Marks and Spencer plc financial statements 2020

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STRATEGIC REPORT

Review of the business and future developments

Marks and Spencer plc (the 'Company') is the main trading company of the Marks & Spencer group of companies. The Company and its subsidiaries (the 'Group') are one of the UK's leading retailers of clothing, food and home products. The Group employs over 78,000 people and has around 1,519 stores including Simply Food franchised stores. The Group also trades in wholly-owned stores in the Republic of Ireland and the Czech Republic, through partly-owned stores in a number of European countries and India and in franchises within Asia, Europe and the Middle East.

The results for the year reflect a year of substantial progress and change including outperformance in Food, some green shoots in Clothing in the second half and the transformative investment in Ocado by the Ultimate Parent Group, Marks and Spencer Group plc, with the Company preparing for the launch in September 2020. However, the Covid-19 crisis has galvanised our colleagues to secure the future of the business.

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

In recent years, we have made a number of structural changes to the basic infrastructure of the business including closing 54 of our legacy shared stores, migrating off mainframe infrastructure to cloud-based systems and implementing new warehouse management systems. These changes have been instrumental in enabling the business to react effectively in the early weeks of the Covid-19 crisis.

We set out the Food strategy 18 months ago, rebuilt the leadership team and started to reposition M&S Food to broaden its appeal and move to 'trusted value'. The programme was picking up momentum before the crisis struck.

The UK Clothing & Home business experienced a year of substantial reshaping, resulting in some encouraging performance indicators in the second half. However, revenue declined 8.3% overall, with like-for-like revenue down 6.2%, including an estimated 2.2% adverse impact from Covid-19 in March. Online revenue was level. First-half trading was affected by poor availability in Womenswear, and in the second half by teething issues with the move to a more contemporary style and fit in Menswear. However, towards the end of the year performance, prior to the effects of Covid-19, in Womenswear and Kidswear was encouraging, Menswear saw improving sales trends and Lingerie held its market leading share.

The first phase of transforming the International business has been the move away from direct ownership to a franchise and joint venture model working with strong partners in high-potential territories. The focus now is on localising ranges and reducing prices, and will increasingly be on developing sales online globally. Operating profit before adjusting items declined 15.2% to £110.7m, largely as a result of trading conditions in March.

The acquisition by the Ultimate Parent Group of 50% of Ocado Retail gives us access to the UK's fastest growing food channel and is a strategic driver of growth for our Food business. The crisis has created a step change in demand for online grocery and we will commence supply to Ocado in September, making the M&S food range of over 6,000 products available online for the first time.

The Covid-19 pandemic has been unprecedented in scale and pace of impact and has changed the way people around the world live their lives. In response to the pandemic, both the Group and the Company have had to respond, focusing the response to four central issues: Colleagues; Customers and Business Continuity; Supply & Demand; and Balance Sheet Resilience. A summary of this response is set out below:

Colleagues:
- 26 March 2020, decision approved to make use of the UK's Coronavirus Job Retention Scheme, with 25,000 store colleagues placed on furlough on full pay, with colleagues continuing to work receiving a 15% uplift in pay;
- 9 April 2020, c.1000 support centre staff placed on furlough on 90% of salary with those still working receiving an equity grant via the Company's Restricted Share Plan equivalent to 5% of salary during the furlough period.

Customers and Business Continuity:
- Following announcement of UK lockdown measures and closure of non-essential retail, all Outlet stores closed from 24 March 2020, reopening on 15 June 2020;
- Social distancing measures put in place across stores and distribution centres to protect customers and colleagues.

Supply & Demand:
- Clothing & Home worked closely with suppliers to mitigate the impacts of the virus on sourcing, with production of un-cut items halted on 24 March 2020.
- Closure of Outlets and Clothing & Home sections of stores significantly impacted sales;
- Unpredictable Food trading with initial lockdown trade being up on the prior year, with trade declining as lockdown continued;
- Commitments to immediate payments for small food suppliers.

Balance Sheet Resilience:
- Successful negotiation to substantially relax or waive covenant conditions, until September 2021, attached to the revolving credit facility (RCF) to ensure access to the £1.1bn facility;
- Successful application made to Bank of England's Covid Corporate Financing Facility (CCFF).

Full details of the response are set out on pages 50 to 53 of the Marks and Spencer Group plc Annual Report 2020.

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

STRATEGIC REPORT

The financial statements are made up to the nearest Saturday to 31 March each year. The current financial year is the 52 weeks ended 28 March 2020 (the 'year'). The prior financial year was the 52 weeks ended 30 March 2019.

Further details on the Ultimate Parent Group's strategic direction can be found in the following sections of the Marks and Spencer Group plc Annual Report 2020, which does not form part of this report:

Strategic report on pages 2 – 43

Chairman's letter on pages 2 – 3

Chief Executive's statement on pages 4 – 6

People & culture on pages 18 – 19

Section 172 (1) statement

Engaging with stakeholders is fundamental to how M&S does business, and the directors of the Company believe that considering stakeholders in key business decisions is not only the right thing to do, but is vital to the Company's ability to drive value creation over the longer term and to make M&S special again.

The directors of the Company consider that they have responsibly and appropriately discharged their duties under the Companies Act 2006 (the "Act"), including their duty to act in the way that they consider, in good faith, will be most likely to promote the success of the Company for the benefit of its members as a whole, having due regard in doing so for the matters set out in section 172 (1) (a) to (f) in the Act ("s.172").

The directors of the Company are also the Executive Directors and the Company Secretary of Marks and Spencer Group plc ("the Ultimate Parent Group"). As a result of this and of the Ultimate Parent Group's governance structure (which is outlined in the Corporate Governance Statement in the Report of the Directors on page 23), the matters that the directors are responsible for considering under s.172 were considered by them together with the Ultimate Parent Group Board in relation both to the Ultimate Parent Group and to the Company. The directors consider the matters set out in s.172 to apply to both the Ultimate Parent Group and the Company on the basis that the Company is the Ultimate Parent Group's primary trading, contracting and employing entity, and therefore the Company's business relationships with employees, suppliers, customers and partners, are those of the wider Group. Where appropriate, and given that one of the Company's directors is not a director of the Ultimate Parent Group, the directors of the Company separately met immediately following Ultimate Parent Group Board meetings, to ensure that it had reviewed and considered all Ultimate Parent Group matters and decisions with respect to the specific interests of the Company and its stakeholders. During the year, the directors of the Company agreed with all of the Ultimate Parent Group Board's decisions and recommendations as applicable directly to the Company and its stakeholders, having been present during the Ultimate Parent Group Board's discussions and consideration of the matters set out in s.172.

Consequently, a description of how the directors have had regard to the matters set out in s.172 when performing their duty, as discharged alongside the Ultimate Parent Group Board for both the Ultimate Parent Group and the Company, is set out on pages 20 and 21 of the Group's Annual Report 2020 (available online at www.marksandspencer.com/thecompany). Information on how the directors of the Company engaged and had regard for the Company's employees and other stakeholders is provided in the 'Business relationships and colleague engagement' section of the Report of the Directors on page 21.

STRATEGIC REPORT

Results

	Notes	52 weeks ended 28 March 2020			52 weeks ended 30 March 2019 (Restated)[1]		
		Before Adjusting Items £m	Adjusting Items £m	Total £m	Before Adjusting Items £m	Adjusting Items £m	Total £m
Revenue	2, 3	10,181.9	–	10,181.9	10,377.3	–	10,377.3
Operating profit	2, 3, 5	587.5	(342.6)	244.9	725.6	(403.4)	322.2
Finance income	5, 6	44.0	2.9	46.9	34.8	–	34.8
Finance costs	6	(231.6)	–	(231.6)	(248.7)	–	(248.7)
Profit before tax	4, 5	399.9	(339.7)	60.2	511.7	(403.4)	108.3
Income tax expense	7	(83.4)	47.3	(36.1)	(105.1)	62.9	(42.2)
Profit for the year		316.5	(292.4)	24.1	406.6	(340.5)	66.1
Attributable to:							
Owners of the parent		312.8	(292.4)	20.4	403.0	(340.5)	62.5
Non-controlling interests		3.7	–	3.7	3.6	–	3.6
		316.5	(292.4)	24.1	406.6	(340.5)	66.1

1. Prior year comparatives have been restated for the adoption of IFRS 16 'Leases'. Refer to note 28 of the financial statements for detailed restatement tables and associated commentary.

Group revenue decreased 1.9%, largely as a result of lower UK Clothing & Home sales, including an adverse revenue impact of c.£83.5m in March largely attributed to Covid-19.

Group operating profit before adjusting items decreased by 19.0% to £587.5m. The Group recognised adjusting items before tax of £339.7m during the year (last year £403.4m) which include: directly attributable gains/(expenses) resulting from the Covid-19 pandemic; net costs associated with the implementation of strategic programmes in relation to UK store estate, organisation, operational transformation, IT restructure, UK logistics, charges arising in relation to changes to pay and pensions and International store closures and impairments (the closure of International-owned businesses); impairments and write-off of the carrying value of stores and other property charges; the reduction in M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision; guaranteed minimum pension and other pension equalisation; charges relating to establishing the investment in Ocado Retail Limited by the Ultimate Parent Group; impairment of goodwill; and a credit relating to the release of a provision for employee-related matters (refer to note 5).

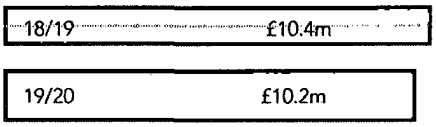
Net finance costs before adjusting items decreased £26.3m to £187.6m primarily due to a reduction in net lease financing costs and the reversal of ineffectiveness on a currency swap. Group profit before tax and adjusting items was £399.9m compared with £511.7m last year.

Key performance indicators

Financial

Group revenue

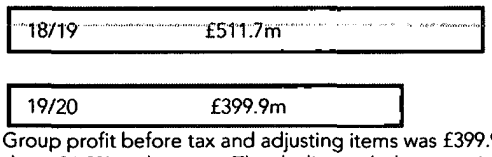
£10.2bn -1.9%



Group Revenue decreased by 1.9%, largely as a result of lower UK Clothing & Home sales. It is estimated that Covid-19 impacted Group revenue by £83.5m in March 2020 relative to forecast.

Group profit before tax (PBT) & adjusting items

£399.9m -21.8%



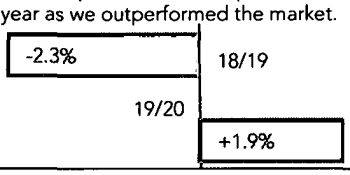
Group profit before tax and adjusting items was £399.9m, down 21.8% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March.

Strategic KPIs

FOOD

Like-for-like sales (see page 99 for definition)

Like-for-like sales performance improved and strengthened through the year as we outperformed the market.



+1.9%

Value for money perception

The proportion of customers who rated us highly on value for money. We reduced the price of over 500 lines by 10% this year to ensure 'trusted value'.

63% (18/19: 59%)

Availability

We continued our drive to improve availability and reduce waste through the Vangarde programme, designed to improve the running of our stores.

93.3% Level

Quality perception

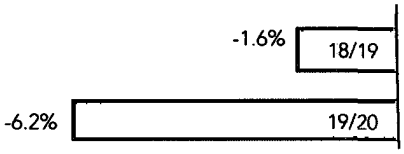
The proportion of customers who rated us highly on quality. Our Food strategy of 'protect the magic' includes maintaining the quality our Food products are famous for.

86% (18/19: 85%)

CLOTHING & HOME

Like-for-like sales (see page 99 for definition)

Like-for-like sales for 2019/20 were adversely impacted by availability in H1. However, before the impact of Covid-19, the eight weeks ended 22 February showed encouraging signs of improvement with life-for-like sales increasing 0.3%.



-6.2%

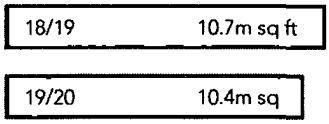
Value for money perception

The proportion of customers who rated us highly on value for money. We are accelerating our move towards trusted value for customers.

67% (18/19: 65%)

Clothing & home space

We continue to make good progress in reshaping our store estate for customers.



-2.3%

Style perception

The proportion of customers who rated us highly on style. We are reengineering our Clothing & Home business towards more contemporary fit and style as well as improvement to our core ranges.

63% (18/19: 58%)

Key performance indicators (continued)

STORES

Footfall (average per week)	Transactions (average per week)	Net promoter score*
-3.2%	+4.4%	
18.0m (18/19: 18.6m)	11.9m (18/19: 11.4m)	73 (18/19: 68)

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

M&S.COM

Percentage of UK Clothing & Home sales online	Traffic (visits per week)	Net promoter score*
+1.8%	+8.0%	
22.5%	9.5m	57 (18/19: 54)

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

INTERNATIONAL

International websites	Net promoter score*
44 (18/19: 39)	85

Our International business recorded a net promoter score for the first time in line with the wider business and will continue to measure future progress against this.

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

PEOPLE

Engagement

81% (18/19: 81%)

The proportion of our colleagues who feel proud to work at M&S and enjoy what they do.

Colleague Net Promoter Score*

12

The first full quarter results of our new monthly digital colleague pulse, following the move away from an annual colleague survey to better track colleague sentiment throughout the year. We will continue to report against these revised measurements in future.

* Net promoter score (NPS) equals percentage of 'promoters' minus the percentage of 'detractors'.

PLAN A

Recyclable packaging	M&S greenhouse gas emissions (CO_2e)	Volunteering hours
+7%	-6%	-2%
77%	338,000	46,398
% M&S product packaging classified as easily recyclable in the UK.	The gross carbon dioxide emissions from M&S operated stores, offices, warehouses and delivery fleets worldwide.	Paid hours of volunteering provided by M&S colleagues.

Financial review

Full year financial summary

	52 weeks ended		
	28 March 2020	30 March 2019 Restated[1]	Change
	£m	£m	%
Group revenue	10,181.9	10,377.3	(1.9)
UK Food	6,028.2	5,903.4	2.1
UK Clothing & Home	3,209.1	3,499.8	(8.3)
International	944.6	974.1	(3.0)
Group operating profit before adjusting items	587.5	725.6	(19.0)
UK Food	236.4	212.9	11.0
UK Clothing & Home	223.6	355.2	(37.0)
International	110.7	130.5	(15.2)
Other	16.8	27.0	(37.8)
Interest on leases	(133.4)	(147.2)	(9.4)
Net financial interest	(54.2)	(66.7)	(18.7)
Profit before tax & adjusting items	399.9	511.7	(21.8)
Adjusting items	(339.7)	(403.4)	15.8
Profit before tax	60.2	108.3	(44.4)

1. Prior year comparatives have been restated for the adoption of IFRS 16 'Leases'. Refer to note 28 of the financial statements for detailed restatement tables and associated commentary.

UK FOOD

UK Food revenue increased 2.1% and operating profit before adjusting items increased 11.0%, due to lower costs. We estimate a positive effect on March revenue of £17.7m and operating profit of £3.7m, largely related to Covid-19.

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

	%
2018/19 operating profit margin before adjusting items	3.6
Gross margin	-0.5
Store staffing	0.3
Other store costs	0.3
Distribution and warehousing	-0.2
Central costs	0.4
2019/20 operating profit margin before adjusting items	3.9

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

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

UK CLOTHING & HOME

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

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

	%
2018/19 operating profit margin before adjusting items	**10.1**
Gross margin	-1.2
Store staffing	-0.5
Other store costs	-0.6
Distribution and warehousing	-0.3
Central costs	-0.5
2019/20 operating profit margin before adjusting items	**7.0**

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

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

M&S BANK AND SERVICES

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

INTERNATIONAL

	52 weeks ended			
	28 March 2020 £m	30 March 2019 Restated £m	Change %	Change CC%
Revenue				
Franchise	392.6	409.2	-4.1	-3.8
Owned	552.0	564.9	-2.3	-1.6
Total	**944.6**	**974.1**	-3.0	-2.5
Operating profit before adjusting items				
Franchise	64.9	72.3	-10.2	
Owned	56.7	70.8	-19.9	
Corporate costs	(10.9)	(12.6)	13.5	
Total	**110.7**	**130.5**	**-15.2**	

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

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

NET FINANCE COST

	52 weeks ended		
	28 March 2020 £m	30 March 2019 Restated £m	Change £m
Interest payable	(80.5)	(80.3)	(0.2)
Interest income	8.6	8.0	0.6
Net interest payable before adjusting items	**(71.9)**	**(72.3)**	**0.4**
Pension net finance income	23.6	25.8	(2.2)
Unwind of discount on Scottish Limited Partnership liability	(6.9)	(8.8)	1.9
Unwind of discount on provisions	(4.9)	(7.9)	3.0
Ineffectiveness on financial instruments	5.9	(3.5)	9.4
Net financial interest before adjusting items	**(54.2)**	**(66.7)**	**12.5**
Net interest payable on lease liabilities	**(133.4)**	**(147.2)**	**13.8**
Net finance costs before adjusting items	**(187.6)**	**(213.9)**	**26.3**

Financial review (continued)

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

GROUP PROFIT BEFORE TAX

Group profit before tax declined 44.4% to £60.2m. This includes adjusting items of £339.7m.

