corporate income tax in countries where they operate. In January 2022 the UK government reconfirmed its intention to introduce legislation to give effect to the OECD proposals. The new rules are expected to take effect from 2023 onwards.

There remains a considerable amount of uncertainty with respect to the detailed operation of the Global Anti-Base Erosion Rules and their impact. Further details and guidance are due in the course of 2022. From an initial review of the Group's business and tax profile, we do not expect the rules to have a material impact on the Group's tax rate or tax payments. There is no impact on the Group's results for 2021/22.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX (CREDIT)/EXPENSE CONTINUED

C. Current tax reconciliation

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

	2022 £m	2021 £m
Profit/(loss) before tax	**391.7**	(209.4)
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	**74.4**	(39.8)
Disallowable accounting depreciation and other similar items	**63.7**	75.1
Deductible capital allowances	**(75.7)**	(50.0)
Adjustments in relation to employee share schemes	**6.7**	1.9
Adjustments in relation to employee pension schemes	**(2.5)**	(4.7)
Overseas profits taxed at rates different to those of the UK	**(0.6)**	0.7
Movement in unrecognised overseas deferred tax	**–**	0.9
Joint venture results accounted for as profit after tax	**(2.5)**	(14.6)
Current year losses carried forward	**–**	11.3
Other income and expenses that are not taxable or allowable	**0.6**	(0.1)
Adjusting items:		
– UK store and strategic programme impairments and other property charges where no tax relief is available	**3.9**	8.5
– International store closures and impairments	**–**	(1.0)
– Other strategic programme income and expenses that are not taxable or allowable for tax purposes	**2.2**	5.5
– Impairment to per una goodwill	**–**	7.5
– Amortisation arising as a part of the investment in Ocado Retail Limited	**6.2**	2.7
Current year current tax charge	**76.4**	3.9
Represented by:		
UK current year current tax	**66.8**	3.7
Overseas current year current tax	**9.6**	0.2
	76.4	3.9
UK adjustments in respect of prior years	**(1.0)**	(12.1)
Overseas adjustments in respect of prior years	**2.2**	(0.2)
Total current taxation (note 7A)	**77.6**	(8.4)

8 EARNINGS PER SHARE

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

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

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

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

	2022 £m	2021 £m
Profit/(loss) attributable to equity shareholders of the Company	**306.6**	(198.0)
Add/(less):		
Adjusting items (see note 5)	**131.2**	259.7
Tax on adjusting items	**(12.6)**	(33.5)
Profit before adjusting items attributable to equity shareholders of the Company	**425.2**	28.2

8 EARNINGS PER SHARE CONTINUED

	Million	Million
Weighted average number of ordinary shares in issue	**1,958.1**	1,953.5
Potentially dilutive share options under Group's share option schemes[1]	**73.0**	15.0
Weighted average number of diluted ordinary shares	**2,031.1**	1,968.5

1. In the prior year, the potentially dilutive share options are only considered in relation to adjusted diluted earnings per share as the Group made a basic loss per share.

	Pence	Pence
Basic earnings/(loss) per share	**15.7**	(10.1)
Diluted earnings/(loss) per share	**15.1**	(10.1)
Adjusted basic earnings per share	**21.7**	1.4
Adjusted diluted earnings per share	**20.9**	1.4

9 DIVIDENDS

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

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

10 EMPLOYEES

A. Aggregate remuneration

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

	2022 Total £m	2021 Total £m
Wages and salaries	**1,256.0**	1,210.3
Social security costs	**84.6**	99.5
Pension costs	**69.0**	71.3
Share-based payments (see note 13)	**30.2**	19.3
Employee welfare and other personnel costs	**54.1**	43.7
Capitalised staffing costs	**(6.4)**	(6.4)
Total aggregate remuneration[1]	**1,487.5**	1,437.7

1. Excludes amounts recognised within adjusting items of £0.1m (last year: £100.4m) (see notes 3 and 5).

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2022	2021
UK stores		
– management and supervisory categories	**4,570**	4,870
– other	**51,585**	54,076
UK head office		
– management and supervisory categories	**3,275**	2,948
– other	**660**	749
UK operations		
– management and supervisory categories	**124**	117
– other	**1,667**	1,507
Overseas	**5,205**	5,579
Total average number of employees	**67,086**	69,846

The average number of full-time equivalent employees is 47,108 (last year: 49,177).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Your M&S Pension Saving Plan (a defined contribution ("DC") arrangement) and prior to 2017, through the Marks & Spencer Pension Scheme ("UK DB Pension Scheme") (a defined benefit ("DB") arrangement).

The legacy UK DB Pension Scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB Pension Scheme closed to future accrual on 1 April 2017. There will be no further service charges relating to the scheme and no future monthly employer contributions for current service. At year end, the UK DB Pension Scheme had no active members (last year: nil), 51,444 deferred members (last year: 53,674) and 53,270 pensioners (last year: 52,794).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

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 DC arrangement had some 46,560 active members (last year: 46,191) and some 45,778 deferred members (last year: 40,604).

The Group also operates a small legacy 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 £55.9m (last year: £23.9m). Of this, income of £8.8m (last year: income of £43.3m) relates to the UK DB Pension Scheme, costs of £62.0m (last year: costs of £64.0m) to the UK DC plan and costs of £2.8m (last year: costs of £3.2m) to other retirement benefit schemes.

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial valuation, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities is based on corporate bond yields.

The most recent actuarial valuation of the UK DB Pension Scheme was carried out as at 31 March 2018 and showed a funding surplus of £652m. This is an improvement on the previous position at 31 March 2015 (statutory surplus of £204m), primarily due to lower assumed life expectancy. The Company and Trustee have confirmed, in line with the current funding arrangement, that no further contributions will be required to fund past service as a result of this valuation (other than those already contractually committed under the existing Marks and Spencer Scottish Limited Partnership arrangements – see note 12). We continue to work constructively with the Trustees of the UK DB Pension Scheme with regard to agreeing the triennial actuarial valuation of the scheme as at 31 March 2021. Consequently, the results of the valuation are not yet finalised, although it is likely that there will continue to be a surplus.

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

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed; for example, due to advances in healthcare. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities; for example, through early retirement or commutation of pension for cash.
- Legislative changes could also lead to an increase in the schemes' liabilities.

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

With the pensioner buy-in policies purchased in September 2020, April 2019 and March 2018, the Scheme has now, in total, insured around 80% of the pensioner cash flow liabilities for pensions in payment. The buy-in policies cover specific pensioner liabilities and pass all risks to an insurer in exchange for a fixed premium payment, thus reducing the Group's exposure to changes in longevity, interest rates, inflation and other factors.

A. Pensions and other post-retirement liabilities

	2022 £m	2021 £m
Total market value of assets	**10,090.7**	10,442.9
Present value of scheme liabilities	**(9,046.8)**	(9,803.7)
Net funded pension plan asset	**1,043.9**	639.2
Unfunded retirement benefits	**(2.6)**	(3.8)
Post-retirement healthcare	**(3.1)**	(4.0)
Net retirement benefit surplus	**1,038.2**	631.4
Analysed in the statement of financial position as:		
Retirement benefit asset	**1,043.9**	639.2
Retirement benefit deficit	**(5.7)**	(7.8)
Net retirement benefit surplus	**1,038.2**	631.4

11 RETIREMENT BENEFITS CONTINUED

In the event of a plan wind-up, the pension scheme rules provide M&S with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities. In the ordinary course of business, the Trustee has no right 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. Scheme assets

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

	2022 £m	2021 £m
Fair value of scheme assets at start of year	**10,442.9**	10,653.8
Interest income based on discount rate	**204.4**	254.9
Actual return on scheme assets excluding amounts included in net interest income[1]	**(213.4)**	(117.5)
Actuarial loss – asset ceiling	**(19.4)**	–
Employer contributions	**41.8**	41.5
Benefits paid	**(359.3)**	(379.4)
Administration costs	**(4.6)**	(4.3)
Exchange movement	**(1.7)**	(6.1)
Fair value of scheme assets at end of year	**10,090.7**	10,442.9

1. The actual return on scheme assets was a loss of £9.0m (last year: gain of £137.4m).

C. Pensions and other post-retirement liabilities

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

	2022 £m	2021 £m
Present value of obligation at start of year	**9,811.5**	8,751.2
Current service cost	**0.2**	0.2
Administration costs	**0.2**	0.2
Past service cost	**–**	1.0
Interest cost	**191.2**	207.7
Benefits paid	**(359.3)**	(379.4)
Actuarial loss/(gain) – experience[1]	**153.9**	(82.6)
Actuarial loss/(gain) – demographic assumptions	**89.0**	(12.5)
Actuarial (gain)/loss – financial assumptions	**(832.7)**	1,332.1
Exchange movement	**(1.5)**	(6.4)
Present value of obligation at end of year	**9,052.5**	9,811.5
Analysed as:		
Present value of pension scheme liabilities	**9,046.8**	9,803.7
Unfunded pension plans	**2.6**	3.8
Post–retirement healthcare	**3.1**	4.0
Present value of obligation at end of year	**9,052.5**	9,811.5

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

The average duration of the defined benefit obligation at 2 April 2022 is 17.3 years (last year: 19.0 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

D. Analysis of assets

The investment strategy of the UK DB Pension Scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bond (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 103% of interest rate movements and 104% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

	2022			2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government bonds net of repurchase agreements[1]	3,482.9	(1,185.2)	2,297.7	3,945.2	(1,443.5)	2,501.7
– Corporate bonds	6.0	950.0	956.0	6.4	1,036.6	1,043.0
– Asset-backed securities and structured debt	–	365.9	365.9	–	256.1	256.1
Scottish Limited Partnership Interest (see note 12)	–	193.5	193.5	–	142.5	142.5
Equity investments						
– Developed markets	550.3	–	550.3	450.9	–	450.9
– Emerging markets	113.7	–	113.7	131.1	–	131.1
Growth asset funds						
– Global property	5.4	308.7	314.1	5.4	276.8	282.2
– Hedge and reinsurance	25.8	324.7	350.5	43.8	299.0	342.8
– Private equity and infrastructure	5.9	223.6	229.5	–	224.1	224.1
Derivatives						
– Interest and inflation rate swaps	15.6	406.9	422.5	18.4	298.6	317.0
– Foreign exchange contracts and other derivatives	–	(40.0)	(40.0)	93.2	4.5	97.7
Cash and cash equivalents	5.9	168.1	174.0	13.6	148.9	162.5
Other						
– Buy-in insurance	–	2,910.0	2,910.0	–	3,177.0	3,177.0
– Secure income asset funds	–	1,121.6	1,121.6	–	1,064.4	1,064.4
– Other	–	150.8	150.8	38.7	211.2	249.9
Total[2]	4,211.5	5,898.6	10,110.1	4,746.7	5,696.2	10,442.9

1. Repurchase agreements were £1,184.0m (last year: £1,443.5m).
2. The difference between the total assets of £10,110.1m above compared to £10,090.7m is £19.4m. This relates to the cap applied to the Irish DB scheme and therefore the actuarial gain is not recognised as per IFRIC 14.