GROUP PROFIT BEFORE TAX & ADJUSTING ITEMS

Group profit before tax and adjusting items was £399.9m, down 21.8% on last year. The decline includes an estimated impact from Covid-19 of £51.9m in March. The profit decrease was largely due to the decline in Clothing & Home operating profit.

ADJUSTMENTS TO PROFIT BEORE TAX

Consistent with previous years, the Group makes certain adjustments to statutory profit measures, in order to derive alternative performance measures that provide stakeholders with additional helpful information and to aid comparability of the performance of the business. For further detail on these charges and the Group's policy for adjusting items please see notes 1 and 5 to the financial statements.

	52 weeks ended			
	Covid-19 related*	28 March 2020 £m	30 March 2019 Restated £m	Change £m
Strategic programmes				
– UK store estate	(11.6)	(29.3)	(216.5)	187.2
– Organisation	-	(13.8)	(4.9)	(8.9)
– Operational transformation	-	(11.6)	(16.4)	4.8
– UK logistics	-	(10.2)	(14.3)	4.1
– Changes to pay and pensions	-	(2.9)	(6.2)	3.3
– International store closures and impairments	-	(2.2)	(5.3)	3.1
– IT restructure	-	(0.4)	(15.6)	15.2
Directly attributable to Covid-19	(163.6)	(163.6)	-	(163.6)
Store impairments and other property charges	(24.2)	(78.5)	(103.5)	25.0
Goodwill impairment – per una	(13.4)	(13.4)	-	(13.4)
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision	-	(12.6)	(20.9)	8.3
Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group	-	(1.2)	(3.4)	2.2
Other	-	-	24.1	(24.1)
GMP and other pension equalisation	-	-	(20.5)	20.5
Adjusting items	(212.8)	(339.7)	(403.4)	63.7

* Included within the total.

Financial review (continued)

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

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

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

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

COVID-19 ADJUSTING ITEMS

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

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

The charges relate to:

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

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

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

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

TAXATION

The effective tax rate on profit before tax and adjusting items was 20.9% (last year 20.5% (restated)). The effective tax rate is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 60.0% (last year 39.0%) due to the impact of disallowable adjusting items.

CAPITAL EXPENDITURE

	52 weeks ended		
	28 March 2020 £m	30 March 2019 £m	Change £m
UK store remodelling	60.3	26.0	34.3
New UK stores	33.3	40.1	(6.8)
International	12.3	11.0	1.3
Supply chain	39.2	48.7	(9.5)
IT & M&S.com	84.5	88.2	(3.7)
Property asset replacement	102.4	69.0	33.4
Capital expenditure before disposals	**332.0**	**283.0**	**49.0**
Proceeds from property disposals	(2.7)	(48.1)	45.4
Capital expenditure	**329.3**	**234.9**	**94.4**

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

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

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

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

STATEMENT OF FINANCIAL POSITION

Net assets were £5,699.5m at the year end, an increase of 13.0% on last year largely due to the increase in the net retirement benefit surplus.

CASH FLOW & NET DEBT

	52 weeks ended		
	28 March 2020 £m	30 March 2019 Restated £m	Change £m
Adjusted operating profit	**587.5**	**725.6**	**(138.1)**
Depreciation and amortisation before adjusting items	632.5	702.6	(70.1)
Cash lease payments	(335.7)	(312.7)	(23.0)
Working capital	(48.5)	61.1	(109.6)
Defined benefit scheme pension funding	(37.9)	(37.9)	-
Capex and disposals	(325.9)	(264.8)	(61.1)
Financial interest and taxation	(171.1)	(184.7)	13.6
Investment in joint ventures	(2.5)	(2.5)	-
Employee related share transactions	9.6	13.7	(4.1)
Cash received on refinancing of derivatives	7.7	-	7.7
Adjusting items outflow	(87.4)	(120.2)	32.8
Free cash flow	**228.3**	**580.2**	**(351.9)**
Dividends paid	(193.8)	(305.0)	111.2
Free cash flow after shareholder returns	**34.5**	**275.2**	**(240.7)**
Decrease in lease obligations	201.4	170.1	31.3
New lease commitments	(204.1)	(150.4)	(53.7)
Opening net debt	**(1,526.9)**	**(1,818.8)**	**291.9**
Exchange and other non-cash movements	23.8	(3.0)	26.8
Closing net debt	**(1,471.3)**	**(1,526.9)**	**55.6**

The business generated free cash flow before shareholder returns of £228.3m, down on last year, driven by lower adjusted operating profit, lower depreciation, working capital increase and higher capital expenditure. The working capital outflow relative to last year was largely the result of the timing of payments and increased inventory. This follows a planned reduction in inventories in the prior year, and higher than normal year-end inventory levels as a result of additional Food to meet stockpiling demand and lower than expected Clothing & Home sales in March.

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

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

Adjusting items in cash flow during the year were £87.4m. These included £22.7m in relation to the store closure programme, £20.9m for organisational change, £15.4m for operational transformation, £12.6m for M&S Bank, £4.3m for the technology transformation programme and £3.7m relating to distribution and warehousing.

After the payment of the final dividend from 2018/19, the interim dividend for 2019/20 and the reduction in outstanding discounted lease commitments due to capital repayments, net debt was down £55.6m from the start of the financial year.

PENSION

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

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

Principal risks and uncertainties and financial risk management

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

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
1	TRADING PERFORMANCE RECOVERY **A failure of our Food and/or Clothing & Home business to effectively and rapidly respond to the pressures of an increasingly competitive and changing retail environment, including the impact of Covid-19, would adversely impact customer experience, operational efficiency and business performance.** M&S competes with a diverse range of retailers – in both Food and Clothing & Home – in an increasingly challenged sector faced with continued cost and pricing pressures, shifts in consumer behaviours and broader macroeconomic uncertainties. Delivering the right product ranges that appeal to our customers, clear and simple pricing architecture and availability are critical to the growth of our business. In addition, Covid-19 has had, and continues to have, a significant negative impact on our trading performance in line with UK retail more widely. Managing the growth in surplus stock resulting from the lockdown is an area of business focus. Delays in implementing the targeted transformational improvements, or the business recovery plans in response to Covid-19, across the business could negatively impact business performance.	- Continued to strengthen capabilities of our senior leadership teams in both Food and Clothing & Home through targeted recruitment. - Established operating model consisting of a family of accountable businesses who share M&S brand values, colleagues and support functions, technology and customer data. - Managing directors for each of these businesses who have full accountability for their performance including for marketing, supply chain, finance and technology. - Individual Business Boards to enable executive oversight and effective governance of each business. - Continued delivery against business-specific transformation plans incorporating discipline around cost, prices, availability, value, ranges, broadening customer appeal and promotions across both businesses. - Development, ongoing update and monitoring of business-specific planning for the business restore as future stages of the lockdown are communicated. This includes development of a clear strategy to manage the wide-ranging implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management. - Planned improvements to online trading by delivering both the Ocado online launch in Food and our online ambitions for Clothing & Home.
2	BUSINESS TRANSFORMATION **A failure to execute our business transformation and cultural change initiatives with pace, consistency and cross-business buy-in will impede our ability to improve operational efficiency and competitiveness.** The business has continued to deliver the range of projects underpinning the transformation, including: - The reshaping, modernising and effective management of a UK store estate that is fit for the future, with the right stores in the right space, improved integration between online and store sales and shopping facilities expected by our target customer groups. - Modernising our supply chain and logistics activities to improve speed, operational effectiveness and availability and to reduce costs. - Delivering our Digital First ambitions to improve customer experience, reduce costs and work smarter across the business. In response to Covid-19, we will need to re-evaluate priorities and their delivery, including acceleration of initiatives to respond to permanent changes in customer behaviours or to change our own working practices, balancing delivery of the transformation with strict cash	- Adoption of a 'Never the Same Again' approach to all aspects of business operations and prioritisation of the most critical improvement initiatives. - Comprehensive review of all operational and capital expenditure to allocate spending to those activities aligned to the transformation agenda and stop others in view of Covid-19 priorities and recovery. - Maintenance of programme governance principles for all ongoing projects. - Periodic independent audit reviews of key programme delivery and reporting to the Audit Committee. - Maintaining momentum to deliver ongoing initiatives to transform our supply chain capabilities in all parts of the business. For example, in Food the Vangarde supply chain programme has demonstrated improvements to food waste levels and availability. - Continued focus on the store estate transformation with new initiatives like redevelopment of existing sites to make effective use of space, resetting rental rates with landlords and delivery of new format stores.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	management disciplines and rapidly reacting to the consequences of the pandemic. A pause or delay to key components of the business improvement programme because of the virus response or other reasons may delay delivery of the transformation objectives.	
3	LIQUIDITY & FUNDING **Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, could impact the business's ability to operate within and secure additional committed credit facilities.** Availability of, and access to, appropriate sources of funding is required for core business operations and the successful and timely delivery of our transformation plan. In addition, cash management has additional complexity as a consequence of the ongoing trading restrictions during lockdown, the associated reduction in cash generation and planning for the impact of furloughing, deferral of tax payments and other emergency measures. Brexit adds a further dimension to this risk because of the potential impact on currency movements, corporate bond rates, changes in credit regulations and the extent of government support of credit markets. An inability to maintain appropriate short- and longer-term funding to meet business needs (both operational and strategic), make payments on debt and to effectively manage associated risks, such as significant fluctuations in foreign currency or interest rate changes, may have an adverse impact on business viability and performance.	- Continued use of the existing committed facilities available to the business, including the £1.1bn revolving credit facility. - Immediate measures implemented to manage cash and liquidity, including: • Freezing of discretionary spend • Significant reduction in capital spending • Dividend deferral • Temporary furlough of colleagues • Enhanced controls over spending • Confirmation of our eligibility under the UK government's CCFF scheme • Use of the business rates holiday, tax payment deferral and other government support measures - Formal agreement received from the syndicate of lending banks to relax or waive covenant conditions for our revolving credit facility. - Close monitoring and stress testing of projected cash and debt capacity, financial covenants and other rating metrics. - Regular dialogue with the market and rating agencies. - Review of counterparty credit risk and limits in line with our risk appetite and treasury policy.
4	BREXIT **An inability to quickly identify and effectively respond to the challenges of a post-Brexit environment could have a significant impact on performance across our business.** The potential implications of the UK's exit from the European Union are significant and include: - Deterioration in customer sentiment. - Operational complexity and cost due to restrictions on the movement of goods and stricter border controls (including the movement of goods between Great Britain and Northern Ireland). - Costs passed through from our suppliers. - Continuity of supply and supplier viability. - Import and export duties. - Volatility in currency and corporate bond rates. - Tightening of the labour market. - Additional regulatory responsibilities and costs. - Increased complexity and cost in our international operations, including our franchise activities. While an orderly exit following the end of the transitional period would allow business planning to more effectively address the consequences of change against a defined timeframe, the level of change required as part of any deal is yet unclear. A no deal outcome would have a more immediate and negative impact. The focus on the response to Covid-19 and the possibility that the government may not seek an extension of the transitional period may mean there is an increased risk of a	- A cross-business working party is in place to undertake scenario planning including financial and operational impact assessments and to consider and drive readiness requirements. - Each of our family of businesses has undertaken a risk assessment to prioritise and plan for the operational changes they will need. Teams have continued to progress planning during the current pandemic lockdown. - Updates are provided to the Board and Audit Committee outlining risks and actions being undertaken. - We are engaged with the government and industry bodies to represent M&S's views, including the UK Border Development Group with access to the Department for Environment, Food and Rural Affairs (Defra), HM Revenue and Customs (HMRC) and the Food Standards Agency (FSA) to support operational planning.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	'no deal' departure and the consequential ability to implement the necessary measures on a timely basis.	
5	FOOD ONLINE **A failure to effectively execute the launch of M&S products for Ocado Retail would significantly impact the achievement of our strategy to take our food online in a profitable, scalable and sustainable way.** The investment in Ocado Retail by the Ultimate Parent Group and the Company's supply agreement with Ocado Retail is part of our strategy for improving our online reach and capability. To achieve this, we are committed to providing M&S product ranges and to have established new product development capabilities for Ocado Retail by the beginning of September 2020. Activities include: - Finalisation of all commercial agreements with suppliers. - Delivery of a range of M&S products to allow a seamless transition for Ocado customers on launch. - Establishing data and technology interfaces with Ocado Retail. - Developing operating procedures and ways of working between the two businesses. An inability to establish effective operating protocols in advance of the launch date, whether related to the impact of Covid-19 or other factors, could delay delivery of the expected benefits from the Ultimate Parent Group's investment in Ocado Retail and the Company's supply agreement with Ocado Retail.	- M&S nominated directors are part of the Ocado Retail Board and participate in leadership forums. - The establishment and continued operation of a dedicated M&S programme team, supported by senior leadership, to oversee all aspects of project delivery including commercial agreements, product range, and establishment of ongoing operating processes. - Joint working group in place with Ocado Group Plc and Ocado Retail to establish the systems, processes and ways of working to coordinate sourcing, product development, product ranging, customer data and marketing. - Regular remote communication continues under lockdown with the Board, senior management and the delivery teams.
6	FOOD SAFETY & INTEGRITY **Failure to prevent or effectively respond to a food safety incident, or to maintain the integrity of our products, could impact business performance, customer confidence and our brand.** Food safety and integrity remain vital for our business. We need to manage the potential risks to customer health and consumer confidence that face all food retailers. This includes considering how external pressures on the food industry and wider economic and environmental changes could impact the availability and integrity of our food, the ability to operate all routine controls, our reputation and shareholder value. Many of these external pressures, including the impact of Covid-19, inflationary costs, labour quality and availability, increased regulatory scrutiny, animal disease, and the unknown impact of Brexit, are, to a large degree, outside our control but are nevertheless monitored.	- Oversight from Customer and Brand Protection Committee. - Food Safety Policy and Standards are in place, with clear accountability set at all levels. - Defined Terms of Trade, manufacturing standards, specification for "from farm to fork" and standard operating procedures (stores, support centre and supply chain). - New food initiatives assessed for food safety risks. - Qualified and capable technical team, with continuing professional development programme. - Store, supplier and depot audit programmes, including unannounced visits and raw material testing, adapted to be managed remotely where site visits are not possible. - Introduction of modified processes, including enhanced monitoring of quality and customer complaints, to mitigate risk during the Covid-19 lockdown and ongoing assessment of the need for further change. - Quarterly review of our control framework. - Established processes for the development and legal sign-off for product packaging. - Documented and tested crisis management plan. - Membership of the Food Industry Intelligence Network at Board and Operating Committee level. - Periodic Internal Audit reviews to consider process design and operating effectiveness.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
7	CORPORATE COMPLIANCE & RESPONSIBILITY **Failure to deliver against our legal, regulatory, social and environmental commitments would undermine our reputation as a responsible retailer, may result in legal exposure or regulatory sanctions, and could negatively impact our ability to operate and/or remain relevant to our customers.** The increasingly broad and stringent legal and regulatory framework for retailers creates pressure on both business performance and market sentiment requiring continual improvements in how we operate as a business to maintain compliance. More recently, the requirements triggered by the Covid-19 outbreak, including in relation to safety and social distancing, have in a short time frame necessitated immediate changes to operating procedures in our distribution network, stores and support centres. In addition, the expectations of our customers and other stakeholders (including regulators) are increasingly demanding. The environmental impact of food, packaging and the sustainability of clothing are all increasingly relevant. Speed in responding to evolving expectations is vital to maintaining a positive business perception. Non-compliance may result in fines, criminal prosecution for M&S or colleagues, litigation, additional investment to rectify breaches, disruption or cessation of business activity, as well as have an impact on our reputation and financial results.	- A Code of Conduct is in place and has recently been reviewed and updated. This is underpinned by policies and procedures, including human rights, modern slavery, global sourcing, data protection, anti-bribery and corruption, health & safety, food safety, national minimum wage, equal pay, cyber and data security. An annual self-assessment compliance process is also in place. - Immediate crisis response capability (via the Crisis Management team) when required on a reactive basis – more recently for Covid-19. - Mandatory induction briefings and annual training for relevant colleagues on key regulations. - Oversight from committees and steering groups such as for fire, health and safety or food safety. - In-house regulatory legal team, including specialist solicitors, which conducts 'horizon scanning' on new and emerging regulatory and legislative changes. - Dedicated non-legal regulatory issue leaders and advisers to drive compliance against key risk areas within the business. This includes, for example, GSCOP (Groceries Supply Code of Practice) compliance in Food or ethical sourcing in Clothing & Home. - Proactive engagement with regulators, legislators, trade bodies and policy makers. - Simplified Plan A operating model with a lean central team responsible for setting the framework and establishing sustainability priorities in each of our family of businesses. - Published, monitored and reported commitments in relation to environmental and social issues in line with regulatory requirements. - Established auditing and monitoring systems. - Customer contact centre insight and analysis of live social media issues.
8	BUSINESS CONTINUITY & RESILIENCE **Failures or resilience issues at key business locations could result in major business interruption. In particular, a major incident at our Castle Donington e-commerce distribution centre may have a significant impact on our ability to fulfil online orders. More broadly, an inability to effectively respond to global events, such as pandemic of supply chain disruption, would significantly impact business performance.** As our sole online Clothing & Home fulfilment centre, the effective operation of our Castle Donington depot is vital. A major incident leading to a sustained period offline would impact sales and potentially hinder the growth of M&S.com. In addition to Castle Donington, the loss of other locations such as the dedicated warehouses that store beers, wines & spirits or frozen goods in the UK or support facilities, such as for IT, could impact business operations. While the response to Covid-19 has highlighted positives in the business's ability to continue operating in extreme circumstances, it has also underlined the risk associated	- A dedicated Business Continuity team. - An established Group Crisis Management process – which was invoked and has operated throughout the Covid-19 outbreak. - Business continuity plans, incorporating remote working requirements, are in place for key activities across our operations, including offices, depots and IT sites. These were invoked and, where needed, refined during lockdown. - Group Incident Reporting & Management Procedures in place and used to escalate incidents on site. These also include critical third parties. - Store and sourcing office business continuity assessments and visits, where appropriate. - Insurance cover to mitigate the impact of remediation and business interruption. - Mechanisms to validate the existence of key supplier arrangements.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
	with our global supply chains. The reliance on China and the interdependency of sourcing locations, in addition to the concentration of supply from individual countries such as Bangladesh, highlight the potential impact of globally *disruptive events. Beyond the supply chain, the* implications on trading both in the UK and International are also a risk.	- Ongoing contingency planning for Brexit. - Enhanced capabilities at Castle Donington to manage technology failure. - Engagement with external stakeholders including Retail Business Continuity Association and government-led initiatives. - Membership of the National Counter Terrorism Information exchange.
9	INFORMATION SECURITY **Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation, result in significant fines, business disruption, loss of stakeholder confidence, and/or loss of information for our customers, employees or business.** The increasing sophistication and frequency of cyber-attacks in the retail industry, coupled with the General Data Protection Regulation (GDPR), highlight the escalating information security risk facing all businesses. Our reliance on a number of third parties hosting critical services and holding M&S and customer data also means the information security risk profile is changeable. This risk also increases as we develop our digital capabilities. For example our dependency on the availability of, and access to, insightful data across our business and/or with the increasing shift online. In addition, the risk of data breach or misuse is impacted by Covid-19 as there is the potential for: - An increase in targeted phishing campaigns. - New risks linked to working from home and the usage of personal devices. - Increased reliance on third parties supporting critical support services.	- Dedicated Information Security function, comprising a multi-disciplinary operating of information security specialists and support services and capabilities, with a 24/7 Security Operation Centre. - Continued focus on improving controls, policies and procedures in line with our environment and threat landscape, *including heightened areas of risk due to* Covid-19. - Maintained focus on scanning our threat environment. - Established third-party assurance programme. - Focused security assurance, overall operational rigor and security hygiene around significant change activities. - Network of Data Protection Compliance Managers in priority business areas to oversee and address compliance. - Mandatory information security and data protection training for colleagues, including responsibilities for the use of personal data. - Corporate Security team with a focus on improving the physical security environment.
10	TECHNOLOGY CAPABILITY **A failure to improve our technology capabilities, reduce dependency on legacy systems and enhance digital capability could limit our ability to keep pace with customer expectations and competitors, enable business transformation and grow profitably.** The digital world continues to evolve at an unrelenting pace, enabling competitive advantage, influencing consumer behaviours or expectations and increasing demands on IT infrastructure. As demonstrated during the Covid-19 lockdown, our business resilience is increasingly dependent on the reliability and effectiveness of our technology infrastructure and capability. We are clear on our aim to be Digital First and continue to plan and invest to support this objective. While a focus on improving the existing IT infrastructure has begun to deliver improvements in capability, flexibility and cost efficiency, further work is required to enable the business to move with pace to meet customer and colleague needs. We also need to continue to develop the skills and capabilities of our colleagues in order to drive beneficial and effective use of the technological changes that are made.	- Delivery against our technology transformation programme continues and is underpinned with a defined technology operating model, project governance principles and agile methodology. - Cross-channel technology investment strategy in place and aligned to the family of businesses, reviewed quarterly to track benefits realisation of core projects. - Improvements to our IT infrastructure, increased bandwidth and deployment of a unified communication and collaboration tool, which underpinned the rapid move to remote working during the Covid-19 lockdown. - Continued investment in in-store technology and digital capabilities to enhance both customer and colleague experience. - Prioritisation of technology initiatives which is fully aligned with our operating and capital expenditure targets. - Continued collaboration with our principal technology services partner, TCS, and other strategic partnerships, such as Microsoft, to drive our Digital First ambition.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
		- Expansion of the Decoded programme and investment in data analytics expertise to improve digital people skills. - Investment in dedicated resource focused on technology risk and assurance maturity and roll-out of a structured IT control methodology.
11	THIRD-PARTY MANAGEMENT **An inability to successfully manage and leverage our strategic third-party relationships, or a critical failure of a key supplier or partner, could impact delivery of our transformation initiatives, our ability to operate effectively and efficiently or, in some circumstances, our brand and reputation.** Our business is dependent on a range of significant third-party relationships that span products and services, franchise operations, joint ventures, investments and our banking and services partners. A critical failure of a key supplier or partner could have a significant impact on operational activities, our transformation and/or customer experience – any of which could negatively impact operating profit. The scale and impact of Covid-19, both in the UK and internationally, has heightened the possibility of disruption or failure in the important group of third-party companies that form part of the extended operations of our business.	- Inclusion of third-party management risks as part of the Crisis Management team oversight of the Covid-19 response. - Clear procurement and supplier management policies in place, including dedicated relationship partners for strategic suppliers. - Defined service level agreements and key performance indicators for key contracts. - Dedicated procurement and commercial teams. - Key supplier business contingency planning including targeted reviews by our Business Continuity team. - Structured governance and business monitoring processes for investments, other partnering and franchise agreements. - Integrated business planning processes to support franchise and joint venture reviews. - Regular review of franchise and joint venture markets and new opportunities. - Third-party self-assessment processes to confirm compliance with expected standards and policies.
12	TALENT, CULTURE & CAPABILITY **An inability to maintain efficient processes and complete, accurate people metrics could impact our ability to effectively target our resources and people agenda to focus on attracting, engaging, developing and motivating colleagues and developing skills for the future. This could also impact the pace of operational and cultural transformation across the business.** The need to engage, motivate and connect with our colleagues across a multi-generational, diverse workforce and drive Digital First skills and mindset is key to delivering productivity and supporting the transformation of our business while driving customer loyalty through a differentiated service proposition. An inability to maintain the necessary change management capabilities could constrain our transformation objectives. This, combined with the cultural challenge of managing talent, performance and succession could result in increased resource management and development costs.	- Investment in external hires to strengthen capability and address identified skills gaps. - Investment in internal talent through structured identification of critical and senior roles. - Leadership development programmes to enhance leadership capability and colleague engagement. - Improved new starter experience to ensure effective onboarding, engagement and retention of new colleagues. - A Business Involvement Group which is actively involved in colleague engagement and representation throughout the business, including at Board meetings. - Development of a robust performance management system that will measure achievement against business objectives and behaviours, with a clear link to reward. - A total reward review, with benchmarking of all pay and benefit components and transparency on fair pay, including gender, ethnicity, disability and age. - Creation of a network of external allies to champion our inclusion and diversity agenda. - Change management capability considered a specific leadership skill requiring investment through training, toolkits and methodology. - Planned investment in an HR information system.