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 33,210 (last year: 75,223) ordinary shares in the Company through its investment in UK Equity Index Funds.

11 RETIREMENT BENEFITS CONTINUED

E. 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:

	2022 %	2021 %
Rate of increase in pensions in payment for service	**2.3-3.6**	2.2-3.2
Discount rate	**2.70**	2.00
Inflation rate for Retail Price Index (RPI)	**3.70**	3.30
Long-term healthcare cost increases	**7.70**	7.30

F. Demographic assumptions

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

		2022	2021
Current pensioners (at age 65)	– male	**22.3**	22.2
	– female	**25.1**	25.0
Future pensioners – currently in deferred status (at age 65)	– male	**24.0**	24.0
	– female	**26.9**	26.8

G. Sensitivity analysis

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

	2022 £m	2021 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(20.0)**	(20.0)
Decrease in scheme surplus caused by a decrease in the discount rate of 0.50%	**(30.0)**	(30.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(70.0)**	(20.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	**(130.0)**	(30.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**270.0**	300.0

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.

H. Analysis of amounts charged against profits

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

	2022 £m	2021 £m
Current service cost	**0.2**	0.2
Administration costs	**4.8**	4.5
Past service costs	**–**	1.0
Net interest income	**(13.2)**	(47.2)
Total	**(8.2)**	(41.5)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**213.4**	117.5
Actuarial loss/(gain) – demographic assumptions	**89.0**	(12.5)
Actuarial loss/(gain) – experience[1]	**153.9**	(82.6)
Actuarial (gain)/loss – financial assumptions	**(832.7)**	1,332.1
Actuarial loss – asset ceiling	**19.4**	–
Components of defined benefit (income)/expense recognised in other comprehensive income	**(357.0)**	1,354.5

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

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

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

During the period, the Group and the Pension Scheme Trustees agreed to amend the distribution dates so that, rather than making the planned payment of £71.9m in June 2021 along with the deferred £53.0m, the Pension Scheme is now entitled to receive £71.9m in 2022, £73.0m in 2023 and £54.4m in 2024. The second Partnership interest (also held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive a further £36.4m annually from June 2017 until June 2031. All profits generated by the Partnership in excess of this are distributable to Marks and Spencer plc.

The Partnership liability in relation to the first interest of £192.3m (last year: £193.5m) is included as a financial liability in the Group's financial statements as it is a transferable financial instrument and measured at amortised cost, being the net present value of the future expected distributions from the Partnership. During the year to 2 April 2022, an interest charge of £4.4m (last year: £4.9m) was recognised in the income statement, representing the unwinding of the discount included in this obligation. The first limited Partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £193.5m (last year: £142.5m).

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

13 SHARE-BASED PAYMENTS

This year, a charge of £30.2m was recognised for share-based payments (last year: charge of £19.3m). Of the total share-based payments charge, £15.1m (last year: £9.2m) relates to the Save As You Earn share option scheme and a charge of £6.7m (last year: £1.7m) relates to the Performance Share Plan. The remaining charge of £8.4m (last year: £8.4m) is spread over the other share plans. In addition, a charge of £8.6m was recognised in relation to the Annual Bonus Scheme for 2021/22 under the Deferred Share Bonus Scheme. Further details of the operation of the Group share plans are provided in the Remuneration Report.

A. Save As You Earn scheme – £15.1m

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

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**119,151,406**	**99.4p**	53,139,941	190.7p
Granted	**11,526,149**	**189.0p**	101,466,321	82.0p
Exercised	**(208,238)**	**138.2p**	(556)	151.0p
Forfeited	**(12,207,656)**	**102.6p**	(23,811,474)	155.7p
Expired	**(7,698,700)**	**206.5p**	(11,642,826)	248.7p
Outstanding at end of year	**110,562,961**	**100.9p**	119,151,406	99.4p
Exercisable at end of year	**11,945**	**186.8p**	7,211,376	212.5p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 206.3p (last year: 152.4p).

13 SHARE-BASED PAYMENTS CONTINUED

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

	2022	2021	
	3-year plan	3-year plan	3-year plan 2020 modified[1]
Grant date	**Dec 21**	Dec 20	Dec 20
Share price at grant date	**235p**	103p	103p
Exercise price	**189p**	82p	151p
Option life in years	**3 years**	3 years	3 years
Risk-free rate	**0.5%**	0.0%	0.0%
Expected volatility	**49.3%**	45.6%	45.6%
Expected dividend yield	**0.0%**	0.0%	0.0%
Fair value of option	**81p**	34p	19p
Incremental fair value of option	**n/a**	n/a	15p

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

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

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

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	2022	2021	2022	2021	Option price
January 2017	**–**	9,202	**–**	–	250p
January 2018	**5,441**	4,112,855	**(0.8)**	0.3	251p
January 2019	**2,399,413**	3,405,862	**0.2**	1.3	238p
February 2020	**8,006,941**	12,331,683	**1.3**	2.3	151p
February 2021	**89,284,282**	99,291,804	**2.3**	3.3	82p
February 2022	**10,866,884**	–	**3.3**	–	189p
	110,562,961	119,151,406	**2.3**	3.1	101p

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

B. Performance Share Plan* – £6.7m

The Performance Share Plan ("PSP") is the primary long-term incentive plan for approximately 160 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2020 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets, which for 2021/22 included earnings per share ("EPS"), return on capital employed ("ROCE"), total shareholder return ("TSR") and strategic measures. The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Awards under this plan have been made in each year since 2005. More information is available in relation to this plan within the Remuneration Report.

During the year, 19,374,217 shares (last year: 19,777,921) were awarded under the plan. The weighted average fair value of the shares awarded was 155.1p (last year: 101.4p). As at 2 April 2022, 44,534,437 shares (last year: 33,878,325) were outstanding under the plan.

C. Deferred Share Bonus Plan* – £8.8m

The Deferred Share Bonus Plan ("DSBP") was first introduced in 2005/06 as part of the Annual Bonus Scheme and was approved by shareholders at the 2020 AGM. It may be operated for approximately 5,000 employees within the Group. As part of the plan, the employees are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group, and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report.

During the year no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 2 April 2022, 190,596 shares (last year: 422,672) were outstanding under the plan.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

D. Restricted Share Plan* – £8.2m

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

During the year, 2,441,809 shares (last year: 11,996,948) have been awarded under the plan. The weighted average fair value of the shares awarded was 158.7p (last year: 124.3p). As at 2 April 2022, 10,368,217 shares (last year: 10,722,919) were outstanding under the plan.

E. Republic of Ireland Save As You Earn scheme – £0.2m

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

During the year, no options were granted (last year: 1,409,129 were granted at a fair value of 33.7p). As at 2 April 2022, 1,195,159 options (last year: 1,846,589) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the "Trust") holds 264,779 (last year: 527,116) shares with a book value of £0m (last year: £0.1m) and a market value of £0.4m (last year: £0.8m). These shares were acquired by the Trust through a combination of market purchases and new issues and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under the senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

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

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

14 INTANGIBLE ASSETS

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

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

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

1. Last year asset impairments of £79.6m made up of: £39.6m charge recorded against per una goodwill, £40.0m in relation to replaced, retired or decommissioned as part of MS2.
2. In February 2022, the Group acquired 77.7% of the issued share capital of The Sports Edit Limited, a non-listed company based in England and Wales. The Sports Edit Limited is a brand platform specialising in activewear and was acquired for an initial purchase price of £4.5m. Goodwill of £4.8m was recognised on acquisition of the business, with the acquisition representing a strategic investment opportunity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Goodwill impairment testing

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

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

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

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

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

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

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital ("WACC") which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 10.8% for per una (last year: 11.0%) and 11.3% for India (last year: 12.9%).

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

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

15 PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment – owned

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Right-of-use assets

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

Right-of-use assets

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

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

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

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment and impairment reversals have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 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's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure as detailed fully in note 5.

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

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairments – UK stores excluding the UK store estate programme

During the year, the Group has recognised an impairment charge of £6.9m and impairment reversals of £63.4m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: impairment charge of £66.4m and impairment reversals of £64.5m). Impairment charges of £2.9m and impairment reversals of £63.4m have been recognised within adjusting items (see note 5). The remaining £4.0m impairment charge has been recognised in operating profit before adjusting items as it relates to stores not previously impaired. The impaired stores were impaired to their 'value in use' recoverable amount of £37.1m, which is their carrying value at year end. The stores with impairment reversals were written back to their 'value in use' recoverable amount of £302.3m.

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

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

A reduction in sales of 5% from the three-year plan in year 3 would result in an increase in the impairment charge of £22.8m and a 25 basis point reduction in gross profit margin from year 3 onwards would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £4.7m. A 50 basis point increase in the discount rate would increase the impairment charge by £6.0m. Reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

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

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £107.5m and impairment reversals of £27.6m relating to the on-going UK store estate programme (last year: impairment charge of £107.9m and impairment reversals of £36.7m). These stores were impaired to their 'value in use' recoverable amount of £376.7m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5). Impairment reversals predominantly reflect improved trading expectations compared to those assumed at the end of the prior year.

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

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

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

Impairments – International stores

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 OTHER FINANCIAL ASSETS

	2022 £m	2021 £m
Non-current		
Other investments[1]	**4.5**	–
Unlisted equity investments[2]	**–**	9.7
Current		
Other investments[3]	**17.6**	18.4

1. Includes £3.1m (last year: £nil) of venture capital investments managed by True Capital Limited.
2. The Group has recognised a loss on disposal of its unlisted equity investment of £3.7m (last year:£nil) in other comprehensive income.
3. Includes £8.8m (last year: £9.2m) of money market deposits held by Marks and Spencer plc in an escrow account.

The Group irrevocably designated unlisted equity investments at fair value through other comprehensive income. Other financial assets are measured at fair value with changes in their value taken to the income statement.