RISK	DESCRIPTION & CONTEXT	MITGATING ACTIVITIES
		- Delivery of a digital-specific apprenticeship programme driving digital literacy and capability building.
13	BRAND, LOYALTY & CUSTOMER EXPERIENCE **An inability to evolve our brand appeal, customer experience and Sparks loyalty programme will impact our success in retaining and attracting customers and expanding the business.** Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. A failure to anticipate and keep up with customer expectations would impact future trading performance. In addition, the uncertainty of the duration of Covid-19 and its longer-term impact on consumer behaviour, shopping habits and spending power, is unknown, making our ability to plan and rapidly react more important than ever. Evolving our Sparks programme in a way that resonates with our customers and helps inform business decisions remains a key objective. Combined with coordinating improvements across customer experience and personalisation through meaningful measures of customer experience, data-driven marketing strategies and embedding Digital First behaviours, these are key enablers to being a customer-centric business.	- Chief Digital & Data Officer in post to head Insights and Loyalty programmes and the recently created Digital & Data team focusing on loyalty, data science, digital product, customer growth and innovation. - Brand, marketing and product teams aligned with the operating model to better address the specific needs of our family of businesses. - Improved online search functionality, enhanced end-to-end journey across M&S.com and stores for Click & Collect, and greater personalised digital products and marketing. - Investment in capability to measure customer experience through introduction of an end-to-end and multichannel net promoter score programme, supported by third-party expertise. - Completion of a review of our Sparks loyalty programme to inform next steps. - Proactive monitoring of social media to observe and respond to trends in customer experience. - Initiatives launched in response to the Covid-19 lockdown to continue making product available safely to customers, for example the range of M&S food boxes, expansion of Mobile Pay Go payment facility, introduction of M&S E-Gift Cards and shifting focus to contactless home delivery. - Targeted use of celebrity engagement and high-impact sponsorship of ITV's 'Britain's Got Talent'.

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

RISK CATEGORY	RISK DESCRIPTION	RELEVANT PRINICPAL RISK
Protecting customers & colleagues	An inability to maintain, and where needed adapt, operational protocols to safeguard customers, colleagues and other partners involved in operating our business during extended lockdown or a period of transitional social distancing would impact the continued operation of stores and breach our responsibilities to all key stakeholders.	Legal & regulatory compliance
Clothing & Home Inventory management Liquidity	A failure to effectively manage the implications of the lockdown period on all aspects of the Clothing & Home supply chain and inventory management would adversely impact customer experience, trading performance, liquidity, operational efficiency and third-party relationships for an extended period. Significantly reduced trading over an extended and currently undetermined timeframe, combined with an inability to effectively manage expenditure against revised targets, would impact the business's ability to operate within committed credit facilities.	Trading performance (Clothing & Home) Liquidity & funding
Store portfolio management	An inability to increase the scale and pace of our plans to create a modern and appropriately shaped store estate during the retail property market downturn would impede our transformation objectives. An inability to secure favourable agreements with landlords would impede cost control initiatives.	Business transformation
Post-crisis recovery	An inability to successfully respond to the ending of lockdown (such as management of colleagues returning from furlough and re-establishing 'business as usual' process and control) would trigger operational challenges and inefficiencies for the business. A failure to evaluate, fund and implement initiatives to improve business operations would be a missed opportunity.	Multiple risk implications

RISK CATEGORY	RISK DESCRIPTION	RELEVANT PRINICPAL RISK
Strategy realignment	An inability to define and successfully implement a revised strategy to rapidly respond to a post Covid-19 world and the associated changes in customer behaviours and operational requirements would significantly undermine the transformational imperatives of the business. This would include, although not be limited to, the operation of our online Clothing & Home business, International operations, management of operating and capital expenditure and the portfolio of business transformation initiatives under way.	Multiple risk implications

Many of the principal risks prior to the pandemic remain the same in substance but have been amplified by the current events – for example, our ability to effectively respond to Brexit, the transformational improvements needed to the supply chain, maintaining controls over food safety, the potential risk of disruption to critical third-party relationships or readiness to execute the launch of M&S products with Ocado Retail.

It is also important to note that, in many respects, the impact of Covid-19 has the characteristics of an emerging risk as well as changing the principal risk profile today, as future events, and their impact on our business and the global community we work within, cannot be determined with any certainty. We will therefore continue to monitor and respond to further changes as needed in the months ahead. As a consequence, the nature and magnitude of the ongoing events will continue to change the risk profile in currently unknown ways.

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and strategic report as set out on pages 1 – 11 as well as the Group's principal risks and uncertainties as set out on pages 12 -19. In addition to this, the directors have reviewed the forecast results and the downside sensitivities set out in note 1. The directors have also considered the performance of the Group, subsequent to the period end, noting that actual performance is not adverse in relation to the forecast results. Based on this and the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern in preparing its financial statements.

The Strategic Report was approved by the Board on 17 August 2020 and signed on its behalf by

Nick Folland
Director

REPORT OF THE DIRECTORS

Profit and dividends

The consolidated profit for the financial year, after taxation, amounts to £20.4m (last year: £66.1m). The directors have declared dividends as follows:

		2020 £m	2019 £m
Ordinary shares:			
Paid final dividend	4.1p (last year 6.8p)	116.8	193.8
Paid interim dividend	2.7p (last year 3.9p)	77.0	111.2
Total ordinary dividend	6.8p per share (last year 10.7p)	193.8	305.0

The directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Board of Directors do not, at this stage, anticipate paying a dividend for 2020/21.

Share capital

The Company's issued ordinary share capital, as at 28 March 2020 comprised a single class of ordinary share. Details of the issued share capital can be found in note C18 to the financial statements.

Significant agreements

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

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

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

Directors

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

Nick Folland

Stephen Rowe

Humphrey Singer (resigned on 31 December 2019)

Eoin Tonge (appointed 26 June 2020)

Directors' indemnities

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

Qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were in force during the year ended 28 March 2020 and remain in force in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors or Company Secretary or employees of the Company or of any associated company.

Business relationships and colleague engagement

The Company is the Ultimate Parent Group's primary trading, contracting and employing entity, and therefore the Company's business relationships with employees, suppliers, customers and partners, are those of the Ultimate Parent Group.

The directors of the Company are also the Executive Directors and the Company Secretary of the Ultimate Parent Group. As a result of this and of the Ultimate Parent Group's governance structure (which is outlined in the Corporate Governance Statement in the Report of the Directors on page 23), the directors of the Company have undertaken their directors duties in relation to employees and other stakeholders together with the Ultimate Parent Group Board, for both the overall Ultimate Parent Group and for the Company specifically. This included engaging with and having due regard for employee interests and to the need to foster business relationships with suppliers, customers and other stakeholders in decision making. This engagement, and examples of key decisions influenced by, and impacting, our colleagues, customers, suppliers and partners is summarised below:

- **Colleagues:** Our colleagues are the heart and soul of the business and central to its success, so properly incorporating their views into the Ultimate Group Board's decision-making (adopted by the directors of the Company) is essential to our transformation, of which culture change is a key plank. To achieve this, the role of our Business Involvement Group (BIG) network has been redeveloped with a more regular presence at the Ultimate Parent Group's Board and Remuneration Committee meetings. Feedback, suggestions and concerns from colleagues across the business are also considered through channels such as our Monday trading calls, Talk Straight monthly colleague engagement and the Suggest to Steve initiative. The Ultimate Parent Group Board (and consequently the Board of the Company) receives regular updates on these topics.
    - **Key Decisions:** Colleagues told us that their role in delivering the transformation was often unclear, so we developed a set of clear, relatable behaviours, with supporting training to help them; Engaging with colleagues directly shaped the reset of the role of BIG and strengthened the colleague voice at M&S, with BIG attendance at three Ultimate Parent Group Board meetings and one Remuneration Committee meeting during the year.
- **Customers:** Ensuring the customer is at the heart of every decision is crucial to the Ultimate Parent Group Board's strategy (and consequently the strategy adopted by the directors of the Company). This year, we have focused on our customers by offering trusted value and a wider range in Food, moving to a first price, right price approach with improved availability in Clothing & Home, reshaping our store estate and improving our website to serve customers however they want to shop. We engage directly with customers through social media and have implemented a range of measures to protect their safety and promote social distancing to minimise the risk of Covid-19 spread.
    - **Key Decisions:** In Food, we improved our range and value proposition for customers through continued price investment in high-volume lines and improving our product innovation pipeline; In International, completion of the roll-out of market right pricing and launch of local flagship websites has improved our value and availability propositions internationally.
- **Suppliers:** Our long-term supplier partnerships are an important part of being able to innovate and offer trusted value to customers. In 2019, we focused on improving our supply chain; an essential facet of our strategy and one that can only be driven forwards through continuing, close engagement with our suppliers. Looking ahead, the launch of products on the Ocado platform in September (which commences the Company's relationship with Ocado Retail Limited), and our ambition to grow online to one third of sales presents significant, mutually beneficial volume growth opportunities that we will continue to work with our suppliers to achieve.
    - **Key Decisions:** Working with suppliers to implement logistical improvements, including more frequent, better planned deliveries and moving to a single-tier network; We continue to ensure that our global supply chain is robust, with viable business continuity plans in place, including no over-reliance on one supplier or geography.
- **Partners:** Our digital, franchise and JV partners have been an important feature of Board discussions, particularly leveraging the expertise of our digital partners to make better use of technology in our transformation. Into 2020/21, we have worked in partnership with the UK government, banks and other food retailers to secure both the continuity of UK food supplies and the future liquidity of our business.
    - **Key Decisions:** Members of the International leadership team regularly meet with key international partners to discuss progress and any areas of concern; We worked closely with our key international partners and suppliers to agree appropriate supporting measures during times of significant economic difficulty, including the ongoing Covid-19 crisis.

Further information on how the directors of the Company, together with the Board of the Ultimate Parent Group, engaged with employees and other stakeholders, and how regard for their interests affected the principal decisions made by the Ultimate Parent Group (being the principal decisions adopted by the Company) can be found on pages 20 and 21 of the Ultimate Parent Group's Annual Report 2020.

As part of the Ultimate Parent Group's wider transformation, the directors of the Company remain committed to colleague involvement throughout the business. As above, the engagement of employees is a matter considered by the directors of the Company together with the Ultimate Parent Group Board, and includes ensuring that colleagues are kept well informed of the performance and strategy of the Ultimate Parent Group, are consulted on a regular basis for their views to be taken into account, and are provided with information on matters of concern to them as employees. In addition to the engagement and consideration set out above and on pages 20 and 21 of the Ultimate Parent Group's Annual Report 2020, examples of colleague involvement and engagement, and information on our approach to our workforce and culture, are highlighted on pages 18 and 19 of the Marks and Spencer Group plc Annual Report 2020.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all-employee Save As You Earn Scheme and Share Incentive Plan. As of 28 March 2020, approximately 30,538 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 141 to 142 of the Marks and Spencer Group plc Annual Report 2020.

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

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement.

The Company's policy is to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, health condition, age, marital or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

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

M&S has a business-wide inclusion strategy which is led by the Inclusion Steering Group. Alongside this, each member of the Operating Committee sponsors an element of diversity, helping our employee-led diversity networks grow in numbers and strength and to embed a culture of inclusion across the organisation. In 2019, the Inclusion Steering Group agreed to two key goals; by 2022, to have 50% female representation and 15% BAME representation on the M&S senior management team. As at 28 March 2020, female representation was 41% and BAME representation was 8%.

Employees with disabilities

The Company is clear in its policy that people with health conditions should have full and fair consideration for all vacancies. M&S has continued to demonstrate its commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment.

M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

Financial instruments

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

Groceries Supply Code of Practice

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

M&S submitted its report, covering the period from 31 March 2019 to 28 March 2020, to the Audit Committee on 14 May 2020.

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

M&S believes that it has materially complied with the Code and the Order during the relevant period. No formal disputes under the Code have arisen during the reporting period. There have been seven instances during the reporting period in which suppliers have either alleged a breach or made a reference to potential non-compliance with the Code. M&S has worked with the suppliers to address the issues raised and six of them have been resolved or closed. One additional Code reference made by a supplier before 31 March 2019 was also resolved during the reporting period.

Total Global M&S Greenhouse gas emissions 2019/20

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

	2019/20 000 tonnes	2018/19 000 tonnes	% change
Direct emissions (scope 1)	173	167	+4%
In-direct emissions from electricity (scope 2)	165	193	-15%
Total gross/location-method scope 1+2 GHG emissions	**338**	**360**	**-6%**
GHG intensity per 1,000 sq ft of salesfloor	**18**	**19**	**-5%**
Procured renewable energy	143	202	-29%
Total market-method scope 1+2 GHG emissions	**195**	**158**	**+23%**
Procured carbon offsets	195	158	+23%
Total net scope 1+2 GHG emissions	**0**	**0**	**-**

GHG emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2019 BEIS conversion factors. The reduction in Gross/location-method figures are due to the lowering of UK grid electricity carbon intensity. Whilst the higher market-based figure is due to the electricity at some locations no longer being classified as renewable. For full details, please see 2020 Plan A Report available at corporate.marksandspencer.com/sustainability.

Political donations

The Company did not make any political donations or incur any political expenditure during the year ended 28 March 2020. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Statement of directors' responsibilities

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Corporate governance statement

The directors have an ongoing commitment to the highest standards of corporate governance. However, given that the Company's governance is managed within the Group's overarching governance arrangements as outlined below, being consistent with Marks and Spencer Group plc's compliance with the UK Corporate Governance Code 2018, they do not consider it necessary for the Company to separately apply a corporate governance code to its governance arrangements.

REPORT OF THE DIRECTORS

Marks and Spencer Group plc is the Company's sole shareholder and ultimate parent company of the M&S Group. Consequently, the Board of Marks and Spencer Group plc ('Ultimate Parent Group Board') and its Committees have overarching decision making authority for the Ultimate Parent Group on a number of reserved matters. These include setting the Ultimate Parent Group's strategy and values, reviewing and approving operating plans, and reviewing and approving the Ultimate Parent Group's policies, processes and management structures, amongst others. Responsibility for actioning the Ultimate Parent Group Board's decisions and strategic direction throughout the day-to-day management of the Ultimate Parent Group then rests with the Ultimate Parent Group Board's executive directors and the senior leadership team, which during the year comprised the Operating Committee (now the Executive Committee) and the Business Boards for each of the family of businesses (Food, Clothing & Home, Retail & Property, International, and Bank & Services). Authority is delegated formally to these bodies via the Ultimate Parent Group's Delegation of Authority document, and those with delegated authority provide the Ultimate Parent Group Board with regular updates confirming that appropriate controls are in place, are fit for purpose and are being adhered to.

As the Company is the Ultimate Parent Group's primary trading, contracting and employing entity, the directors of the Company ensure that they give due care and consideration to discharging their duties by adhering to the governance arrangements outlined above. The Board has adopted the Ultimate Parent Group's internal governance arrangements and internal controls as set out above as its own, being used to delegate authority on the Company's behalf. The directors have also recently instigated a practice of holding meetings immediately following those of the Ultimate Parent Group Board to review and consider all Ultimate Parent Group matters and decisions with respect to the specific interests of the Company and its stakeholders, which included having regard to the need to engage and consider the interests of employees, customers, suppliers and others in a business relationship with the Company. This regard is outlined in the 'Business relationships and colleague engagement' section on page 21.

Further information about the Ultimate Parent Group's corporate governance is provided in the Director's Report set out on pages 44-97 of the Group's Annual Report 2020, and in the Ultimate Parent Group's Corporate Governance Statement 2020 on the M&S corporate website (marksandspencer.com/thecompany).

In addition to these corporate governance arrangements, the Ultimate Parent Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

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

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Independent auditor

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

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 17 August 2020 and signed on its behalf by

NICK FOLLAND
Director
London, 17 August 2020

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Marks and Spencer plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 March 2020 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB');
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statement of Financial Position;
- the Consolidated and Parent Company Statements of Changes in Shareholders' Equity;
- the Consolidated and Parent Company Statement of Cash Flows; and
- the related notes 1 to 29 and C1 to C25.

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

2. Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current period were: • disclosure of adjusting items; • accounting for the UK store rationalisation programme; • impairment of UK store assets; • impairment of per una goodwill and brand;

	• inventory provisions for UK Clothing & Home; • recognition of leases under IFRS 16 Leases; and • the going concern basis of accounting. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £18.0 million (2019: £20.0 million) which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included: • adjusted profit before tax; • earnings before interest, tax, depreciation and amortisation; and • revenue.
Scoping	We have performed a full-scope audit on the UK component of the business, representing 95% (2019: 99%) of the Group's revenue, 92% (2019: 95%) of adjusted profit before tax, 91% (2019: 92%) of profit before tax, 80% (2019: 80%) of total assets and 87% (2019: 99%) of total liabilities. We perform analytical review procedures on the residual balances.
Significant changes in our approach	We have changed the basis on which we have determined materiality in the current period to reflect the volatility in the results of the Group arising from the impact of Covid-19. For further details refer to section 6 of this report. In 2020, we have reduced the scope of procedures performed in relation to the India and Ireland components. Refer to section 7 for further details of our approach to scoping the audit. In the current period we have identified two new key audit matters related to: • the going concern basis of accounting; and • the impairment of per una goodwill and brand. We have also determined that the valuation of the UK defined benefit pension obligation is no longer a key audit matter in the current year. These changes and the reasons for identification of these areas as key audit matters are discussed further in section 5.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

Refer to section 5.7 for details of our work regarding going concern.

5. Key audit matters

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

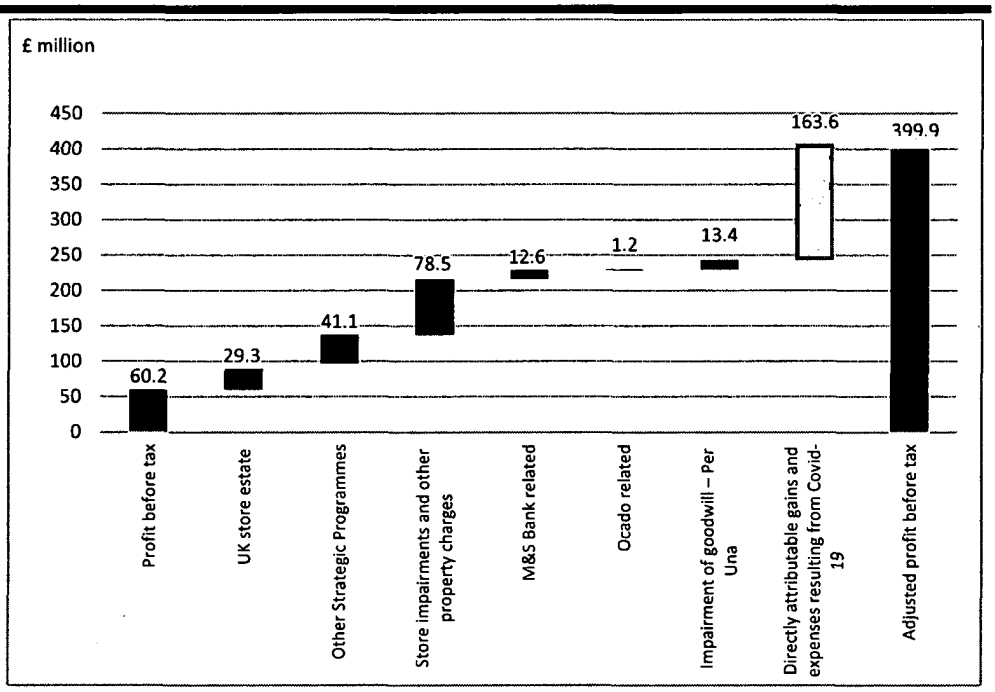
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Changes in the current period relative to previous periods are as follows:

- Due to the on-going Covid-19 pandemic which led to the mandatory closure of non-essential retail outlets in the Group's key market, the UK, and the subsequent uncertainty involved in scenario planning to underpin the management's going concern modelling and the associated audit work performed to assess the assumptions we have identified the going concern assumption applied to the financial statements as a key audit matter.
- We have identified the impairment of the per una goodwill and brand as a key audit matter for the first time in the current period. This is owing to both the continued challenging trading conditions following the relaunch of the brand in October 2019 and the subsequent impact of Covid-19 on the cash flow forecast used in the impairment assessment.
- We have not identified the defined benefit pension obligation as a key audit matter in the current period. This is due to a history of assessing the judgements and assumptions made by management at or near the middle of our independently calculated 'reasonable range' and the reduction in risk as a result of recent annuity buy-ins.

5.1. Disclosure of adjusting items

Key audit matter description	The Group has reported adjusted profit before tax of £399.9 million (2019: £511.7 million), which is derived from statutory profit before tax of £60.2 million (2019: £108.3 million) adjusted for a number of items (totalling £339.7 million) which the Group considers meet their definition of an 'adjusting item'. Judgement is exercised by management in determining the classification of such items and accordingly we consider there to be a risk of fraud in the reporting of adjusting items. In particular, we believe there is an increase in the level of risk associated with classification and disclosure of adjusting items in the current period, due to the effect of Covid-19 on adjusting item categories and balances. Additionally, recently updated guidance has been issued by the FRC and European Securities and Markets Authority ('ESMA') in relation to the impact of Covid-19 on alternative performance measures which encourages companies not to include such costs within adjusting items, rather to include separate disclosure. Separate disclosure has been made in the financial review on page 9. Explanations of each adjusting item, which include a number that are related to material restructuring programmes carried out over a number of years, and in the current year items that relate to Covid-19, are set out in note 5 to the financial statements and are summarised in the graphic below:



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

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

The Group's policy regarding adjusting items is set out in note 1.

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

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

- obtained an understanding of key controls relating to the identification and disclosure of adjusting items;
- performed enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature, particularly with regard to the Covid-19 related adjusting item;
- assessed the identification and consistency of items reported as adjusting in light of the latest guidance published by the ESMA and the FRC, in particular in relation to the transparency of disclosures made regarding Covid-19;
- performed tests over a representative sample of adjusting items through agreement to supporting evidence;
- used our cumulative audit knowledge and applied data analytics to identify and test other transactions outside of the normal course of business, or which displayed characteristics of being material, significant or one-off in nature;
- considered the impact of adjusting items on the directors' remuneration targets to determine whether any increased fraud risk factor existed based on actual results for the year; and
- assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.

Key observations	We are satisfied that the items included in adjusting items (including the directly attributable (gains)/expenses resulting from the Covid-19 pandemic of £163.6 million) are in line with the Group's policy and that they are appropriately disclosed.