17 TRADE AND OTHER RECEIVABLES

	2022 £m	2021 £m
Non–current		
Trade receivables	**0.1**	0.1
Lease receivables – net	**74.7**	62.8
Other receivables	**3.3**	2.1
Prepayments	**192.5**	196.4
	270.6	261.4
Current		
Trade receivables	**103.0**	109.8
Less: provision for impairment of receivables	**(4.8)**	(3.7)
Trade receivables – net	**98.2**	106.1
Lease receivables – net	**0.8**	–
Other receivables	**27.2**	30.5
Prepayments	**76.8**	53.9
Accrued income	**14.1**	19.1
	217.1	209.6

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The Group's assessment of any expected credit losses is included in note 21B. Included in accrued income is £7.7m (last year: £5.7m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. An amount of supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors, where there is a right to offset.

The Group entered into finance leasing arrangements as a lessor for surplus office space in the Merchant Square building in London, which is sublet for the remaining duration of the lease.

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

	2022 £m	2021 £m
Timing of cash flows		
Within one year	**4.8**	4.8
Between one and two years	**4.7**	4.8
Between two and three years	**4.7**	4.7
Between three and four years	**6.1**	4.7
Between four and five years	**7.8**	6.1
More than five years	**121.1**	128.9
Total undiscounted cash flows	**149.2**	154.0
Effect of discounting	**(73.7)**	(79.3)
Present value of lease payments receivable	**75.5**	74.7
Less: provision for impairment of receivables	**–**	(11.9)
Net investment in the lease	**75.5**	62.8

Included within trade and other receivables is £1.1m (last year: £nil) which, due to non-recourse factoring arrangements in place, are held within a "hold to collect and sell" business model and are measured at FVOCI.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £1,197.9m (last year: £674.4m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.7% (last year: 0.1%). These deposits have an average maturity of 39 days (last year: 5 days).

19 TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Current		
Trade payables	**732.8**	624.8
Other payables	**523.5**	466.7
Social security and other taxes	**59.1**	46.8
Accruals	**595.2**	407.5
Deferred income	**50.3**	53.2
	1,960.9	1,599.0
Non-current		
Other payables	**174.4**	179.2
Deferred income	**13.8**	13.1
	188.2	192.3

Included within current other payables is £nil (last year: £33.6m) and non-current other payables is £172.6m (last year: £178.4m) of contingent consideration relating to the investment in Ocado Retail Limited. See note 21D for further details.

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

	2022 £m	2021 £m
Opening balance	**194.4**	180.8
Issues	**404.2**	363.2
Released to the income statement	**(412.8)**	(349.6)
Closing balance	**185.8**	194.4

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

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

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

At 2 April 2022, £330.0m (last year: £272.6m) of trade payables were amounts owed under these arrangements. During the year the maximum facility available at any one time under the arrangements was £404.1m (last year: £305.0m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2022 £m	2021 £m
Current		
Bank loans and overdrafts	–	4.7
Lease liabilities	200.2	219.4
6.125% £400m Medium Term Notes 2021[1]	–	163.5
Interest accrued on Medium Term Notes	47.0	45.2
	247.2	432.8
Non-current		
3.00% £300m Medium Term Notes 2023[1]	299.1	298.5
4.75% £400m Medium Term Notes 2025[1,2]	409.4	412.2
3.75% £300m Medium Term Notes 2026[1]	298.6	298.3
3.25% £250 Medium Term Notes 2027[1]	248.3	248.0
7.125% US$300m Medium Term Notes 2037[3,4]	192.3	192.2
Revaluation of Medium Term Notes[5]	34.8	24.2
Lease liabilities	2,078.5	2,186.5
	3,561.0	3,659.9
Total	3,808.2	4,092.7

1. These notes are issued under Marks and Spencer plc's £3bn Euro Medium Term Note programme and all pay interest annually.
2. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £10.5m (last year: £13.6m) of fair value adjustment for terminated hedges to be amortised over the remaining debt maturity.
3. Interest on these bonds is payable semi-annually.
4. US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
5. Revaluation consists of foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £34.8m (last year: £24.2m).

Leases

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

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

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

	2022 £m	2021 £m
Opening lease liabilities	2,405.9	2,562.0
Additions	100.6	48.3
Interest expense relating to lease liabilities	124.1	133.8
Payments	(344.3)	(316.7)
Disposals	(8.1)	(7.8)
Exchange difference	0.5	(13.7)
	2,278.7	2,405.9
Current	200.2	219.4
Non-current	2,078.5	2,186.5

The maturity analysis of lease liabilities is disclosed in note 21A.

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

The Group holds certain leases that contain break clause options to provide operational flexibility. In accordance with IFRS 16, the Group has calculated the full lease term, beyond break, to represent the reasonably certain lease term (except for those stores identified as part of the UK store estate programme) within the total £2,278.7m of lease liabilities held on the balance sheet.

The following amounts were recognised in profit or loss:

	2022 £m	2021 £m
Expenses relating to short-term leases	5.9	4.6
Expenses relating to low-value assets	1.4	1.0
Expenses relating to variable consideration	4.4	2.5

21 FINANCIAL INSTRUMENTS

Treasury policy

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

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

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

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

Financial risk management

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

A. Liquidity & funding risk

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

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

During the year, the Group terminated its committed syndicated bank revolving credit facility and entered a new committed syndicated bank revolving credit facility of £850.0m with a current maturity date of 13 June 2025. The new facility contains a financial covenant, being the ratio of earnings before interest, tax, depreciation and amortisation; to net interest and depreciation on right-of-use assets under IFRS 16. The covenant is measured semi-annually. The Group was not in breach of this covenant at the reporting date.

The new revolving credit facility includes four additional sustainability metrics where the margin payable on the facility is adjusted to reflect the Group's performance against a number of ESG targets material to the Group's Plan A objectives. The Group was not in breach of these metrics at the reporting date.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

The table below summarises the contractual maturity of the Group's non-derivative financial liabilities and derivatives, excluding trade payables, other payables and accruals. The carrying value of all trade payables, other payables (excluding contingent consideration payable) and accruals of £1,853.3m (last year: £1,466.2m) is equal to their contractual undiscounted cash flows (see note 19) which are due within one year. Contingent consideration (see the fair value hierarchy section within note 21) of £nil (last year: £33.7m) is expected to become payable within one year and £190.8m (last year: £190.8m) between two and five years.

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities[1] £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 12) £m	Total borrowings and other financial liabilities £m	Cash inflow on derivatives[2] £m	Cash outflow on derivatives[2] £m	Total derivative liabilities £m
Timing of cash flows								
Within one year	(4.7)	(244.8)	(326.3)	(124.9)	(700.7)	1,492.9	(1,586.8)	(93.9)
Between one and two years	–	(74.8)	(289.1)	(71.9)	(435.8)	162.7	(164.4)	(1.7)
Between two and five years	–	(898.8)	(754.6)	–	(1,653.4)	46.5	(43.8)	2.7
More than five years	–	(987.7)	(3,293.2)	–	(4,280.9)	404.0	(368.6)	35.4
Total undiscounted cash flows	(4.7)	(2,206.1)	(4,663.2)	(196.8)	(7,070.8)	2,106.1	(2,163.6)	(57.5)
Effect of discounting	–	524.0	2,257.3	3.3	2,784.6			
At 3 April 2021	(4.7)	(1,682.1)	(2,405.9)	(193.5)	(4,286.2)			
Timing of cash flows								
Within one year	**–**	**(75.5)**	**(313.2)**	**(71.9)**	**(460.6)**	**330.2**	**(333.6)**	**(3.4)**
Between one and two years	**–**	**(375.5)**	**(279.3)**	**(73.0)**	**(727.8)**	**30.9**	**(31.1)**	**(0.2)**
Between two and five years	**–**	**(864.3)**	**(786.0)**	**(54.4)**	**(1,704.7)**	**–**	**–**	**–**
More than five years	**–**	**(668.4)**	**(3,082.1)**	**–**	**(3,750.5)**	**–**	**–**	**–**
Total undiscounted cash flows	**–**	**(1,983.7)**	**(4,460.6)**	**(199.3)**	**(6,643.6)**	**361.1**	**(364.7)**	**(3.6)**
Effect of discounting	**–**	**454.2**	**2,181.9**	**7.0**	**2,643.1**			
At 2 April 2022	**–**	**(1,529.5)**	**(2,278.7)**	**(192.3)**	**(4,000.5)**			

1. Total undiscounted lease payments of £766.2m relating to the period post break clause, and the earliest contractual lease exit point, are included in lease liabilities. These undiscounted lease payments should be excluded when determining the Group's contractual indebtedness under these leases, where there is a contractual right to break. Furthermore, £155.2m of these payments relate to leases where, following the break clause, the Group will have the ability to exit the lease at any point before the lease expiry with a maximum of six months' notice.
2. Cash inflows and outflows on derivative instruments that require gross settlement (such as cross-currency swaps and forward foreign exchange contracts) are disclosed gross. Cash inflows and outflows on derivative instruments that settle on a net basis are disclosed net.

B. Counterparty risk

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

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

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

	Credit rating of counterparty								
	AAA £m	AA+ £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Other investments[1]	–	–	–	54.4	182.4	250.3	4.7	3.3	495.1
Derivative assets[2]	–	–	–	6.1	25.8	0.7	0.5	–	33.1
At 3 April 2021	–	–	–	60.5	208.2	251.0	5.2	3.3	528.2
	AAA £m	**AA+ £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Other investments[1]	**–**	**–**	**–**	**158.5**	**288.6**	**462.0**	**89.0**	**–**	**998.1**
Derivative assets[2]	**–**	**–**	**–**	**–**	**31.9**	**24.4**	**8.7**	**–**	**65.0**
At 2 April 2022	**–**	**–**	**–**	**158.5**	**320.5**	**486.4**	**97.7**	**–**	**1,063.1**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash in hand and in transit of £217.4m (last year: £197.7m).
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.

21 FINANCIAL INSTRUMENTS CONTINUED

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 £103.1m (last year: £106.2m), lease receivables £75.5m (last year: £62.8m), other receivables £30.5m (last year: £32.6m), cash and cash equivalents £1,197.9m (last year: £674.4m) and derivatives £65.0m (last year: £33.1m).