5.2. Accounting for the UK store rationalisation programme

Key audit matter description	In February 2018 the Board approved a list of stores marked for closure as part of its UK store rationalisation programme. Including the impact of IFRS 16 *Leases* on the way rental payments and other property costs are accounted for the total charge recognised in connection with this closure programme in the previous two periods was £537.6 million. A further net charge of £29.3 million has been recognised in the current period as a result of: • management revisiting its assessment of stores approved for closure and the adequacy of estimates made in light of known developments in the exit strategy, including current trading performance, negotiations with landlords and changes in the retail property market, including as a result of Covid-19; • further accelerated depreciation of stores previously identified for closure as they approach their planned closure dates; and • accelerated depreciation and impairment of buildings and fixtures and fittings in respect of additional stores added to the programme. Further information is set out in notes 1 and 5 to the financial statements. Our key audit matter was focused on the specific assumptions applied in the discounted cash flow analysis prepared by management including the discount rate, expected sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs. We consider this to represent a key audit matter as a result of the level of judgement applied by management. There is an increased level of judgement in the current period as a result of the Covid-19 pandemic, which may impact the ability of the Group to negotiate closure or exit from certain stores in the forecast timeframes or on forecast terms.
How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • obtained an understanding of key controls relating to the review and approval of the Group's UK store exit model; • performed enquiries of management and inspected the latest strategic plans, Board and relevant sub-committee minutes of meetings; • understood and challenged the basis of management's judgement where stores *previously marked for closure are no longer expected to close and additional stores* have been identified for closure; • with the involvement of our internal real estate specialists, we evaluated the appropriateness of management's judgements for a representative sample of properties and benchmarked these with reference to external data, particularly as a result of the market uncertainty caused by the Covid-19 pandemic; • assessed the mechanical accuracy of discounted cash flow models and other key provision calculations; • assessed the integrity of key inputs to the discounted cash flow models including lease data, agent valuations, surveyor plans and rental payments with reference to supporting evidence; • recalculated the closing provision for a representative sample of stores; • evaluated the accuracy and completeness of provisions recorded in light of the status of the Group's UK store rationalisation plan; and • assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations	We are satisfied that the Group's estimate of the impairments and store exit charges and the associated disclosures are appropriate.

5.3. Impairment of UK store assets

Key audit matter description	As at 28 March 2020 the Group held £3,925.5 million (2019: £2,830.0 million) of UK store assets in respect of stores not considered for closure within the UK store rationalisation programme. In accordance with IAS 36 *Impairment of Assets*, the Group has undertaken an annual assessment of indicators of impairment. An impairment charge of £69.3 million (2019: £103.0 million) has been recognised within adjusting items as set out in notes 5 and 14 to the financial statements. As described in note 14 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance, incorporating committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores operating within their shelter period (which takes in to account the time new stores take to establish themselves in the market), all of which involve a high degree of estimation uncertainty (as disclosed in note 1 and note 14). We believe the level of risk related to the impairment of UK store assets has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the Covid-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty. The key assumptions applied by management in the impairment reviews performed are: • future revenue growth and changes in gross margin; • long term growth rates; and • discount rates. The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately, with the exception of the outlet stores which are used to clear aged seasonal Clothing & Home inventory at a discount. The outlet stores are considered to be a single group of assets for the purpose of impairment testing.
How the scope of our audit responded to the key audit matter	*In responding to the identified key audit matter we completed the following audit procedures:* • obtained an understanding of key controls relating to the impairment review process; • evaluated and challenged management's range of impairment indicators with due consideration paid to the profitability impact of committed strategic changes to the UK Clothing & Home and Food businesses and the performance of new stores; • assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36; • assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts; • assessed the appropriateness of the discount rates applied in conjunction with support from our internal valuations specialists and compared the rates applied with our internal benchmarking data; • evaluated the appropriateness and completeness of information included in the impairment model based on our cumulative knowledge of the business driven by our review of trading plans, strategic initiatives, minutes of property and investment committee meetings, and meetings with regional store managers and senior trading managers from key product categories, together with our wider retail industry knowledge; and • assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

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

5.4. Impairment of per una goodwill and brand

Key audit matter description	As at 28 March 2020 the Group held £56.1 million (2019: £69.5 million) of goodwill associated with the per una brand. The Group is required to assess the goodwill and intangible assets annually for impairment in accordance with IAS 36. Following difficult trading conditions the per una brand was relaunched in October 2019. Trading conditions have been challenging throughout the period and deteriorated further around the period end as a result of the Covid-19 pandemic. The level of risk associated with per una has increased as a result of the inherent challenges in forecasting results due to Covid-19 as well as the pre-existing macro-economic uncertainty. These represent a key source of estimation uncertainty as disclosed in note 1, and management has provided sensitivities in note 13. The test for impairment of intangible assets compares the carrying value of related assets to the higher of their fair value or value-in-use (a 'recoverable amount') using an impairment model. Developing a recoverable amount requires significant management judgement; the key judgements applied by management in the development of its impairment model are: • the sales forecasts for the brand; • longer term growth forecasts; and • the discount rate used. As set out in note 13, the forecast shows a sales decrease of 46.4% in 2020/21 driven by the impact of Covid-19 before returning to the pre-Covid-19 budgeted level in 2021/22. Following the completion of the impairment review, management has recognised an impairment charge of £13.4 million in relation to the per una goodwill. We consider this to represent a key audit matter reflecting the sensitivity of the recoverable amount calculation to changes in these key assumptions. Refer to note 13 of the financial statements.
How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • obtained an understanding of key controls relating to the review and approval of the impairment review; • tested the integrity of the model and cash flow forecasts and assessed that the methodology used is consistent with IAS 36; • assessed the appropriateness of forecast revenue and gross margin growth rates through comparison with external economic benchmarking data to determine if it provided corroborative or contradictory evidence in relation to management's assumptions, and with reference to historical forecasting accuracy, with a particular focus on the impact of Covid-19 on those forecasts; • assessed the mechanical accuracy of the impairment models and the methodology applied by management for consistency with the requirements of IAS 36; • with the involvement of our internal valuation specialists, we assessed the discount rate assumptions; • evaluated other material assumptions applied to the cash flow forecasts with reference to the macro-economic and industry environment; and • assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.

Key observations	We are satisfied that the assumptions used by management in determining their valuation and the disclosure made are appropriate.

5.5. Inventory provisions for UK Clothing & Home

Key audit matter description	As at 28 March 2020, the Group held UK Clothing & Home inventories of £355.6 million (2019: £496.1 million). The Group has recorded an incremental write-down of £157.0 million of inventory reflecting management's best estimate of the impact of Covid-19 on the Group (of which £145.3 million relates to UK Clothing & Home inventory), which is included within the Group's *directly attributable (gains)/expenses resulting from the Covid-19 pandemic* adjusting item as discussed in section 5.1. As described in the Accounting Policies in note 1 to the financial statements, inventories are carried at the lower of cost and net realisable value. As a result, judgement is applied in determining the appropriate provisions required for obsolete inventory and inventory expected to be sold below cost based upon a detailed analysis of old season inventory and forecast net realisable value based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement due to historical trading performance and the quantum of gross inventory. Covid-19 has required management to exercise considerable judgement in a period of extreme uncertainty with regard to the level of provisioning that is made for inventory, as such there is an increased level of judgement in the current period. Due to the inherent uncertainty around the future saleability of stock held at period end, management determined that it was no longer appropriate to determine the level of provision required based on historical experience and as such has changed the related methodology to consider future sales. Management has described its methodology for the calculation of the inventory provision in notes 1 and 5.
How the scope of our audit responded to the key audit matter	*In responding to the identified key audit matter we completed the following audit procedures:* • obtained an understanding of key controls relating to inventory management and the review and approval of the inventory provision; • assessed the validity, accuracy and completeness of the information used by management in computing the provision; • assessed the mechanical accuracy and logic of the models underpinning the provision; • understood the changes in the provisioning methodology and challenged the appropriateness thereof; • challenged and validated the key assumptions applied by management in estimating the provision, with particular reference to the impact of Covid-19 on sales and purchasing assumptions, by performing enquiries of buyers and merchandisers, considering the current purchasing strategy and ranging plans, assessed the historical accuracy of forecasting stock to be subject to a future discount and by using audit analytics; • tested the accuracy of the process used by management to identify potentially impaired inventory across a representative sample of individual product lines; and • assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRS.
Key observations	We are satisfied with the judgements taken by management and that the resulting inventory provision for UK Clothing & Home is appropriate. We believe the disclosures made around the level of uncertainty appropriately reflect reasonably possible future changes to management's estimates.

5.6. Recognition of leases under IFRS 16 *Leases*

Key audit matter description	The Group has elected to apply IFRS 16 *Leases* under the fully retrospective transition option from 31 March 2019. Management determined there to be an increase in total assets of £1,740.2 million and an increase in total liabilities of £1,961.2 million for the opening transition balance sheet at 1 April 2018. The current period is the first period in which the business has implemented IFRS 16. Further information is set out in note 28 to the financial statements. Our key audit matter was focused on the following areas of risk: • new lease arrangements entered into in the period that should be accounted for under IFRS 16 are not identified; • the lease data which underpins the IFRS 16 calculation of new lease arrangements is not accurate; and • *the disclosures in the financial statements are insufficient, precluding investors from* obtaining a clear understanding as to the transitional impact of the change in accounting standard.
How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • obtained an understanding of key controls over the identification of new leases, the underlying lease data and the associated disclosures; • leveraged the work performed in the prior period over the transition impact, including our understanding of key controls over the transition impact and the calculation of the discount rate applied; • verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment; • considered completeness by testing the reconciliation to the Group's operating lease commitments as reported in the prior year's financial statements, and by investigating key service contracts to assess whether they contained a lease under IFRS 16; and • assessed whether the disclosures within the financial statements are in accordance with IFRS 16.
Key observations	We are satisfied that the lease data underpinning the IFRS 16 disclosures is complete and accurate and that new lease arrangements entered in during the financial year ended 28 March 2020 have been captured appropriately. The disclosures management have made in relation to IFRS 16 are appropriate.

5.7. The Going Concern Basis of accounting

Key audit matter description	In undertaking their assessment of going concern for the Group, which is supported by the cash flows of the Group, the Directors reviewed the forecast future performance and anticipated cash flows. In doing so they considered the financing available to the Group and associated debt covenants, including the covenant waiver that the Group has obtained in relation to its financing facility, and cost saving actions that the Group may take in responding to the Covid-19 pandemic including certain Government support schemes (including the furlough scheme and business rates holidays). The Directors have also determined appropriate sensitivities to these forecasts, including a reverse-stress test of the Group's liquidity, and considered the results in forming their conclusion. Due to the on-going Covid-19 pandemic, which led to the mandatory closure of non-key retail outlets in the Group's key market, the UK, there is significantly more judgement applied in developing cash flow forecasts including assumptions relating to the period of closure for

	retailers, the impact on the Group's sales and the anticipated cost savings throughout the going concern period. Taking into account the sensitivities, the Directors have concluded that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions. We have identified a key audit matter related to going concern as a result of the judgement required to conclude there is not a material uncertainty related to going concern. Further details of the Directors' assessment, including the sensitivities applied, are included within the Strategic Report on page 19 and in note 1 to the financial statements.
How the scope of our audit responded to the key audit matter	In responding to the identified key audit matter we completed the following audit procedures: • obtained an understanding of key controls over management's going concern models, including the review of the inputs and assumptions used in those models; • obtained management's board approved three year cash flow forecasts and covenant compliance forecasts, including the impact of Covid-19 and the reverse stress test; • involved our internal specialists in our assessment of the appropriateness of forecast assumptions by: – reading analyst reports, industry data and other external information and comparing these with management's estimates to determine if they provided corroborative or contradictory evidence in relation to management's assumptions; – comparing forecast sales with recent historical financial information to consider accuracy of forecasting; – enquiring of management regarding the mitigating actions to reduce costs and manage cash flows and challenging the quantum of those actions with reference to supporting evidence and assessing whether the mitigating actions were within the Group's control; testing the underlying data generated to prepare the forecast scenarios and determined whether there was adequate support for the assumptions underlying the forecast; – reviewing correspondence confirming UK Government support such as indirect tax holidays and staff furlough; – reviewing correspondence relating to the availability of the Group's financing arrangements, including the covenant waivers obtained by the Group in relation to its financing facility and the availability of CCFF funding; – understanding and challenging the level of further mitigations available to the Group beyond those included within the forecast; and – considering the results of the reverse stress tests performed; and • evaluating the Group's disclosures on going concern against the requirements of IAS 1.
Key observations	We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and Parent Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£18.0 million (2019: £20.0 million)	£16.2 million (2019: £18.0 million)
Basis for determining materiality	We considered the following metrics: • *Adjusted profit before tax* • Earnings before interest, tax, depreciation and amortisation • Revenue Using professional judgement we determined materiality to be £18.0m.	We considered the following metrics: • *Adjusted profit before tax* • Earnings before interest, tax, depreciation and amortisation • Revenue Using professional judgement we have capped materiality at 90% of Group materiality
Rationale for the benchmark applied	In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements. This approach is a change from the prior year (which was based on adjusted profit before tax, but excluding the impact of certain adjusting items) to reflect the volatility in the results of the Group arising from the impact of Covid-19. Group materiality represents: Metric — % Adjusted profit before tax — 4.5 Earnings before interest, tax, depreciation and amortisation — 2.0 Revenue — 0.18	In determining our benchmark for materiality we considered a number of different metrics used by investors and other readers of the financial statements. This approach is a change from the prior year (which was based on revenue) to reflect the volatility in the results of the Parent Company arising from the impact of Covid-19.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 50% of Group materiality for the 2020 audit (2019: 60%). We have reduced the percentage used, primarily in response to the impact that Covid-19 has had on the Group's internal control environment and financial close process. In determining performance materiality, we considered the following factors:

- the pervasive impact of Covid-19 on the financial statements, the judgements taken by management and the associated disclosures;
- our cumulative knowledge of the Group and its environment, including industry wide pressure on retailers;
- the changes to management personnel;
- the level of centralisation in the Group's financial reporting controls and processes; and
- the level of misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the directors that we would report all audit differences in excess of £0.9 million (2019: £1.0 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

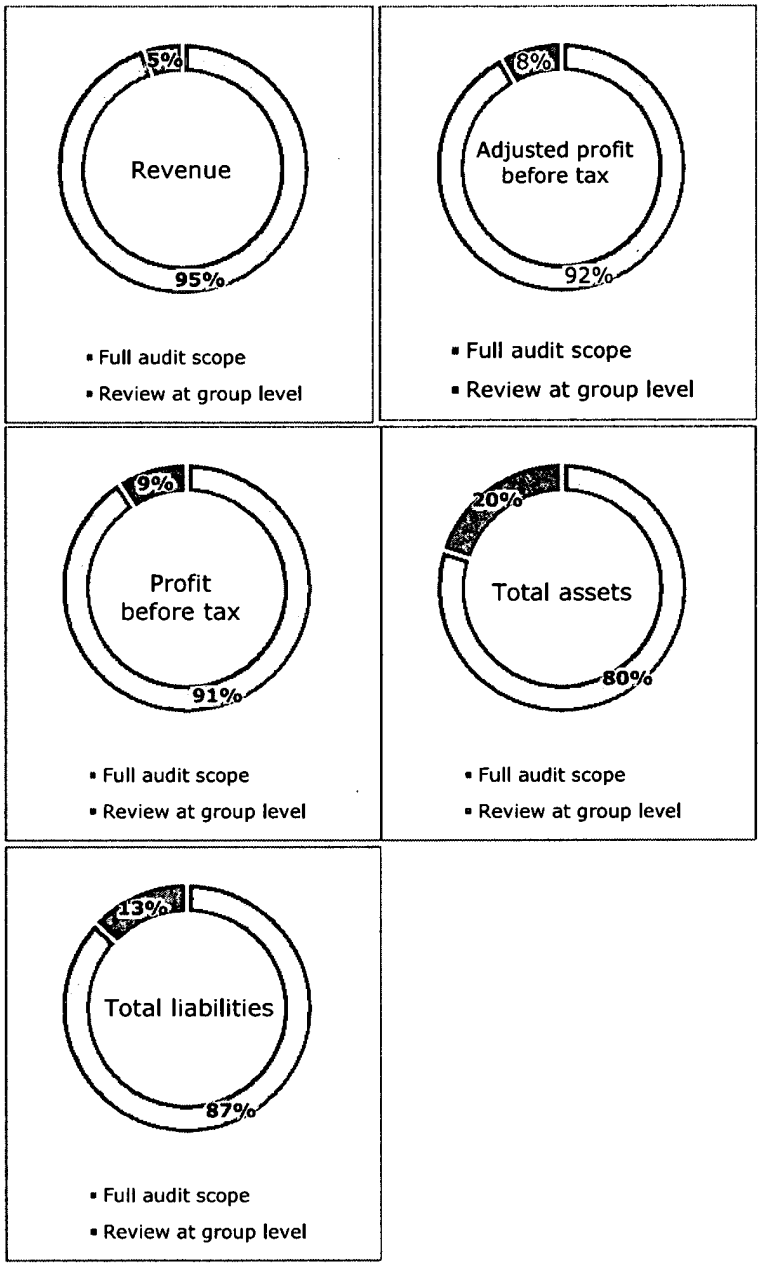
7. An overview of the scope of our audit

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

Components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified. Based on our assessment we have focused our audit on the UK business which was subject to full audit procedures. We have performed our full audit scope of the UK component using a materiality of £16.2 million (or 90% of Group materiality) (2019: £18.0 million) as this makes up substantially all of the Group's operations (91% of the Group's revenue, 2019: 91%).