Impairment of financial assets

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

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

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

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

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

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

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

As at 3 April 2021	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount – trade receivables	95.0	9.9	2.0	0.8	0.8	1.3	109.8
Expected loss rate	1.45%	5.43%	12.88%	15.78%	17.06%	100.0%	3.40%
Lifetime expected credit loss	1.4	0.5	0.3	0.1	0.1	1.3	3.7
Net carrying amount	93.6	9.4	1.7	0.7	0.7	–	106.1

As at 2 April 2022	**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	**76.7**	**15.8**	**–**	**1.9**	**7.5**	**1.1**	**103.0**
Expected loss rate	**2.87%**	**4.93%**	**0.0%**	**5.72%**	**7.76%**	**100.0%**	**4.63%**
Lifetime expected credit loss	**2.2**	**0.8**	**–**	**0.1**	**0.6**	**1.1**	**4.8**
Net carrying amount	**74.5**	**15.0**	**–**	**1.8**	**6.9**	**–**	**98.2**

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

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

Trade receivables expected loss provision	2022 £m	2021 £m
Opening loss allowance	**3.7**	4.0
Increase/(decrease) in loss allowance recognised in profit and loss during the year	**1.5**	(0.3)
Receivables written off during the year as uncollectable	**(0.4)**	–
Closing loss allowance	**4.8**	3.7

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

Lease receivables expected loss provision	2022 £m	2021 £m
Opening loss allowance	**11.9**	4.7
(Decrease)/increase in loss allowance recognised in profit and loss during the year[1]	**(11.9)**	7.2
Receivables written off during the year as uncollectable	**–**	–
Closing loss allowance	**–**	11.9

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

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

C. Foreign currency risk

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

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 14 months ahead of the start of the season, with between 80% and 100% of the risk hedged eight months before the start of the season. In accordance with the Group's treasury policy, hedges are entered into by business line and by 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 £1,865.7m (last year: £1,776.6m) with a weighted average maturity date of six months (last year: six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 2 April 2022 will be reclassified to the income statement at various dates over the following 15 months (last year: 16 months) from the balance sheet date.

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

The Group regularly reviews the foreign exchange hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the income statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative.

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

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges. The change in the fair value of the hedging instrument, to the degree effective, is retained in other comprehensive income, segregated by cost and effect of hedging. Under IFRS 9 the currency basis on the cross-currency swaps is excluded from the hedge designation and recognised in other comprehensive income – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result.

21 FINANCIAL INSTRUMENTS CONTINUED

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

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are classified as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £0.3m gain (last year: £1.4m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £166.8m (last year: £172.0m).

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

	2022			2021		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**3,610.6**	**–**	**3,610.6**	3,886.2	4.7	3,890.9
Euro	**104.3**	**–**	**104.3**	95.8	–	95.8
Other	**93.3**	**–**	**93.3**	106.0	–	106.0
	3,808.2	**–**	**3,808.2**	4,088.0	4.7	4,092.7

The prior year floating rate sterling borrowings were cash balances classified as overdrafts.

As at the balance sheet date and excluding lease liabilities, post-hedging the GBP and USD fixed rate borrowings are at an average rate of 5.1% (last year: 5.3%) and the weighted average time for which the rate is fixed is five years (last year: six years).

During the prior year, the Group closed out all interest rate swaps designated in hedge relationships.

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 £3,808.2m (last year: £4,088.0m) representing the public bond issues and lease liabilities, amounting to 100% (last year: 99%) of the Group's gross borrowings.

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

	2022 %	2021 %
Committed and uncommitted borrowings	**N/A**	N/A
Medium Term Notes	**5.1%**	5.3%
Leases	**5.4%**	5.4%

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

Last year, the Group identified all contracts with reference to LIBOR and ensured that these were terminated or amended to specify the date on which the interest rate benchmark would be replaced, the alternative benchmark rate and the relevant spread adjustment. Where applicable, fallback language was included to incorporate any future transitions to new benchmark interest rates.

The Group no longer holds any financial instruments that reference LIBOR and is therefore not exposed to any liquidity, basis or accounting risks arising from benchmark reform. All necessary system and operational changes have been made to reference SONIA.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

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

	3 April 2021			
	Current		Non-current	
	Forward foreign exchange (FX) contracts £m	Forward foreign exchange (FX) contracts £m	Cross-currency swaps £m	Forward foreign exchange (FX) contracts £m
Hedging risk strategy	Cash flow hedges	FVTPL	Cash flow hedges	Cash flow hedges
Notional/currency legs	1,585.9	333.8	193.5	190.7
Carrying amount assets	32.1	0.7	–	0.3
Carrying amount (liabilities)	(83.9)	(12.1)	(8.1)	(2.6)
Maturity date	to Sep 2021	to Jan 2022	to Dec 2037	to May 2022
Hedge ratio	100%	n/a	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Intercompany loans/deposits	USD fixed rate borrowing	Highly probable transactional FX exposures
Change in fair value of hedging instrument[1]	(100.2)	(11.1)	(91.7)	(11.8)
Change in fair value of hedged item used to determine hedge effectiveness	100.2	12.5	93.0	11.8
Weighted average hedge rate for the year	GBP/USD 1.32, GBP/EUR1.13	–	GBP/USD 1.55	GBP/USD 1.28, GBP/EUR1.12
Amounts recognised within finance costs in profit and loss	–	1.4	1.3	–
Balance on cash flow hedge reserve at 3 April 2021	40.6	–	25.4	2.2
Balance on cost of hedging reserve at 3 April 2021	–	–	(5.8)	–

	2 April 2022			
	Current		**Non-current**	
	Forward foreign exchange (FX) contracts £m	**Forward foreign exchange (FX) contracts £m**	**Cross-currency swaps £m**	**Forward foreign exchange (FX) contracts £m**
Hedging risk strategy	**Cash flow hedges**	**FVTPL**	**Cash flow hedges**	**Cash flow hedges**
Notional/currency legs	**1,536.9**	**166.8**	**193.5**	**162.0**
Carrying amount assets	**43.0**	**0.6**	**18.5**	**2.9**
Carrying amount (liabilities)	**(2.3)**	**(0.9)**	**–**	**(0.4)**
Maturity date	**to Sep 2022**	**to May 2022**	**to Dec 2037**	**to Apr 2023**
Hedge ratio	**100%**	**n/a**	**100%**	**100%**
Description of hedged item	**Highly probable transactional FX exposures**	**Intercompany loans/deposits**	**USD fixed rate borrowing**	**Highly probable transactional FX exposures**
Change in fair value of hedging instrument	**60.1**	**11.1**	**26.7**	**4.8**
Change in fair value of hedged item used to determine hedge effectiveness	**(60.1)**	**(10.8)**	**(25.4)**	**(4.8)**
Weighted average hedge rate for the year	**GBP/USD 1.37; GBP/EUR 1.18**	**–**	**GBP/USD 1.55**	**GBP/USD 1.34; GBP/EUR 1.17**
Amounts recognised within finance costs in profit and loss	**–**	**0.3**	**(0.1)**	**–**
Balance on cash flow hedge reserve at 2 April 2022	**(32.0)**	**–**	**9.5**	**2.5**
Balance on cost of hedging reserve at 2 April 2022	**–**	**–**	**(5.0)**	**–**

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

21 FINANCIAL INSTRUMENTS CONTINUED

		2 April 2022				3 April 2021			
		Notional value		**Fair value**		Notional value		Fair value	
		Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current									
Forward foreign exchange contracts	– cash flow hedges	**1,348.8**	**188.1**	**43.0**	**(2.3)**	449.0	1,136.9	32.1	(83.9)
	– FVTPL	**37.2**	**129.6**	**0.6**	**(0.9)**	72.2	261.6	0.7	(12.1)
		1,386.0	**317.7**	**43.6**	**(3.2)**	521.2	1,398.5	32.8	(96.0)
Non-current									
Cross-currency swaps	– cash flow hedges	**193.5**	**–**	**18.5**	**–**	–	193.5	–	(8.1)
Forward foreign exchange contracts	– cash flow hedges	**131.1**	**30.9**	**2.9**	**(0.4)**	46.2	144.5	0.3	(2.6)
		324.6	**30.9**	**21.4**	**(0.4)**	46.2	338.0	0.3	(10.7)

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

	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	Total hedge reserve £m
Opening balance 29 March 2020	(7.1)	1.4	(5.7)	(45.6)	(40.1)	0.1	17.0	(68.6)
Add: Change in fair value of hedging instrument recognised in OCI[2]	–	–	–	122.2	92.0	–	–	214.2
Add: Costs of hedging deferred and recognised in OCI	1.3	–	1.3	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	(33.9)	–	–	–	(33.9)
Less: Reclassified from OCI to profit or loss	–	–	–	–	(26.5)	–	–	(26.5)
Less: Deferred tax	–	(0.2)	(0.2)	–	–	–	(30.4)	(30.4)
Closing balance 3 April 2021	(5.8)	1.2	(4.6)	42.7	25.4	0.1	(13.4)	54.8
Opening balance 4 April 2021	**(5.8)**	**1.2**	**(4.6)**	**42.7**	**25.4**	**0.1**	**(13.4)**	**54.8**
Add: Change in fair value of hedging instrument recognised in OCI	**–**	**–**	**–**	**(65.7)**	**(26.4)**	**–**	**–**	**(92.1)**
Add: Costs of hedging deferred and recognised in OCI	**0.8**	**–**	**0.8**	**–**	**–**	**–**	**–**	**–**
Less: Reclassified to the cost of inventory	**–**	**–**	**–**	**(6.5)**	**–**	**–**	**–**	**(6.5)**
Less: Reclassified from OCI to profit or loss	**–**	**–**	**–**	**–**	**10.5**	**–**	**–**	**10.5**
Less: Deferred tax	**–**	**0.2**	**0.2**	**–**	**–**	**–**	**15.7**	**15.7**
Closing balance 2 April 2022	**(5.0)**	**1.4**	**(3.6)**	**(29.5)**	**9.5**	**0.1**	**2.3**	**(17.6)**

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

During the prior year, the Group closed out all interest rate swaps designating its GBP fixed debt to floating debt which were reported as fair value hedges (see note 20 for details of fair value adjustment). At 2 April 2022, the Group had a deferred fair value adjustment of £10.5m (last year: £13.6m) in borrowings relating to terminated fair value hedges. The ineffective portion recognised in profit or loss that arose from fair value hedges amounted to a nil gain or loss as the loss on the hedged items was £nil (last year: loss of £4.4m) and the gain on the hedging instruments was £nil (last year: gain of £4.4m).