India and Ireland have been removed from full-scope audit procedures in the current period, owing to their financial insignificance in the context of the Group as a whole. All wholly owned and associate businesses, including the Irish and Indian components, were subject to analytical review procedures performed by the Group audit team. Whilst we audit the revenues received by the Group from franchise operations, which account for 4% (2019: 4%) of the Group's revenue, we do not audit the underlying franchise operations as part of our group audit.

We have also tested the consolidation process and carried out analytical procedures in forming our conclusion that there were no significant risks of material misstatement remaining in the consolidated financial information arising from the components not subject to a full audit.



8. Other information

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

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

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

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

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, Marks and Spencer Group plc ("M&S Group plc") internal audit, other key persons and the M&S Group plc Audit Committee about their own identification and assessment of the risks of irregularities;

- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas in which management is required to exercise significant judgement, such as the disclosure of adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Financial Conduct Authority regulations, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the competition and anti-bribery laws, data protection, Groceries Supply Code of Practice, and employment, environmental and health and safety regulations.

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

13. Matters on which we are required to report by exception

13.1. *Adequacy of explanations received and accounting records*

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the M&S Group plc Audit Committee, we were appointed by the Shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the periods ending 28 March 2015 to 28 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee of M&S Group plc we are required to provide in accordance with ISAs (UK).

15. Use of our report

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

Richard Muschamp FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
17 August 2020

Consolidated income statement

	Notes	52 weeks ended 28 March 2020 Results before adjusting items £m	Adjusting items £m	Total £m	52 weeks ended 30 March 2019 Results before adjusting items £m	Adjusting items £m	Total £m
Revenue	2, 3	10,181.9	-	10,181.9	10,377.3	-	10,377.3
Operating profit	2, 3, 5	587.5	(342.6)	244.9	725.6	(403.4)	322.2
Finance income	5, 6	44.0	2.9	46.9	34.8	-	34.8
Finance costs	6	(231.6)	-	(231.6)	(248.7)	-	(248.7)
Profit before tax	4, 5	399.9	(339.7)	60.2	511.7	(403.4)	108.3
Income tax	7	(83.4)	47.3	(36.1)	(105.1)	62.9	(42.2)
Profit for the year		316.5	(292.4)	24.1	406.6	(340.5)	66.1
Attributable to:							
Owners of the		312.8	(292.4)	20.4	403.0	(340.5)	62.5
Non-controlling		3.7	-	3.7	3.6	-	3.6
		316.5	(292.4)	24.1	406.6	(340.5)	66.1

Comparative information has been restated for the impact of IFRS 16 (see note 28).

Consolidated statement of comprehensive income

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Profit for the year		24.1	66.1
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit schemes	10	927.9	(79.9)
Tax (charge)/credit on retirement benefit schemes		(196.7)	14.0
		731.2	(65.9)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income		5.1	(14.6)
- reclassified and reported in profit or loss		2.9	-
Cash flow hedges			
- fair value movements recognised in other comprehensive income	20	140.3	132.0
- reclassified and reported in profit or loss		(18.4)	(16.0)
Tax charge on cash flow hedges		(27.0)	(19.0)
		102.9	82.4
Other comprehensive income for the year, net of tax		834.1	16.5
Total comprehensive income for the year		858.2	82.6
Attributable to:			
Owners of the parent		854.5	79.0
Non-controlling interests		3.7	3.6
		858.2	82.6

Comparative information has been restated for the impact of IFRS 16 (see note 28).

Consolidated statement of financial position

	Notes	As at 28 March 2020 £m	As at 30 March 2019 (Restated) £m	As at 1 April 2018 (Restated) £m
Assets				
Non-current assets				
Intangible assets	13	399.1	499.9	599.2
Property, plant and equipment	14	5,494.2	5,662.3	6,189.6
Investment property		15.5	15.5	15.5
Investments in joint ventures and associates		5.6	4.0	7.0
Other financial assets	15	11.2	14.7	16.0
Retirement benefit asset	10	1,915.0	931.5	970.7
Trade and other receivables	16	262.6	273.0	209.5
Derivative financial instruments	20	112.4	19.8	27.1
		8,215.6	7,420.7	8,034.6
Current assets				
Inventories	1	564.1	700.4	781.0
Other financial assets	15	2,565.6	2,690.3	2,564.3
Trade and other receivables	16	286.5	267.2	252.4
Derivative financial instruments	20	73.5	40.3	7.1
Current tax assets		18.8	-	-
Cash and cash equivalents	17	248.4	285.4	207.7
		3,756.9	3,983.6	3,812.5
Total assets		11,972.5	11,404.3	11,847.1
Liabilities				
Current liabilities				
Trade and other payables	18	1,426.4	1,424.4	1,377.1
Partnership liability to the Marks & Spencer UK Pension Scheme	11	71.9	71.9	71.9
Borrowings and other financial liabilities	19	316.6	694.4	283.7
Derivative financial instruments	20	13.0	7.3	73.8
Provisions	21	21.5	76.6	56.2
Current tax liabilities		-	26.2	50.0
		1,849.4	2,300.8	1,912.7
Non-current liabilities				
Retirement benefit deficit	10	12.4	17.2	22.5
Trade and other payables	18	20.2	15.6	16.3
Partnership liability to the Marks & Spencer UK Pension Scheme	11	135.5	200.5	263.6
Borrowings and other financial liabilities	19	3,865.9	3,628.5	4,054.5
Derivative financial instruments	20	0.7	2.8	30.7
Provisions	21	56.5	72.7	91.8
Deferred tax liabilities	22	332.4	123.8	166.0
		4,423.6	4,061.1	4,645.4
Total liabilities		6,273.0	6,361.9	6,558.1
Net assets		5,699.5	5,042.4	5,289.0
Equity				
Issued share capital	23	712.5	712.5	712.5
Share premium account		386.1	386.1	386.1
Capital redemption reserve		8.0	8.0	8.0
Hedging reserve		68.6	(14.6)	(76.0)
Cost of hedging reserve		5.7	11.7	10.7
Foreign exchange reserve		(35.9)	(43.9)	(29.3)
Retained earnings		4,548.5	3,982.9	4,279.5
Equity attributable to owners of the parent		5,693.5	5,042.7	5,291.5
Non-controlling interests		6.0	(0.3)	(2.5)
Total equity		5,699.5	5,042.4	5,289.0

Comparative information has been restated for the impact of IFRS 16 (see note 28).
The financial statements were approved by the Board and authorised for issue on 17 August 2020. The financial statements also comprise notes 1 to 29.

Eoin Tonge Chief Finance Officer
Registered Number: 00214436

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging £m	Foreign exchange reserve £m	Retained earnings[1] £m	Total £m	Non-controlling interest £m	Total £m
As at 1 April 2018	712.5	386.1	8.0	(76.0)	10.7	(29.3)	4,500.0	5,512.0	(2.5)	5,509.5
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	(220.5)	(220.5)	-	(220.5)
Adjusted opening shareholders' equity	712.5	386.1	8.0	(76.0)	10.7	(29.3)	4,279.5	5,291.5	(2.5)	5,289.0
Profit for the year	-	-	-	-	-	-	62.5	62.5	3.6	66.1
Other comprehensive income/(expense):										
Foreign currency translation										
- movements recognised in other comprehensive income	-	-	-	-	-	(14.6)	-	(14.6)	-	(14.6)
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	(79.9)	(79.9)	-	(79.9)
Tax credit on items that will not be reclassified	-	-	-	-	-	-	14.0	14.0	-	14.0
Cash flow hedges										
- fair value movements in other comprehensive income	-	-	-	130.5	1.5	-	-	132.0	-	132.0
- reclassified and reported in profit or loss	-	-	-	(16.0)	-	-	-	(16.0)	-	(16.0)
Tax on cash flow hedges	-	-	-	(18.5)	(0.5)	-	-	(19.0)	-	(19.0)
Other comprehensive income/(expense)	-	-	-	96.0	1.0	(14.6)	(65.9)	16.5	-	16.5
Total comprehensive income/(expense)	-	-	-	96.0	1.0	(14.6)	(3.4)	79.0	3.6	82.6
Cash flow hedges recognised in inventories	-	-	-	(42.7)	-	-	-	(42.7)	-	(42.7)
Tax on cash flow hedges recognised in inventories	-	-	-	8.1	-	-	-	8.1	-	8.1
Transactions with owners:										
Dividends	-	-	-	-	-	-	(305.0)	(305.0)	-	(305.0)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	(1.4)	(1.4)
Purchase of own shares held by employee trusts	-	-	-	-	-	-	(6.8)	(6.8)	-	(6.8)
Credit for share-based payments	-	-	-	-	-	-	19.2	19.2	-	19.2
Deferred tax on share schemes	-	-	-	-	-	-	(0.6)	(0.6)	-	(0.6)
As at 30 March 2019 (Restated)	712.5	386.1	8.0	(14.6)	11.7	(43.9)	3,982.9	5,042.7	(0.3)	5,042.4
As at 31 March 2019 (Restated)	712.5	386.1	8.0	(14.6)	11.7	(43.9)	3,982.9	5,042.7	(0.3)	5,042.4
Profit for the year	-	-	-	-	-	-	20.4	20.4	3.7	24.1
Other comprehensive income/(expense):										
Foreign currency translation										
- movements recognised in other comprehensive income	-	-	-	-	-	5.1	-	5.1	-	5.1
- reclassified and reported in profit or loss	-	-	-	-	-	2.9	-	2.9	-	2.9
Remeasurements of retirement benefit schemes	-	-	-	-	-	-	927.9	927.9	-	927.9
Tax charge on items that will not be reclassified	-	-	-	-	-	-	(196.7)	(196.7)	-	(196.7)
Cash flow hedges										
- fair value movements in other comprehensive income	-	-	-	147.8	(7.5)	-	-	140.3	-	140.3
- reclassified and reported in profit or loss	-	-	-	(18.4)	-	-	-	(18.4)	-	(18.4)
Tax on cash flow hedges	-	-	-	(28.5)	1.5	-	-	(27.0)	-	(27.0)
Other comprehensive income/(expense)	-	-	-	100.9	(6.0)	8.0	731.2	834.1	-	834.1
Total comprehensive income/(expense)	-	-	-	100.9	(6.0)	8.0	751.6	854.5	3.7	858.2
Cash flow hedges recognised in inventories	-	-	-	(21.8)	-	-	-	(21.8)	-	(21.8)
Tax on cash flow hedges recognised in inventories	-	-	-	4.1	-	-	-	4.1	-	4.1
Transactions with owners:										
Dividends	-	-	-	-	-	-	(193.8)	(193.8)	-	(193.8)
Transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	2.6	2.6
Purchase of own shares held by employee trusts	-	-	-	-	-	-	(10.3)	(10.3)	-	(10.3)
Credit for share-based payments	-	-	-	-	-	-	18.5	18.5	-	18.5
Deferred tax on share schemes	-	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
As at 28 March 2020	712.5	386.1	8.0	68.6	5.7	(35.9)	4,548.5	5,693.5	6.0	5,699.5

1. Included within Retained earnings is the fair value through other comprehensive income reserve.

Comparative information has been restated for the impact of IFRS 16 (see note 28).

Consolidated statement of cash flows

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	25	1,064.7	1,350.4
Income tax paid		(91.6)	(105.7)
Net cash inflow from operating activities		973.1	1,244.7
Cash flows from investing activities			
Proceeds on property disposals		2.7	48.1
Purchase of property, plant and equipment		(251.0)	(217.8)
Purchase of intangible assets		(77.6)	(95.1)
Sale/(purchase) of current financial assets		130.1	(128.1)
Purchase of investments in associates and joint ventures		(2.5)	(2.5)
Interest received		10.4	7.4
Net cash used in investing activities		(187.9)	(388.0)
Cash flows from financing activities			
Interest paid[1]		(224.2)	(229.0)
Repayment of borrowings		-	(46.7)
Issuance of Medium Term Notes		250.0	1.4
Redemption of Medium Term Notes		(400.0)	-
Repayment of lease liabilities		(201.4)	(170.1)
Payment of liability to the Marks & Spencer UK Pension Scheme		(63.5)	(61.6)
Equity dividends paid	8	(193.8)	(305.0)
Purchase of Marks and Spencer Group plc shares by employee trust		(8.9)	(5.5)
Cash received from settlement of derivatives		7.7	-
Movement in parent company and fellow subsidiaries of the parent company loans[2]		(0.6)	2.1
Net cash used in financing activities		(834.7)	(814.4)
Net cash (outflow)/inflow from activities		(49.5)	42.3
Effects of exchange rate changes		0.5	(0.2)
Opening net cash		213.1	171.0
Closing net cash	26	164.1	213.1

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

[2]During the year, the Company has received and paid cash balances in relation to the rights issue by Marks and Spencer Group plc (£574.4m) and acquisition of Ocado Retail Limited by a fellow subsidiary of Marks and Spencer Group plc (£577.8m) respectively. These balances are presented on a net basis within the movement in parent in parent company and fellow subsidiary loans, detail can be seen in the Marks and Spencer Group plc Annual Report 2020.

Comparative information has been restated for the impact of IFRS 16 (see note 28).

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

General information

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

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

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

Basis of preparation

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

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the business activities as set out on pages 1 to 5, and the principal risks and uncertainties as set out on pages 12 to 19, including by modelling a Covid-19 scenario.

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

The Covid-19 scenario assumed that the government guidelines in place at the period end date continued for a period of at least four months, resulting in a significant decline in sales for the remainder of 2020/21 as follows:

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

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

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

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

The Group will also benefit from c.£172m of business rates relief in 2020/21 and the government's job retention scheme to help meet the cost of furloughed roles in stores, distribution and support centres, which was forecast to generate cash savings of c.£50m up to 30 June 2020, and subsequent to the year-end has been extended up until October (which will increase the forecast cash savings to c.100m).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

Additionally, the directors have reviewed the performance of the Group in the period since the period end on a regular basis, with actual performance not adverse compared to the Covid-19 scenario.

As a result, the Directors believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Directors 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 31 March 2019:

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

The Group also elected to adopt the following amendments early:
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is described in note 28. The impact of early adopting the amendments to IFRS 9 as a result of interest rate benchmark reform is described in the financial instruments accounting policy and in note 20.

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

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

- Amendment to IFRS 16: Covid-19-Related Rent Concessions
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

With the exception of the adoption of the amendment to IFRS 16, the adoption of the above standards and interpretations are 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.

The amendment to IFRS 16 is effective for periods commencing on or after 1 June 2020. However, the Group is expected to early adopt the amendment for its reporting period commencing 29 March 2020. As a result, the Group will treat rent concessions that occur as a direct consequence of Covid-19, and that meet the relevant criteria, as variable lease payments rather than as lease modifications. The Group is expected to apply the practical expedient to all rent concessions that meet the criteria.

In most cases, this will result in a reduction in the lease liabilities and a gain recognised in profit or loss. The Group does not expect this to be material.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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

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

[1] As a result of the Covid-19 pandemic and subsequent UK government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified gains and expenses incurred as a direct result of Covid-19 as adjusting items for the first time. The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 19 as well as set out within the basis of preparation on page 45 which summarises the Covid-19 scenario modelled by the Group and within the subsequent events note.

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

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

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

Basis of consolidation
The Group financial statements incorporate the financial statements of Marks and Spencer 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

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

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

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

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

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

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

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

B. Trade and other receivables - Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end.
In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 16 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.

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

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

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

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

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

During 2017/18 the UK defined benefit pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS 19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in other comprehensive income.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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

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

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

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

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.
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

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

Any impairment in value is recognised within the income statement.

Leasing
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 associate lease liability, adjusted for any payments made before inception, initial direct costs and an estimate of the dismantling, removal and restoration costs required in the terms of the lease. The Group presents right-of-use assets in 'property, plant and equipment' in the consolidated statement of financial position.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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.

These shares relate to the shares in the parent company, Marks and Spencer Group plc, rather than the Company.

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, except when deferred in other comprehensive income and accumulated in the cash flow hedge reserve as qualifying cash flow hedges.

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.

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 intention with regard to the collection of contractual cash flows (or sale) and whether the financial asset's cash flows relate solely to the payment of principal and interest.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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

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.

For debt instruments at FVOCI, gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income and accumulated in equity is reclassified to the income statement. Impairments in debt securities are recognised based on management's expectation of losses in each investment ("expected credit loss" model).

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 to the extent that they are not settled in the period in which they arise.

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

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

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

Derivative financial instruments and hedging activities

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

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge).
- 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 September 2019, the IASB issued *Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7*. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

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

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

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 currency 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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

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 hedging instrument expires, is sold, terminated or exercised, the hedge relationship no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur. 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 to 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. Foreign exchange reserve Gains and losses arising on retranslating the net assets of overseas operations into sterling.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies Continued

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 14 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 13 and 14 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

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

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

Inventory provisioning
The Group sells Clothing & Home merchandise that are subject to changing consumer demands and seasonal trends. As a direct result of the restrictions on "non-essential" trade imposed in response to the Covid-19 pandemic, our ability to sell through existing Clothing & Home stock has been significantly impacted. Accordingly, the Group has had to review its inventory levels in light of future expectations of sell-through, impacting the recoverability of the cost of inventories and the level of provisioning required. When calculating inventory provisions, management has considered the nature and condition of inventory, as well as applying assumptions around when trade restrictions might be eased leading to resumption of sales. See note 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. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year-end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. Management has considered reasonably possible changes in these key sources of estimation uncertainty. A further change of 10% in private equity values would change asset values by £14.0m and a 0.5% change in secure income assets would change asset values by £3.0m. See note 10 for further details on the impact of changes in the key assumptions and estimates.

NOTES TO THE FINANCIAL STATEMENTS

2 Segmental Information

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

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

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

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

Other business activities and operating segments, including M&S Bank and M&S Energy, are combined and presented in "All other segments". M&S Bank and M&S Energy were previously reported within the old UK segment but are now presented within "All other segments" as the business activities are fundamentally different to the three core reportable segments. Finance income and costs are not allocated to segments as each is managed on a centralised basis.

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

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit before adjusting items. This measurement basis excludes the effects of adjusting items from the operating segments.
The following is an analysis of the Group's revenue and results by reportable segment:

NOTES TO THE FINANCIAL STATEMENTS

2 Segmental Information Continued

	52 weeks ended 28 March 2020					52 weeks ended 30 March 2019 (Restated[1])				
	UK Clothing & Home	UK Food	International	All other segments	Group	UK Clothing & Home	UK Food	International[2,3]	All other segments	Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	3,209.1	6,028.2	944.6	-	10,181.9	3,499.8	5,903.4	974.1	-	10,377.3
Operating profit before adjusting items[4]	223.6	236.4	110.7	16.8	587.5	355.2	212.9	130.5	27.0	725.6
Finance income					44.0					34.8
Finance costs					(231.6)					(248.7)
Profit before tax and adjusting items	223.6	236.4	110.7	16.8	399.9	355.2	212.9	130.5	27.0	511.7
Adjusting items					(339.7)					(403.4)
Profit before tax	223.6	236.4	110.7	16.8	60.2	355.2	212.9	130.5	27.0	108.3

[1] Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 28).

[2] The reporting of results from certain international M&S.com websites has been transferred from UK Clothing & Home (previously UK) to International to align reporting with the day-to-day management of these operations, resulting in revenue of £37.5m and operating profit of £2.9m being transferred.

[3] International operating profit was previously reported as £127.0m and has been restated to £130.5m due to the adoption of IFRS 16 (increased by £13.2m), a reallocation of central costs between the Group's reportable segments (decreased by £12.6m) and the impact of footnote 2 (increased by £2.9m).

[4] Operating profit before adjusting items is stated as gross profit less operating costs prior to adjusting items. At reportable segment level costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

Other segmental information

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

[1] Prior year comparatives have also been restated for the adoption of IFRS 16 Leases (see note 28).

[2] These costs are allocated where directly attributable or based on an appropriate cost driver for the cost.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Expense analysis

	2020 Total £m	2019 (Restated) Total £m
Revenue	10,181.9	10,377.3
Cost of sales before adjusting items	(6,589.5)	(6,558.2)
Gross profit before adjusting items	3,592.4	3,819.1
Selling and administrative expenses before adjusting items	(3,037.0)	(3,134.9)
Other operating income before adjusting items	32.1	41.4
Operating profit before adjusting items	587.5	725.6
Adjusting operating expense items (see note 5)[2]	(342.6)	(403.4)
Operating profit	244.9	322.2

The selling and administrative expenses are further analysed below:

	2020 Total £m	2019 (Restated) Total £m
Employee costs[1]	1,411.2	1,450.0
Occupancy costs	377.7	387.4
Repairs, renewals and maintenance of property	81.0	87.6
Depreciation, amortisation and asset impairments and write-offs before adjusting items	632.5	702.6
Other costs	534.6	507.3
Selling and administrative expenses before adjusting items	3,037.0	3,134.9

[1] There are an additional £53.1m (last year: £61.0m) employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures in note 9A.

[2] The £342.6m (last year: £403.4.m) adjusting items charges for the year are further analysed against the categories of cost of sales (£157.0m; last year: £nil), selling and administrative expense (£188.8m; last year: £407.7m) and other operating income (£3.2m; last year: income £4.3m) resulting in total cost of sales of £6,746.5m (last year: £6,558.2m), selling and administrative expenses of £3,225.8m (last year: £3,542.6m) and total other operating income of £35.3m (last year: £45.7m).

Adjusting items categorised as selling and administrative expenses are further analysed as employee costs £23.1m (last year: £64.9m); occupancy release £25.2m (last year: cost £2.7m (restated)); depreciation, amortisation and asset impairments and write-offs £139.9m (last year: £308.9m (restated)); and other costs £51.0m (last year: £31.2m).

4 Profit before taxation

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

	2020 £m	2019 (Restated) £m
Net foreign exchange gains	(2.1)	(2.9)
Cost of inventories recognised as an expense	5,762.3	5,765.4
Write-down of inventories recognised as an expense	389.0	214.1
Depreciation of property, plant and equipment		
- owned assets	329.2	441.6
- right-of-use assets	174.6	163.7
Amortisation of intangible assets	164.8	184.4
Impairments and write-offs of intangible assets and property, plant and equipment	91.3	151.4
Impairments of right-of-use assets	34.2	93.2

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:

NOTES TO THE FINANCIAL STATEMENTS

4 Profit before taxation continued

	2020 £m	2019 £m
Annual audit of the Company and the consolidated financial statements	1.4	1.3
Audit of subsidiary companies	0.6	0.6
Total audit fees	2.0	1.9
Audit-related assurance services	0.2	0.2
Transaction-related services	0.5	0.2
Total non-audit services fees	0.7	0.4
Total audit and non-audit services	2.7	2.3

Transaction-related services provided by the auditor relate to the investment in Ocado Retail Limited made by a fellow subsidiary of Marks and Spencer Group plc.

5 Adjusting items

The total adjusting items reported for the 52-week period ended 28 March 2020 is a net charge of £339.7m (last year: £403.4m (restated)). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2020 £m	2019 (Restated) £m
Strategic programmes - UK store estate[1]	14, 21	29.3	216.5
Strategic programmes – Organisation	14, 21	13.8	4.9
Strategic programmes - Operational transformation		11.6	16.4
Strategic programmes - UK logistics	14, 21	10.2	14.3
Strategic programmes - Changes to pay and pensions	21	2.9	6.2
Strategic programmes - International store closures and impairments	21	2.2	5.3
Strategic programmes - IT restructure	21	0.4	15.6
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1]		163.6	-
Store impairments and other property charges[1]	14, 21	78.5	103.5
Goodwill impairment - per una[1]	13	13.4	-
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		12.6	20.9
Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group		1.2	3.4
Other		-	(24.1)
GMP and other pension equalisation	10, 21	-	20.5
Adjustments to profit before tax[2]		339.7	403.4

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

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

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

Strategic programmes - UK store estate (£29.3m)

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

The Group has recognised a charge of £29.3m (of which, £11.6m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) in the period in relation to those stores identified as part of its transformation plans to make the store estate fit for the future. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs, as well as revised cash flows to reflect the impact of Covid-19.

NOTES TO THE FINANCIAL STATEMENTS

5 Adjusting items continued

The charge primarily relates to impairment of buildings and fixtures and fittings and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 14 and 21 for further detail on these charges.

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

Strategic programmes – Organisation (£13.8m)

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

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

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

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

Strategic programmes – Operational transformation (£11.6m)

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

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

Strategic programmes – IT restructure (£0.4m)

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

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

Strategic programmes – UK logistics (£10.2m)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

5 Adjusting items continued

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

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

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

Store impairments and other property charges (£78.5m)

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

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 14 for further details on the impairments.

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

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

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

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

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

Establishing the investment in Ocado Retail Limited by the Ultimate Parent Group (£1.2m)

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

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

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

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

In March 2020, following the declaration by the World Health Organisation of the Covid-19 global pandemic and subsequent UK government restrictions, while the Group has been able to continue to trade its Food business (albeit with social-distancing rules in place), Clothing & Home has been unable to trade from full-line stores for the period from March to mid-June, with any sales therefore predominantly coming from online sales and Click & Collect in stores. All M&S Outlet stores and a number of Food franchise stores have also closed. All stores have now reopened, but with social distancing and other measures in place. Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast paced changes taking place across the retail sector, the Group expects to see significant volatility and business disruption, reducing the expected performance in 2020/21. As set out in the basis of preparation on page 45, the Board has approved a Covid-19 scenario budget and three-year plan, which assumes that the pandemic results in a significant decline in sales for the remainder of 2020/21.

As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, the Group has identified charges of £212.8m relating to directly attributable gains and expenses resulting from the Covid-19

NOTES TO THE FINANCIAL STATEMENTS

5 Adjusting items continued

pandemic. The charges relate to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

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

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

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

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

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

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

Refer to notes 13 and 14 for further details on the impairment charges relating to per una goodwill and stores, as well as note C6 of the Company accounts.

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

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

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

6 Finance income/costs

	2020 £m	2019 (Restated) £m
Bank and other interest receivable	8.6	7.6
Other finance income	5.9	0.4
Pension net finance income (see note 10F)	23.6	25.8
Interest income of subleases	5.9	1.0
Finance income before adjusting items	**44.0**	**34.8**
Interest on bank borrowings	-	(0.6)
Interest payable on syndicated bank facility	(2.3)	(2.3)
Interest payable on Medium Term Notes	(78.2)	(77.4)
Interest payable on lease liabilities	(139.3)	(148.2)
Ineffectiveness on hedge accounting	-	(3.5)
Unwind of discount on provisions	(4.9)	(7.9)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(6.9)	(8.8)
Finance costs before adjusting items	**(231.6)**	**(248.7)**
Net finance costs before adjusting items	**(187.6)**	**(213.9)**

Additional finance income of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur have been incurred and included within adjusting items as detailed in note 5.

NOTES TO THE FINANCIAL STATEMENTS

7 Income tax expense

A. Taxation charge

	2020 £m	2019 (Restated) £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 19%)		
- current year	43.3	78.4
- adjustments in respect of prior years	(4.1)	(4.6)
UK current tax	39.2	73.8
Overseas current taxation		
- current year	8.8	8.9
- adjustments in respect of prior years	(0.1)	(0.8)
Total current taxation	47.9	81.9
Deferred tax		
- origination and reversal of temporary differences	(4.3)	(41.2)
- adjustments in respect of prior years	(4.1)	2.3
- changes in tax rate	(3.4)	(0.8)
Total deferred tax (see note 22)	(11.8)	(39.7)
Total income tax expense	36.1	42.2

B. Taxation reconciliation

The effective tax rate was 60.0% (last year: 39.0%) and is explained below.

	2020 £m	2019 (Restated) £m
Profit before tax	60.2	108.3
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	11.4	20.6
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	4.8	1.1
Other income and expenses that are not taxable or allowable for tax purposes	17.4	15.1
Retranslation of deferred tax balances due to the change in statutory UK tax rates	(6.6)	(1.1)
Overseas profits taxed at rates different to those of the UK	(0.6)	0.8
Movement in unrecognised overseas deferred tax assets	0.8	(6.2)
Adjustments to the current and deferred tax charges in respect of prior periods	(8.3)	(3.1)
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	11.5	10.6
- International store closures and impairments	0.7	0.8
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	5.0	3.6
Total income tax expense	36.1	42.2

The effective tax rate on profit before tax and adjusting items was 20.9% (last year: 20.5% (restated)).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.8m (last year: £12.6m charge) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first 10 years of the structure and some of this benefit is recaptured in subsequent years.

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted for IFRS purposes on 17 March 2020. Hence, the rate applicable from 01 April 2020 now remains at 19% rather than the previously enacted reduction to 17%. The Group has continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rate of 19%. The previously recognised deferred tax balances at 17% have now been recognised at 19% and this has resulted in the recognition of a deferred tax credit of £3.9m in the income statement and the recognition of a deferred tax charge of £20.6m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

7 Income tax 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.

	2020 £m	2019 (Restated) £m
Profit before tax	60.2	108.3
Notional taxation at standard UK corporation tax rate of 19% (last year: 19%)	11.4	20.6
Disallowable accounting depreciation and other similar items	52.5	67.9
Deductible capital allowances	(56.8)	(59.4)
Adjustments in relation to employee share schemes	2.3	2.7
Adjustments in relation to employee pension schemes	8.2	10.7
Overseas profits taxed at rates different to those of the UK	(0.6)	0.8
Movement in unrecognised overseas deferred tax	0.8	(1.4)
Other income and expenses that are not taxable or allowable	5.2	4.6
Adjusting items:		
- UK store and strategic programme impairments and other property charges where no tax relief is available	21.0	32.0
- International store closures and impairments	0.5	0.8
- Other strategic programme income and expenses that are not taxable or allowable for tax purposes	7.6	12.6
- Other	-	(4.6)
Current year current tax charge	52.1	87.3
Represented by:		
UK current year current tax	43.3	78.4
Overseas current year current tax	8.8	8.9
	52.1	87.3
UK adjustments in respect of prior years	(4.1)	(4.6)
Overseas adjustments in respect of prior years	(0.1)	(0.8)
Total current taxation (note 7A)	47.9	81.9

8 Dividends

	2020 per share	2019 per share	2020 £m	2019 £m
Dividends on equity ordinary shares				
Paid final dividend	4.1p	6.8p	116.8	193.8
Paid interim dividend	2.7p	3.9p	77.0	111.2
	6.8p	10.7p	193.8	305.0

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

NOTES TO THE FINANCIAL STATEMENTS

9 Employees

A. Aggregate remuneration

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

	2020 Total £m[1]	2019 Total £m
Wages and salaries	1,263.7	1,293.2
Social security costs	80.0	85.0
Pension costs	72.9	77.4
Share-based payments (see note 13)	18.5	19.2
Employee welfare and other personnel costs	51.8	53.8
Capitalised staffing costs	(22.5)	(17.6)
Total aggregate remuneration[1]	1,464.4	1,511.0

[1] Excludes amounts recognised within adjusting items of £23.1m (last year: £64.9m) which predominantly relate to wages and salaries (see notes 3 and 5).