Movement in hedged items and hedging instruments	**2022 £m**	2021 £m
Net gain in fair value of interest rate swap	**–**	4.4
Net loss on hedged items	**–**	(4.4)
Ineffectiveness	**–**	–

The Group holds a number of cross-currency interest rate swaps to designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in profit or loss that arises from the cash flow hedge amounts to a £1.3m gain (last year: £1.3m gain) as the loss on the hedged items was £25.4m (last year: £93.0m gain) and the movement on the hedging instruments was a £26.7m gain (last year: £91.7m loss). A nil gain or loss (last year: nil gain or loss) was recognised in profit or loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	**2022 £m**	2021 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	**26.7**	(91.7)
Net (loss)/gain on hedged items	**(25.4)**	93.0
Ineffectiveness	**1.3**	1.3

Sensitivity analysis

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

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

Interest rates

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

Foreign exchange

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 3 April 2021				
Impact on income statement: (loss)/gain	(9.2)	9.2	–	–
Impact on other comprehensive income: (loss)/gain	(2.1)	4.7	199.4	(199.4)
At 2 April 2022				
Impact on income statement: (loss)/gain	**(19.2)**	**19.2**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(4.2)**	**3.3**	**243.5**	**(243.5)**

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets offset £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not offset in the statement of financial position £m	Net £m
At 3 April 2021					
Trade and other receivables	16.5	(12.8)	3.7	–	3.7
Derivative financial assets	33.1	–	33.1	(24.9)	8.2
	49.6	(12.8)	36.8	(24.9)	11.9
Trade and other payables	(257.4)	12.8	(244.6)	–	(244.6)
Derivative financial liabilities	(106.7)	–	(106.7)	24.9	(81.8)
	(364.1)	12.8	(351.3)	24.9	(326.4)

	Gross financial assets/ (liabilities) £m	**Gross financial (liabilities)/ assets offset £m**	**Net financial assets/ (liabilities) per statement of financial position £m**	**Related amounts not offset in the statement of financial position £m**	**Net £m**
At 2 April 2022					
Trade and other receivables	**27.9**	**(25.0)**	**2.9**	**–**	**2.9**
Derivative financial assets	**65.0**	**–**	**65.0**	**(3.4)**	**61.6**
	92.9	**(25.0)**	**67.9**	**(3.4)**	**64.5**
Trade and other payables	**(284.8)**	**25.0**	**(259.8)**	**–**	**(259.8)**
Derivative financial liabilities	**(3.6)**	**–**	**(3.6)**	**3.4**	**(0.2)**
	(288.4)	**25.0**	**(263.4)**	**3.4**	**(260.0)**

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 International Swaps and Derivatives Association ("ISDA") agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair value hierarchy

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

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

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

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

1. Within Level 3 other investments, the Group holds £3.1m of venture capital investments, managed by True Capital Limited, measured at FVTPL (last year: £nil) (see note 16) which are Level 3 instruments. The fair value of these investments has been determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. Where investments are either recently acquired or there have been recent funding rounds with third parties, the primary input when determining the valuation is the latest transaction price.
2. The Group holds £nil in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.7m) (see note 16) which is a Level 3 instrument. The fair value of this investment was determined with reference to the net asset value of the entity in which the investment was held, which in turn derived the majority of its net asset value through a third-party property valuation.
3. As part of the investment in Ocado Retail Limited, a contingent consideration arrangement was agreed. The arrangement comprises three separate elements which only become payable on the achievement of three separate financial and operational performance targets. In June 2021, £16.8m was settled, relating to the first of the three targets. In October 2021, £17.0m was settled, relating to the second target. The final target relates to Ocado Retail Limited achieving a specified target level of earnings in the financial year ending November 2023. The maximum potential undiscounted amount of all future payments that the Group could be required to make under the arrangement is £156.3m plus interest of 4%.

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

The Marks & Spencer UK Pension Scheme holds a number of financial instruments which make up the pension asset of £10,090.7m (last year: £10,442.9m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £4,998.8m (last year: £5,446.0m). Additionally, the scheme assets include £5,091.9m (last year: £4,996.9m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

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

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

Fair value of financial instruments

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

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,482.5m (last year: £1,682.1m); the fair value of this debt was £1,549.6m (last year: £1,807.6m) which has been calculated using quoted market prices and includes accrued interest. The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (Level 2 equivalent) is £192.3m (last year: £193.5m) and the fair value of this liability is £187.9m (last year: £185.5m).

Capital policy

The Group's objectives when managing capital (defined as net debt plus equity) are to fund investment in the transformation and rebuild balance sheet metrics towards levels consistent with investment grade, to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

21 FINANCIAL INSTRUMENTS CONTINUED

In doing so, the Group's strategy is to rebuild a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was five years (last year: six years). During the year, the Group maintained credit ratings of Ba1 (stable) with Moody's and BB+ (stable) with Standard & Poor's.

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

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	Total £m
At 29 March 2020	60.0	12.6	5.4	78.0
Provided in the year – charged to profit or loss	22.5	105.2	9.6	137.3
Provided in the year – charged to property, plant and equipment	25.9	–	–	25.9
Released in the year	(29.8)	(7.6)	(0.1)	(37.5)
Utilised during the year	(4.6)	(81.6)	(0.3)	(86.5)
Exchange differences	–	(0.1)	–	(0.1)
Discount rate unwind	2.7	–	–	2.7
Reclassified to the pension liability	–	–	(2.5)	(2.5)
At 3 April 2021	76.7	28.5	12.1	117.3
Analysed as:				
Current				43.1
Non-current				74.2

	Property £m	**Restructuring £m**	**Other £m**	**Total £m**
At 4 April 2021	**76.7**	**28.5**	**12.1**	**117.3**
Provided in the year – charged to profit or loss	**23.5**	**38.0**	**6.2**	**67.7**
Provided in the year – charged to property, plant and equipment	**5.3**	**–**	**–**	**5.3**
Released in the year	**(8.4)**	**(2.8)**	**(3.0)**	**(14.2)**
Utilised during the year	**(5.1)**	**(28.2)**	**(0.9)**	**(34.2)**
Exchange differences	**–**	**(0.1)**	**(0.2)**	**(0.3)**
Discount rate unwind	**3.8**	**–**	**–**	**3.8**
At 2 April 2022	**95.8**	**35.4**	**14.2**	**145.4**
Analysed as:				
Current				**53.6**
Non-current				**91.8**

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

Movements in restructuring provisions relate to the utilisation and finalisation of costs associated with the strategic programme to reduce roles across central support centres, regional management and our UK and Republic of Ireland stores; the historical International exit strategy; the strategic programme to transition to a single-tier UK distribution network; and costs associated with the decision to fully exit our Russian franchise operations. Closing provisions relate primarily to the strategic programme to transition to a single-tier UK distribution network, expected to be utilised over the period of closure of sites, and exit our Russian franchise operations, expected to be utilised within the next year.

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

Provisions related to adjusting items were £124.9m at 2 April 2022 (last year: £100.8m), with a net charge in the year of £48.2m (last year: £90.1m) (see note 5).

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 25% as applicable (last year: 19%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

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

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 29 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)
(Charged)/credited to income statement	(22.0)	22.8	(7.6)	4.5	(2.3)	2.1	(0.2)
Credited/(charged) to equity/ other comprehensive income	–	–	257.7	35.8	293.5	(3.2)	290.3
At 3 April 2021	(50.3)	22.6	(148.7)	135.5	(40.9)	(1.4)	(42.3)
At 4 April 2021	**(50.3)**	**22.6**	**(148.7)**	**135.5**	**(40.9)**	**(1.4)**	**(42.3)**
(Charged)/credited to income statement	**(15.4)**	**3.7**	**(14.7)**	**20.3**	**(6.1)**	**1.0**	**(5.1)**
(Charged)/Credited to equity/ other comprehensive income	**–**	**–**	**(128.7)**	**(14.1)**	**(142.8)**	**3.0**	**(139.8)**
At 2 April 2022	**(65.7)**	**26.3**	**(292.1)**	**141.7**	**(189.8)**	**2.6**	**(187.2)**

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

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £236.6m (last year: £228.0m) and a tax value of £58.6m (last year: £43.3m). The tax value has increased in comparison to the prior year due to the effects of the change in rate, whereby, UK deferred tax assets and liabilities have been remeasured at 25% where these are expected to be realised or settled on or after 1 April 2023.

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 £5.6m (last year: £11.0m) and a tax value of £1.4m (last year: £3.0m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £34.2m (last year: £24.1m) 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 £3.1m (last year: £2.3m) however this has not been recognised on the basis that the distribution can be controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

In the prior year, a deferred tax asset of £10.5m relating to trading losses in the UK was recognised. As the amount has been fully utilised, no deferred tax asset relating to trading losses in the UK is recognised in the current period.

24 ORDINARY SHARE CAPITAL

	2022						2021	
	Ordinary shares of £0.25 each		Ordinary shares of £0.01 each		Deferred shares of £0.24 each		Ordinary shares of £0.25 each	
	Shares	£m	Shares	£m	Shares	£m	Shares	£m
Issued and fully paid							1,950,059,808	487.6
At start of year	**1,956,513,591**	**489.2**	**–**	**–**	**–**	**–**	6,453,783	1.6
Shares issued in respect of share option schemes	**1,266,035**	**0.3**	**–**	**–**	**–**	**–**	–	–
Subdivision of ordinary share capital	**(1,957,779,626)**	**(489.5)**	**1,957,779,626**	**19.6**	**1,957,779,626**	**469.9**	–	–
Repurchase of deferred shares	**–**	**–**	**–**	**–**	**(1,957,779,626)**	**(469.9)**	–	–
Shares issued in respect of share option schemes	**–**	**–**	**1,125,718**	**0.1**	**–**	**–**	–	–
At end of year	**–**	**–**	**1,958,905,344**	**19.7**	**–**	**–**	1,956,513,591	489.2

Nominal value reduction

In July 2021, the Company reduced the nominal value of its ordinary shares from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remained unchanged and each shareholder's proportionate interest in the share capital of the Company remained unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged. The repurchase and cancellation of the shares resulted in an increase to the Company's capital redemption reserve of £469.9m.

Issue of new shares

A total of 2,391,753 (last year: 6,453,783) ordinary shares having a nominal value of £0.4m (last year: £1.6m) were allotted during the year under the terms of the Company's share schemes which are described in note 13 of the Group financial statements. The aggregate consideration received was £0.3m (last year: £0.0m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

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

In addition to the above, the Group has committed to invest up to £25.0m, over a three-year period to 2024/25, in an innovation and consumer growth fund managed by True Capital Limited. The fund can drawdown amounts at any time over the three-year period to make specific investments. During the period, the Group invested £3.3m of this commitment, which is held as a non-current other investment and measured at fair value through profit or loss (see note 16).

B. Other material contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Cash flows from operating activities

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

1. Excludes £5.6m (last year: £12.4m) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme.
2. Adjusting items net cash outflows relate to strategic programme costs associated with the UK store estate, UK logistics, and the utilisation of the provisions for International store closures and impairments.
3. Adjusting items M&S Bank relates to M&S Bank income recognised in operating profit offset by charges incurred in relation to the insurance mis-selling provision, which is a non-cash item.

27 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

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

	At 4 April 2021 £m	Cash flow £m	Changes in fair values £m	Lease additions and remeasurements £m	Exchange and other non-cash movements[1] £m	**At 2 April 2022 £m**
Net debt						
Bank loans and overdrafts (see note 20)	(4.7)	4.7	–	–	–	**–**
Cash and cash equivalents (see note 18)	674.4	531.7	–	–	(8.2)	**1,197.9**
Net cash per statement of cash flows	669.7	536.4	–	–	(8.2)	**1,197.9**
Current other financial assets (see note 16)	18.4	(0.8)	–	–	–	**17.6**
Liabilities from financing activities	–	–	–	–	–	**–**
Medium Term Notes (see note 20)	(1,682.1)	244.0	–	–	(91.4)	**(1,529.5)**
Lease liabilities (see note 20)	(2,405.9)	344.3	–	(100.6)	(116.5)	**(2,278.7)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(185.5)	–	–	–	(2.4)	**(187.9)**
Derivatives held to hedge Medium Term Notes	(8.1)	–	26.6	–	–	**18.5**
Liabilities from financing activities	(4,281.6)	588.3	26.6	(100.6)	(210.3)	**(3,977.6)**
Less: Cashflows related to interest and derivative instruments	77.6	(208.7)	(26.6)	–	221.0	**63.3**
Net debt	(3,515.9)	915.2	–	(100.6)	2.5	**(2,698.8)**

B. Reconciliation of net debt to statement of financial position

	2022 £m	2021 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**1,197.9**	674.4
Current other financial assets (see note 16)	**17.6**	18.4
Bank loans and overdrafts (see note 20)	**–**	(4.7)
Medium Term Notes – net of foreign exchange revaluation (see note 20)	**(1,494.7)**	(1,657.9)
Lease liabilities (see note 20)	**(2,278.7)**	(2,405.9)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	**(192.3)**	(193.5)
	(2,750.2)	(3,569.2)
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	**51.4**	53.3
Net debt	**(2,698.8)**	(3,515.9)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28 RELATED PARTY TRANSACTIONS

A. Subsidiaries

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

B. Joint ventures and associates

Ocado Retail Limited

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

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

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

Sales and purchases of goods and services:

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

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

Nobody's Child Limited

Nobody's Child Limited became an associate of the Group in November 2021 (see note 29).

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

C. Marks & Spencer UK Pension Scheme

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

D. Key management compensation

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

	2022 £m	2021 £m
Salaries and short-term benefits	**15.3**	8.6
Share-based payments	**2.1**	3.2
Total	**17.4**	11.8

E. Other related party transactions

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

29 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

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

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

The carrying amount of the Group's interest in Ocado Retail Limited is £800.4m (last year: £819.0m). The Group's share of Ocado Retail Limited loss of £18.6m (last year: profit of £64.2m) includes the Group's share of underlying profits of £13.9m, which includes £1.3m of exceptional income before tax related to insurance receipts (share of profit last year: £25.2m) and adjusting item charges of £32.5m (last year: £14.2m) (see note 5).

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

	As at 27 Feb 2022 £m	As at 28 Feb 2021 £m
Ocado Retail Limited		
Current assets	**291.2**	353.9
Non-current assets	**590.1**	336.8
Current liabilities	**(223.3)**	(245.7)
Non-current liabilities	**(449.8)**	(264.6)
Net assets	**208.2**	180.4

	29 Feb 2021 to 27 Feb 2022 £m	2 Mar 2020 to 28 Feb 2021 £m
Revenue	**2,248.8**	2,353.2
Profit for the period	**27.8**	156.8
Other comprehensive income	**–**	–
Total comprehensive income	**27.8**	156.8

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 GOVERNMENT SUPPORT

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

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

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

31 CONTINGENT ASSETS

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

32 SUBSEQUENT EVENTS

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

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2022 £m	As at 3 April 2021 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,403.7**	9,730.8
Total assets		**9,403.7**	9,730.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,541.2**	2,541.8
Total liabilities		**2,541.2**	2,541.8
Net assets		**6,862.5**	7,189.0
Equity			
Ordinary share capital	C7	**19.7**	489.2
Share premium account	C7	**910.6**	910.4
Capital redemption reserve		**2,680.4**	2,210.5
Merger reserve	C7	**870.9**	1,262.0
Retained earnings		**2,380.9**	2,316.9
Total equity		**6,862.5**	7,189.0

The Company's loss for the year was £357.3m (last year: profit of £951.0m).

The financial statements were approved by the Board and authorised for issue on 24 May 2022. The financial statements also comprise the notes C1 to C7.

Steve Rowe, Chief Executive Officer

Eoin Tonge, Chief Financial Officer

Registered number: 04256886

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 29 March 2020	487.6	910.4	2,210.5	311.0	2,300.3	6,219.8
Profit for the year	–	–	–	–	951.0	951.0
Capital contribution for share-based payments	–	–	–	–	16.6	16.6
Shares issued on exercise of employee share options	1.6	–	–	–	–	1.6
Reclassification to merger reserve	–	–	–	951.0	(951.0)	–
At 3 April 2021	**489.2**	**910.4**	**2,210.5**	**1,262.0**	**2,316.9**	**7,189.0**
At 4 April 2021	**489.2**	**910.4**	**2,210.5**	**1,262.0**	**2,316.9**	**7,189.0**
Loss for the year	**–**	**–**	**–**	**–**	**(357.3)**	**(357.3)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**30.2**	**30.2**
Shares issued on exercise of employee share options	**0.4**	**0.2**	**–**	**–**	**–**	**0.6**
Buy back and cancellation of own Shares[1]	**(469.9)**	**–**	**469.9**	**–**	**–**	**–**
Reclassification to merger reserve	**–**	**–**	**–**	**(391.1)**	**391.1**	**–**
At 2 April 2022	**19.7**	**910.6**	**2,680.4**	**870.9**	**2,380.9**	**6,862.5**

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

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 2 April 2022 £m	53 weeks ended 3 April 2021 £m
Cash flow from investing activities		
Dividends received	**33.8**	–
Additional investment in subsidiary	**(33.8)**	–
Net cash (used in)/generated from investing activities	**–**	–
Cash flows from financing activities		
Shares issued on exercise of employee share options	**0.6**	1.6
Repayment of intercompany loan	**(0.6)**	(1.6)
Net cash generated from/(used in) financing activities	**–**	–
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

Marks and Spencer Group plc (the "Company") is a public limited company domiciled and incorporated in England and Wales under the Companies Act 2006. The address of the Company's registered office is Waterside House, 35 North Wharf Road, London W2 1NW, United Kingdom.

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

These financial statements are presented in sterling, which is the Company's functional currency, and are rounded to the nearest hundred thousand.

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

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

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

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

Key sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

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

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. See note C6 for further details on the assumptions and associated sensitivities.

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

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £1,174,790 (last year: £1,093,458). The Company did not operate any pension schemes during the current or preceding year. For further information see the Remuneration Report.

C3 AUDITOR'S REMUNERATION

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

C4 DIVIDENDS

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

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

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £33.8m (last year: nil) and decreased its loan from Marks and Spencer plc by £0.6m (last year: £1.6m). The outstanding balance was £2,541.2m (last year: £2,541.8m) and is non-interest bearing. There were no other related party transactions.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2022 £m	2021 £m
Beginning of the year	**9,730.8**	8,763.2
Contributions to subsidiary undertakings relating to share-based payments	**30.2**	16.6
Additions	**33.8**	–
Impairment (charge)/reversal	**(391.1)**	951.0
End of year	**9,403.7**	9,730.8

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

During the year, the Company purchased additional shares in Marks and Spencer Holdings Limited (£33.8m). This allowed Marks and Spencer Holdings Limited to settle the contingent consideration that became payable during the year as a result of the investment in Ocado Retail Limited.

Impairment of investments in subsidiary undertakings

The Company evaluates its investments in subsidiary undertakings annually for any indicators of impairment or impairment reversal. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 2 April 2022, the market capitalisation of the Group was significantly below the carrying value of its investment in Marks and Spencer plc of £9,188.6m, indicating a potential impairment, despite stronger Group performance.

The recoverable amount of the investment in Marks and Spencer plc has been determined based on a value in use calculation. The Company has updated its assumptions as at 2 April 2022, reflecting the latest budget and forecast cash flows covering a three-year period. The pre-tax discount rate of 9.8% (last year: 8.9%) was derived from the Group's weighted average cost of capital, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The long-term growth rate of 2.0% (last year: 1.75%), was based on inflation forecasts by recognised bodies with reference to rates used within the retail industry.

The Company has determined that the recoverable amount of its investment in Marks and Spencer plc is £8,797.5m and as a result has recognised an impairment of £391.1m. This impairment primarily relates to the impact of market volatility on the discount rate as a result of the unfolding humanitarian crisis following the invasion in Ukraine and updated forecast cashflows, as restrictions on capital expenditure imposed during the Covid-19 pandemic were lifted.

Sensitivity analysis

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

- A 5% reduction in cash flows from the three-year plan would result in an additional impairment charge of £447.8m.
- A 50-basis point decrease in the long-term growth rate would result in an additional impairment charge of £479.1m.
- A 50-basis point increase in the discount rate would result in an additional impairment charge of £534.8m.

In the event that all three were to occur simultaneously, an additional impairment charge of £1,356.4m would be recorded.

C6 INVESTMENTS CONTINUED

B. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 2 April 2022 is disclosed below. All undertakings are indirectly owned by the Company unless otherwise stated.

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

Name	Share class	Proportion of shares held (%)
Founders Factory Retail Limited Registered office: Northcliffe House, Young Street, London, England, W8 5EH	£0.0001 ordinary (25.001% of total capital)	0.004
	£0.0001 Preference (74.999% of total capital)	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 ordinary A (50% of total capital)	–
	£1 ordinary B (50% of total capital)	100
Marks and Spencer Company Archive (CIC) (ii)	N/A	–
Marks and Spencer Guernsey Investments LLP	Partnership interest	100
Marks and Spencer Pension Trust Limited (iii)	£1 ordinary A	100
	£1 ordinary B	–
	£1 ordinary C	–
Marks and Spencer plc (v)	£0.25 ordinary	100
Marks and Spencer Scottish Limited Partnership (iv) Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	100
Ocado Retail Limited Registered Office: Apollo Court 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX	£0.01 ordinary	50
Amethyst Leasing (Holdings) Limited	£1 ordinary	100
M&S Limited	£1 ordinary	100
Manford (Textiles) Limited	£1 ordinary	100
Marks and Sparks Limited	£1 ordinary	100
Marks and Spencer (Northern Ireland) Limited Registered Office: Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR	£1 ordinary	100
Marks and Spencer Property Developments Limited	£1 ordinary	100
Nobody's Child Limited Registered Office: 10–11 Greenland Place, Camden, London, NW1 0AP	£0.01 ordinary (72.910% of total capital)	–
	£0.01 Preference (27.090% of total capital)	100
St. Michael (Textiles) Limited	£1 ordinary	100
St. Michael Finance plc	£1 ordinary	100

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B. Related undertakings continued

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 2 April 2022. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom and have a single class of ordinary share with a nominal value of £1. All undertakings are indirectly owned by the Company unless otherwise stated.

Name	Proportion of shares held (%)	Company number
Amethyst Leasing (Properties) Limited	100	4246934
Busyexport Limited	100	4411320
Marks and Spencer (Initial LP) Limited (v) Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	SC315365
Marks and Spencer (Property Ventures) Limited	100	5502513
Marks and Spencer 2005 (Brooklands Store) Limited	100	5502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	100	5502519
Marks and Spencer 2005 (Chester Store) Limited	100	5502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	100	5502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	100	5502546
Marks and Spencer 2005 (Hedge End Store) Limited	100	5502538
Marks and Spencer 2005 (Kensington Store) Limited	100	5502478
Marks and Spencer 2005 (Kingston–on–Thames Satellite Store) Limited	100	5502523
Marks and Spencer 2005 (Kingston–on–Thames Store) Limited	100	5502520
Marks & Spencer Outlet Limited	100	4039568
Marks & Spencer Simply Foods Limited	100	4739922
Marks and Spencer (Property Investments) Limited	100	5502582
Marks and Spencer Chester Limited	100	5174129
Marks and Spencer France Limited	100	5502548
Marks and Spencer International Holdings Limited	100	2615081
Marks and Spencer (Investment Holdings) Limited	100	13587353
Marks and Spencer 2005 (Parman House Kingston Store) Limited	100	5502520
Marks and Spencer 2005 (Pudsey Store) Limited	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	100	5502502
Marks and Spencer Holdings Limited (v)	100	11845975
Marks and Spencer Hungary Limited	100	8540784
Marks and Spencer Investments	100	4903061
Marks and Spencer Property Holdings Limited	100	2100781
Ruby Properties (Cumbernauld) Limited	100	4922798
Ruby Properties (Hardwick) Limited	100	4716018
Ruby Properties (Long Eaton) Limited	100	4716031
Ruby Properties (Thorncliffe) Limited	100	4716110
Ruby Properties (Tunbridge) Limited	100	4716032
Simply Food (Property Investments)	100	5502543
Simply Food (Property Ventures) Limited	100	2239799
Minterton Services Limited	100	4763836
Marks and Spencer (Bradford) Limited	100	10011863
Marks and Spencer (Jaeger) Limited	100	13098074
The Sports Edit Limited Registered office: Studio 419, The Print Rooms, 164/180 Union Street, London, SE1 OLH (vi)	77.734	9331295

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £21.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.
(ii) No share capital, as the company is limited by guarantee. Marks and Spencer plc is the sole member.
(iii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C ordinary shares are both directors of that company.
(iv) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.
(v) Interest held directly by Marks and Spencer Group plc.
(vi) Marks and Spencer plc holds 94.078% of A ordinary shares (and will acquire the remaining A ordinary shares to bring it up to 100% once shareholder approval has been obtained at the AGM), 100% of B ordinary shares and 0% of C ordinary shares.

International subsidiary undertakings[(i)]

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Minter Ellison 'Governor Macquarie Tower' Level 40 1 Farrer Place Sydney NSW 2000 Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	USD NPV	100
Marks and Spencer Czech Republic a.s	Jemnická 1138/1, Michle, Praha 4, 140 00, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Jemnická 1138/1, Michle, Praha 4, 140 00, Czech Republic	Czech Republic	CZK NPV	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary €3 Preference	80(iv) 100
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership Interest	99.99

Name	Registered address	Country	Share class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Hong Kong) Investments Limited	Suites 807-13, 8/F, South Tower, World Finance Centre, Harbour City, Kowloon, Hong Kong	Hong Kong	No Par Value Ordinary	100
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A (14.619% of total capital)	51
			INR 10 Class B (43.544% of total capital)	100
			INR 5 Class C[ii] (41.837% of total capital)	–
Aprell Limited	24/29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, D01 YE83, Ireland	Ireland	Ordinary of €1.25	100
Marks and Spencer Pensions Trust (Ireland) Company Limited By Guarantee	24-27 Mary Street, Dublin 1, Ireland	Ireland	N/A[iii]	–
M & S Mode International B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Stores B.V.	Basisweg 10 1043 AP Amsterdam Netherlands	Netherlands	€450 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 8º, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road, #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	SGD NPV	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 Romania SA (in liquidation)	84 GEN. H. M. BERTHELOT Street, Space B, Room 5, Ground floor, 1st District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
M&S (Spain) S.L. (in liquidation)	C / Boix Y Morer 11 Local A Madrid 28-Madrid Spain	Spain	€1 Ordinary	100
Marks and Spencer Clothing Textile Trading J.S.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	100

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.
(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).
(ii) INR 5 Class C shares 100% owned by JV partner.
(iii) No share capital as the company is limited by guarantee.
(iv) 20% of ordinary shares are owned by JV partner.

C7 SHARE CAPITAL AND OTHER RESERVES

Issue of new shares

In July 2021, the Company reduced the nominal value of its ordinary shares from £0.25 to £0.01. The reduction was completed by subdividing each £0.25 ordinary share in issue into one ordinary share of £0.01 and one deferred share of £0.24. All deferred shares were then bought back for total aggregate consideration of £0.01 and cancelled. The Company's issued share capital remained unchanged and each shareholder's proportionate interest in the share capital of the Company remained unchanged. Aside from the change in nominal value, the rights attaching to the ordinary shares (including voting and dividend rights and rights on a return of capital) remain unchanged. The repurchase and cancellation of the shares resulted in an increase to the Company's capital redemption reserve of £469.9m.

Merger reserve

The Company's merger reserve was created as part of a Group reorganisation that occurred in 2001/02 and has an economical relationship to the Company's investment in Marks and Spencer plc. In 2018/19, an amount equal to the impairment charge of £1,086.3m was transferred from the merger reserve to retained earnings as that amount had become a realised profit in accordance with TECH 02/17. Following the reversal of impairment recognised in 2019/20, an amount equal to the reversal of £951.0m was transferred from retained earnings to the merger reserve, in accordance with TECH 02/17. In the current year, an amount equal to the impairment of £391.1m has been transferred from the merger reserve to retained earnings in accordance with TECH 02/17.

GROUP FINANCIAL RECORD

	2022 52 weeks £m	2021 53 weeks £m	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m
Income statement					
Revenue[1]					
UK Clothing & Home	**3,308.3**	2,239.0	3,209.1	3,499.8	
UK Food	**6,639.6**	6,138.5	6,028.2	5,903.4	
Total UK	**9,947.9**	8,377.5	9,237.3	9,403.2	9,611.0
International	**937.2**	789.4	944.6	974.1	1,087.2
Revenue before adjusting items	**10,885.1**	9,166.9	10,181.9	10,377.3	10,698.2
Adjusting items included in revenue	**–**	(11.2)	–	–	–
Revenue	**10,885.1**	9,155.7	10,181.9	10,377.3	10,698.2
Operating profit/(loss)[1]					
UK Clothing & Home	**330.7**	(130.8)	223.9	355.2	
UK Food	**277.8**	228.6	236.7	212.9	
Ocado	**13.9**	78.4	2.6	–	
Other	**13.0**	1.9	16.8	27.0	
Total UK	**635.4**	178.1	480.0	595.1	535.4
International	**73.6**	44.1	110.7	130.5	135.2
Total operating profit before adjusting items	**709.0**	222.2	590.7	725.6	670.6
Adjusting items included in operating profit	**(136.8)**	(252.9)	(335.9)	(427.5)	(514.1)
Total operating profit/(loss)	**572.2**	(30.7)	254.8	298.1	156.5
Net interest payable	**(199.3)**	(219.1)	(211.2)	(239.7)	(107.4)
Pension finance income	**13.2**	47.2	23.6	25.8	17.7
Net finance costs before adjusting items	**(186.1)**	(171.9)	(187.6)	(213.9)	(89.7)
Adjusting items included in net finance costs	**5.6**	(6.8)	–	–	–
Net finance costs	**(180.5)**	(178.7)	(187.6)	(213.9)	(89.7)
Profit before tax and adjusting items	**522.9**	50.3	403.1	511.7	580.9
Profit/(loss) on ordinary activities before taxation	**391.7**	(209.4)	67.2	84.2	66.8
Income tax (expense)/credit	**(82.7)**	8.2	(39.8)	(38.9)	(37.7)
Profit/(loss) after taxation	**309.0**	(201.2)	27.4	45.3	29.1

GROUP FINANCIAL RECORD CONTINUED

		2022 52 weeks	2021 53 weeks	2020 52 weeks	2019 52 weeks	2018 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**15.7p**	(10.1)p	1.3p	2.5p	1.6p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**21.7p**	1.4p	16.7p	23.7p	27.8p
Dividend per share declared in respect of the year		**–**	–	3.9p	13.3p	18.7p
Dividend cover	Adjusted earnings per share/Dividend per share	**–**	–	4.3x	1.8x	1.5x
Retail fixed charge cover	Operating profit before depreciation/Fixed charges	**3.5x**	2.0x	3.4x	3.6x	3.8x
Statement of financial position						
Net assets (£m)		**2,917.9**	2,285.8	3,708.5	2,469.2	2,954.2
Net debt[2] (£m)		**2,698.8**	3,515.9	3,950.6	3,981.5	1,827.5
Capital expenditure (£m)		**300.2**	146.9	332.0	294.5	300.5
Stores and space						
UK stores		**1,035**	1,037	1,038	1,043	1,035
UK selling space (m sq ft)		**16.7**	16.8	16.8	17.2	17.6
International stores		**452**	472	483	445	429
International selling space (m sq ft)		**5.0**	5.1	5.0	4.9	5.2
Staffing (full-time equivalent)						
UK		**42,550**	44,423	49,094	50,578	53,273
International		**4,558**	4,754	4,894	4,862	5,655

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

GLOSSARY

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

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

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures			
Sales	Revenue	Consignment sales	Sales includes the gross value of consignment sales (excluding VAT) before the impact of adjusting items.
Clothing & Home store/Clothing & Home online sales	None	Not applicable	Where third-party branded goods are sold on a consignment basis, only the commission receivable is included in statutory revenue. This measure has been introduced given the Group's focus on launching and growing third-party brands and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. Clothing & Home revenue through stores and through the Clothing & Home online platforms. These revenues are reported within the UK Clothing & Home segment results. Store revenue excludes revenue from "shop your way" and click & collect, which are included in online revenue. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels. The growth in revenues on a year-on-year basis is a good indicator of the performance of the stores and online channels.

	2021/22 £m	2020/21 £m	%
UK Clothing & Home			
Store sales[1]	**2,209.5**	1,088.9	102.9
Consignment sales	**(8.6)**	–	
Store revenue	**2,200.9**	1,088.9	102.1
Online sales[1]	**1,122.7**	1,109.7	1.2
Consignment sales	**(15.3)**	–	
Online revenue	**1,107.4**	1,109.7	(0.2)
UK Clothing & Home sales[1] – 52-week basis	**3,332.2**	2,198.6	51.6
Consignment sales	**(23.9)**	–	
UK Clothing & Home revenue – 52-week basis	**3,308.3**	2,198.6	50.5
Week 53	**–**	40.4	
Total UK Clothing & Home revenue	**3,308.3**	2,239.0	47.8

1. UK Clothing & Home store sales excludes revenue from "shop your way" and click & collect, which are included in UK Clothing & Home online sales.

There is no material difference between sales and revenue for UK Food and International.

<table>
<tr><th>APM</th><th>Closest equivalent statutory measure</th><th>Reconciling items to statutory measure</th><th>Definition and purpose</th></tr>
<tr><td colspan="4">Income statement measures continued</td></tr>
<tr><td>Like-for-like revenue growth</td><td>Movement in revenue per the income statement</td><td>Revenue from non like-for-like stores</td><td>The period-on-period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change (greater than 10%) in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.
<table>
<tr><th></th><th>2021/22
£m</th><th>2020/21
£m</th></tr>
<tr><td>UK Food</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>6,414.1</td><td>5,831.1</td></tr>
<tr><td>Net new space[1]</td><td>225.5</td><td>163.7</td></tr>
<tr><td>Week 53</td><td>–</td><td>143.7</td></tr>
<tr><td>Total UK Food revenue</td><td>6,639.6</td><td>6,138.5</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>UK Clothing & Home</td><td></td><td></td></tr>
<tr><td>Like-for-like</td><td>3,218.3</td><td>2,164.5</td></tr>
<tr><td>Net new space</td><td>90.0</td><td>34.1</td></tr>
<tr><td>Week 53</td><td>–</td><td>40.4</td></tr>
<tr><td>Total UK Clothing & Home revenue</td><td>3,308.3</td><td>2,239.0</td></tr>
</table>
1. UK Food net new space includes sales to Ocado Retail Limited.</td></tr>
<tr><td>Food ex hospitality and franchise</td><td>Movement in revenue per the income statement</td><td>Revenue from hospitality and franchise categories and sales to Ocado Retail Limited</td><td>The period-on-period change in Food revenue (before sales to Ocado Retail Limited) excluding the hospitality and franchise categories' revenue (excluding VAT). The hospitality category includes cafes, counters and marketplace. This measure is based on Food total revenue rather than like-for-like revenue which was presented in the 2020/21 annual report. This measure is used to provide consistency with other measures provided within this report.
<table>
<tr><th></th><th>2021/22
£m</th><th>2020/21
£m</th><th>%</th></tr>
<tr><td>UK Food</td><td></td><td></td><td></td></tr>
<tr><td>Revenue</td><td>6,639.6</td><td>6,138.5</td><td>8.2</td></tr>
<tr><td>Sales to Ocado Retail</td><td>(32.1)</td><td>(24.2)</td><td>32.6</td></tr>
<tr><td>Hospitality</td><td>(167.0)</td><td>(54.0)</td><td>209.3</td></tr>
<tr><td>Franchise</td><td>(586.6)</td><td>(438.4)</td><td>33.8</td></tr>
<tr><td>Food ex hospitality and franchise</td><td>5,853.9</td><td>5,621.9</td><td>4.1</td></tr>
</table></td></tr>
<tr><td>M&S.com revenue/ Online revenue</td><td>None</td><td>Not applicable</td><td>Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.</td></tr>
<tr><td>International online</td><td>None</td><td>Not applicable</td><td>International revenue through International online platforms. These revenues are reported within the International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel. This measure has been introduced given the Group's focus on online sales.
<table>
<tr><th></th><th>2021/22
£m</th><th>2020/21
£m</th><th>%</th></tr>
<tr><td>International revenue</td><td></td><td></td><td></td></tr>
<tr><td>Stores</td><td>764.7</td><td>613.6</td><td>24.6</td></tr>
<tr><td>Online</td><td>172.5</td><td>165.7</td><td>4.1</td></tr>
<tr><td>Week 53</td><td>–</td><td>10.1</td><td></td></tr>
<tr><td>At reported currency</td><td>937.2</td><td>789.4</td><td>18.7</td></tr>
</table></td></tr>
</table>

GLOSSARY CONTINUED

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

	2021/22 £m	2020/21 £m	%
International revenue			
At constant currency	**937.2**	761.8	23.0
Impact of FX retranslation	**–**	17.5	
International revenue – 52-week basis	**937.2**	779.3	20.3
Week 53	**–**	10.1	
At reported currency	**937.2**	789.4	18.7

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Executive Committee.
Revenue before adjusting items	Revenue	Adjusting items (See note 5)	Revenue before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This measure has been introduced as certain adjustments have been made to revenue for the first time in accordance with the Group's policy for adjusting items.
Operating profit before adjusting items	Operating profit	Adjusting items (See note 5)	Operating profit before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance income before adjusting items	Finance income	Adjusting items (See note 5)	Finance income before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Finance costs before adjusting items	Finance costs	Adjusting items (See note 5)	Finance costs before the impact of adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
Net interest payable on leases	Finance income/ costs	Finance income/ costs (See note 6)	The net of interest income on subleases and interest payable on lease liabilities. This measure has been introduced as it allows the Board and Executive Committee to assess the impact of IFRS 16 Leases.
Net financial interest	Finance income/costs	Finance income/costs (See note 6)	Calculated as net finance costs, excluding interest on leases and adjusting items. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee.
EBIT before adjusting items	EBIT[1]	Adjusting items (See note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax as disclosed on the face of the consolidated income statement. This measure is used in calculating the return on capital employed for the Group.
Ocado Retail Limited EBITDA	EBIT[1]	Not applicable	Calculated as Ocado Retail Limited earnings before interest, tax, depreciation, amortisation, impairment and exceptional items.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Executive Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used within incentive plans.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income statement measures continued			
Adjusted basic earnings per share	Earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for an explanation of why this measure is used.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (See note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusting items	Effective tax rate	Adjusting items and their tax impact (See note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
52-week basis for the 2020/21 financial year	Corresponding equivalent statutory measure	Last trading week of 2020/21	The Group's financial year ends on the nearest Saturday to 31 March. The current financial year is for the 52 weeks ended 2 April 2022 with the comparative financial year being for the 53 weeks ended 3 April 2021. In order to provide comparability with the prior year results, adjustments have been made to the 2020/21 53-week income statement to remove sales, operating costs and other items relating to the last trading week of the 2020/21 financial year. In determining the week 53 adjustment, revenue and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53.

	2021/22 £m	Exclude week 53 £m	2020/21 52-week basis
Revenue			
UK Food	6,138.5	(143.7)	5,994.8
UK Clothing & Home	2,239.0	(40.4)	2,198.6
Total UK Retail	*8,377.5*	*(184.1)*	*8,193.4*
International	789.4	(10.1)	779.3
Total Group	*9,166.9*	*(194.2)*	*8,972.7*
Operating profit/(loss) before adjusting items			
UK Food	228.6	(15.0)	213.6
UK Clothing & Home	(130.8)	1.4	(129.4)
International	44.1	1.0	45.1
Adjusted profit before tax			
Total Group	*50.3*	*(8.7)*	*41.6*
Loss before tax			
Total Group	*(209.4)*	*8.2*	*(201.2)*

FINANCIAL STATEMENTS

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), the spot foreign exchange component of net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Net debt excluding lease liabilities	None	Reconciliation of net debt (see note 27) Lease liabilities (see note 20)	Calculated as net debt less lease liabilities. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash flow measures			
Free cash flow after shareholder returns	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other measures			
Covid-19 scenario	None	Not applicable	As part of the Group's normal financial planning process, the Board approved the 2020/21 budget and three-year plan. As a result of the UK government restrictions on trade that were announced in response to the Covid-19 pandemic, the Group revisited the 2020/21 budget and three-year plan to determine a downside scenario. The downside scenario assumed the government guidelines at the period end continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21, as outlined in the basis of preparation in the Group's 2020 Annual Report and Financial Statements. This downside scenario was approved by the directors and is defined as the Covid-19 scenario.
Capital expenditure	None	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year, less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination or through an investment in an associate.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Other measures continued			
Return on capital employed ("ROCE")	None	Not applicable	Calculated as being EBIT[1] before adjusting items divided by the average of opening and closing capital employed. The measures used in this calculation are set out below:

	2021/22 £m	2020/21 £m
EBIT before adjusting items	**709.0**	222.2
Net assets	**2,917.9**	2,285.8
Add back:		
Partnership liability to the Marks & Spencer UK Pension Scheme	**192.3**	193.5
Deferred tax liabilities	**187.2**	42.3
Non-current borrowings and other financial liabilities	**3,561.0**	3,659.9
Retirement benefit deficit	**5.7**	7.8
Derivative financial instruments	**–**	73.6
Current tax liabilities	**34.0**	–
Less:		
Investment property	**(15.0)**	(15.2)
Derivative financial instruments	**(61.4)**	–
Retirement benefit asset	**(1,043.9)**	(639.2)
Current tax assets	**–**	(35.4)
Net operating assets	**5,777.8**	5,573.1
Add back: Provisions related to adjusting items	**124.9**	100.8
Capital employed	**5,902.7**	5,673.9
Average capital employed	**5,788.3**	5,874.8
ROCE %	**12.2%**	3.8%

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

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