Details of key management compensation are given in note 27.

B. Average monthly number of employees

	2020	2019
UK stores		
- management and supervisory categories	5,278	5,480
- other	62,027	63,957
UK head office		
- management and supervisory categories	2,947	2,968
- other	764	832
UK operations		
- management and supervisory categories	115	81
- other	1,302	1,066
Overseas	5,598	5,713
Total average number of employees	78,031	80,097

The average number of full-time equivalent employees is 53,988 (last year: 55,440).

	2020 £'000	2019 £'000
Highest paid director	1,211.0	1,517.0
Aggregate emoluments of all other directors	975.5	1,059.2

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

One directors (last year: two) exercised share options in relation to the Group's long-term incentive plans.

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

NOTES TO THE FINANCIAL STATEMENTS

10 Retirement benefits

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

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. 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), 55,887 deferred members (last year: 58,079) and 52,165 pensioners (last year: 52,217).

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

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 52,059 active members (last year: 53,536) and some 33,578 deferred members (last year: 26,709).

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

The total Group retirement benefit cost was £49.2m (last year: £69.5m). Of this, income of £20.2m (last year: income of £4.5m) relates to the UK DB pension scheme, costs of £65.6m (last year: costs of £68.7m) to the UK DC plan and costs of £3.8m (last year: costs of £5.3m) to other retirement benefit schemes.

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

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

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

A. Pensions and other post-retirement liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

10 Retirement benefits continued

B. Financial assumptions

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

	2020 %	2019 %
Rate of increase in pensions in payment for service	1.9 - 2.7	2.1-3.3
Discount rate	2.40	2.45
Inflation rate for RPI	2.70	3.25
Long-term healthcare cost increases	6.70	7.25

C. Demographic assumptions

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

		2020	2019
Current pensioners (at age 65)	– male	22.2	22.0
	– female	24.9	24.9
Future pensioners - currently in deferred status (at age 65)	– male	24.0	23.8
	– female	26.8	26.7

D. Sensitivity analysis

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

	2020 £m	2019 £m
Increase/(decrease) in scheme surplus caused by a decrease in the discount rate of 0.25%	50.0	(70.0)
Increase in scheme surplus caused by a decrease in the discount rate of 0.50%	100.0	N/A
Increase in scheme surplus caused by a decrease in the discount rate of 1.00%	190.0	N/A
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	(50.0)	(25.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	(100.0)	N/A
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	240.0	315.0

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

Given changes in inflation and discount rate assumptions over the past year, the range of reasonably possible outcomes has been updated to reflect this.

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.

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 11), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly, the scheme has hedging that covers 106% of interest rate movements and 106% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

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

In addition, the Group is exposed to additional risks through its obligation to the UK DB pension scheme via its interest in the Scottish Limited Partnership (see note 11). In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to

NOTES TO THE FINANCIAL STATEMENTS

10 Retirement benefits continued

the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Group.

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

	Quoted £m	Unquoted £m	2020 Total £m	Quoted £m	Unquoted £m	2019 Total £m
Debt investments						
- Government bonds net of repurchase agreements [1]	3,596.8	352.0	3,948.8	4,373.9	367.2	4,741.1
- Corporate bonds	6.2	728.3	734.5	6.1	731.8	737.9
- Asset backed securities and structured debt	-	264.4	264.4	-	296.6	296.6
Scottish Limited Partnership Interest (see note 11)	-	211.2	211.2	-	278.5	278.5
Equity investments						
- Developed markets	338.7	56.6	395.3	398.0	57.9	455.9
- Emerging markets	90.3	-	90.3	103.7	-	103.7
Growth asset funds						
- Global property	5.8	291.4	297.2	-	328.4	328.4
- Hedge and reinsurance	32.6	385.1	417.7	24.3	412.4	436.7
- Private equity and infrastructure	-	175.4	175.4	-	223.3	223.3
Derivatives						
- Interest and inflation rate swaps	19.9	253.7	273.6	15.9	148.4	164.3
- Foreign exchange contracts and other derivatives	(0.4)	162.4	162.0	0.1	127.5	127.6
Cash and cash equivalents	108.1	181.8	289.9	51.1	122.2	173.3
Other						
- Buy-in insurance	-	2,430.0	2,430.0	-	1,273.7	1,273.7
- Secure income asset funds	-	934.6	934.6	-	842.2	842.2
- Other	28.8	0.1	28.9	41.5	-	41.5
	4,226.8	6,427.0	10,653.8	5,014.6	5,210.1	10,224.7

[1] Repurchase agreements were £820.5m (last year: £1,025.1m)

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. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year-end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. 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 63,527 (last year: 41,841) ordinary shares in Marks and Spencer Group plc through its investment in UK Equity Index Funds.

F. Analysis of amounts charged against profits

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

	2020 £m	2019 £m
Current service cost	0.2	0.2
Administration costs	4.5	3.9
Past service costs	-	18.0
Net interest income	(23.6)	(25.8)
Total	(18.9)	(3.7)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	(477.3)	(283.8)
Actuarial loss/(gain) - demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss – experience	(46.1)	19.2
Actuarial (gain)/loss - financial assumptions	(414.5)	434.7
Components of defined benefit (income)/expense recognised in other comprehensive income	(927.9)	79.9

NOTES TO THE FINANCIAL STATEMENTS

10 Retirement benefits continued

G. Scheme assets

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

	2020 £m	2019 £m
Fair value of scheme assets at start of year	10,224.7	9,989.3
Interest income based on discount rate	245.4	259.5
Actual return on scheme assets excluding amounts included in net interest income [1]	477.3	283.8
Employer contributions	41.8	42.0
Benefits paid	(333.2)	(346.2)
Administration costs	(4.3)	(3.7)
Exchange movement	2.1	-
Fair value of scheme assets at end of year	10,653.8	10,224.7

[1] The actual return on scheme assets was a gain of £722.7m (last year: gain of £543.3m).

H. Pensions and other post-retirement liabilities

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

	2020 £m	2019 £m
Present value of obligation at start of year	9,310.4	9,041.1
Current service cost	0.2	0.2
Administration costs	0.2	0.2
Past service cost	-	18.0
Interest cost	221.8	233.7
Benefits paid	(333.2)	(346.2)
Actuarial (gain)/loss – experience	(46.1)	19.2
Actuarial loss/(gain) - demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss - financial assumptions	(414.5)	434.7
Exchange movement	2.4	(0.3)
Present value of obligation at end of year	8,751.2	9,310.4
Analysed as:		
Present value of pension scheme liabilities	8,743.3	9,301.3
Unfunded pension plans	3.9	3.5
Post-retirement healthcare	4.0	5.6
Present value of obligation at end of year	8,751.2	9,310.4

The average duration of the defined benefit obligation at 28 March 2020 is 19 years (last year: 19 years).

11 Marks and Spencer Scottish Limited Partnership

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

12 Share-based payments

This year, a charge of £18.5m was recognised for share-based payments (last year: charge of £19.2m). Of the total share-based payments charge, £7.6m (last year: £9.2m) relates to the Save As You Earn share option scheme and a charge of £4.9m (last year: £4.1m) relates to the Performance Share Plan. The remaining charge of £6.0m (last year: £5.9m) is spread over the other share plans. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report. These shares relate to the shares in the parent company, Marks and Spencer Group plc, rather than the Company.

A. Save As You Earn scheme

The 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 Marks and Spencer Group plc once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC-approved schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	38,023,501	267.9p	43,731,657	285.4p
Granted [1]	34,087,655	237.6p	10,337,468	247.0p
Exercised	(49,610)	250.2p	(241,813)	260.1p
Forfeited	(15,727,568)	237.9p	(10,455,905)	274.0p
Expired	(3,194,037)	380.2p	(5,347,906)	358.7p
Outstanding at end of year	53,139,941	190.7p	38,023,501	267.9p
Exercisable at end of year	11,272,515	249.6p	2,542,320	421.0p

[1] The number of shares granted in the year ended 28 March 2020 includes 1,413,958 shares granted by Marks and Spencer Group plc for the rights issue which completed in June 2019.

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 265.7p (last year: 290.8p).

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

	2020	2019
	3-year plan	3-year plan
Grant date	Dec 19	Nov 18
Share price at grant date	189p	309p
Exercise price	151p	247p
Option life in years	3 years	3 years
Risk-free rate	0.5%	0.8%
Expected volatility	27.6%	27.9%
Expected dividend yield	5.7%	6.1%
Fair value of option	33p	54p

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

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

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

	Number of options		Weighted average remaining contractual life (years)		
Options granted[1]	2020	2019	2020	2019	Option price [2]
January 2016	3,720	2,436,408	-	0.3	416p
January 2017	11,344,003	17,140,666	0.3	1.3	250p
January 2018	5,557,053	8,711,023	1.3	2.3	251p
January 2019	4,910,783	9,735,404	2.3	3.3	238p
February 2020	31,324,382	-	3.3	-	151p
	53,139,941	38,023,501	2.4	1.9	191p

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

[2] The option price for the SAYE schemes for January 2016, January 2017, January 2018 and January 2019 have been adjusted downwards to reflect the impact of the rights issue by Marks and Spencer Group plc which completed in June 2019.

NOTES TO THE FINANCIAL STATEMENTS

12 Share-based payments continued
B. Performance Share Plan*

The Performance Share Plan (PSP) is the primary long-term incentive plan for approximately 170 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2019/20 included earnings per share (EPS), return on capital employed (ROCE), and total shareholder return (TSR) of Marks and Spencer Group plc. The value of any dividends earned on the vested shares during the three years may also be paid on vesting. Further details are set out in the Remuneration Report on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report. Awards under this plan have been made in each year since 2005.

During the year, 12,924,621 shares (last year: 8,006,094) were awarded under the plan. The weighted average fair value of the shares awarded was 161.0p (last year: 264.2p). As at 28 March 2020, 20,502,705 shares (last year: 17,296,405) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue by Marks and Spencer Group plc which completed in June 2019.

C. Deferred Share Bonus Plan*
The Deferred Share Bonus Plan (DSBP) was first introduced in 2005/06 as part of the Annual Bonus Scheme. It is now operated for approximately 40 of the most senior managers within the Group. As part of the plan, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned on the vested shares during the deferred period may also be paid on vesting. More information is available in relation to this plan within the Remuneration Report on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report.

During the year, no shares (last year: no shares) have been awarded under the plan in relation to the annual bonus. As at 28 March 2020, 1,359,166 shares (last year: 2,595,337) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue by Marks and Spencer Group plc which completed in June 2019.

D. Restricted Share Plan*
The Restricted Share Plan (RSP) was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The plan operates for 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 on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report.

During the year, 3,645,421 shares (last year: 1,710,368) have been awarded under the plan. The weighted average fair value of the shares awarded was 150.0p (last year: 295.2p). As at 28 March 2020, 4,896,084 shares (last year: 2,364,783) were outstanding under the plan. The number of options in all plans were adjusted as a result of the rights issue by Marks and Spencer Group plc which completed in June 2019.

E. Republic of Ireland Save As You Earn scheme
Sharesave, the Company's Save As You Earn scheme was introduced in 2009 to all employees in the Republic of Ireland for a 10-year period, after approval by shareholders at the 2009 AGM and again at the 2019 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six-month period after the completion of the SAYE contract.

During the year, 327,689 options (last year: 169,422) were granted, at a fair value of 33.4p (last year: 53.6p). As at 28 March 2020, 790,977 options (last year: 672,203) were outstanding under the scheme. The number of options granted in January 2016, January 2017, January 2018 and January 2019 have been adjusted upwards to reflect the impact of the rights issue by Marks and Spencer Group plc which completed in June 2019.

F. Marks and Spencer Employee Benefit Trust
The Marks and Spencer Employee Benefit Trust (the "Trust") holds 1,557,996 (last year: 1,712,922) shares with a book value of £3.4m (last year: £5.1m) and a market value of £1.5m (last year: £4.8m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under 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.

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13 Intangible assets

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

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

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

Impairment testing

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

13 Intangible assets continued

long term growth rate of 2%, reflecting the risk associated with the early stage of the relaunch of the per una brand and the potential impact of the Covid-19 pandemic. This is lower than the long-term growth rate used in the prior year (2.3%). The Group's current view of achievable long-term growth for India is 5.9%.

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

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

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

per una

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

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

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Neither a 50 basis point increase in the WACC rate nor a reduction in the perpetuity growth rate to 0% would cause a significant increase in the impairment charge. A 20% reduction in operating profit over the whole three-year plan period would cause an £11.2m increase in impairment and in combination, these reasonably possible changes in the key assumptions would cause an increase of £17.0m in the impairment charge.

NOTES TO THE FINANCIAL STATEMENTS

14 Property, plant and equipment

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

Property, plant and equipment - owned

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

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

NOTES TO THE FINANCIAL STATEMENTS

14 Property, plant and equipment continued

Right-of-use assets

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 28 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

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

Right-of-use assets

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

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

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

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

Impairments – UK stores (excluding the UK store estate programme)
During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their 'value in use' recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 5).

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

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

NOTES TO THE FINANCIAL STATEMENTS

14 Property, plant and equipment continued

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

Impairments – UK store estate programme
During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their 'value in use' recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5).

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

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

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

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

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

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

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

15 Other financial assets

	2020 £m	2019 £m
Non-current		
Unlisted investments	9.7	9.9
Other investments[1]	1.5	4.8
	11.2	14.7
Current		
Short-term investments[2]	11.7	141.8
Amounts owed by fellow subsidiaries of the parent company	10.5	-
Amounts owed by parent company	2,543.4	2,548.5
	2,565.6	2,690.3

1 Other investments represents shares in Marks and Spencer Group plc held for issue against employee schemes.

2 Includes £5.8m (last year: £5.0m) of money market deposits held in an escrow account.

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

NOTES TO THE FINANCIAL STATEMENTS

16 Trade and other receivables

	2020 £m	2019 (Restated) £m
Non-current		
Trade receivables	0.2	0.1
Lease receivables - net	69.2	72.3
Other receivables	2.2	2.0
Prepayments	191.0	198.6
	262.6	273.0
Current		
Trade receivables	150.8	121.8
Less: provision for impairment of receivables	(4.0)	(3.2)
Trade receivables - net	146.8	118.6
Lease receivables - net	0.1	0.2
Other receivables	29.5	30.5
Prepayments	84.8	89.6
Accrued income	25.3	28.3
	286.5	267.2

The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit loss (see note 20). Included in accrued income is £17.4m (last year: £21.9m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

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

	2020 £m	2019 £m
Timing of cash flows		
Within one year	7.1	1.2
Between one and two years	4.7	3.5
Between two and three years	4.7	4.8
Between three and four years	4.7	4.8
Between four and five years	4.7	4.8
More than five years	135.0	144.5
Total undiscounted cash flows	160.9	163.6
Effect of discounting	(86.9)	(91.1)
Present value of lease payments receivable	74.0	72.5
Less: provision for impairment of receivables	(4.7)	-
Net investment in the lease	69.3	72.5

17 Cash and cash equivalents

Cash and cash equivalents are £248.4m (last year: £285.4m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.42% (last year: 0.74%). These deposits have an average maturity of 3 days (last year: 9 days).

NOTES TO THE FINANCIAL STATEMENTS

18 Trade and other payables

	2020 £m	2019 (Restated) £m
Current		
Trade and other payables	943.2	904.2
Social security and other taxes	64.4	43.7
Accruals	379.3	442.4
Deferred income	39.5	34.1
	1,426.4	1,424.4
Non-current		
Other payables	4.2	3.0
Deferred income	16.0	12.6
	20.2	15.6

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:

	2020 £m	2019 £m
Opening balance	186.9	199.4
Issues	423.8	413.6
Released to the income statement	(429.9)	(426.1)
Closing balance	180.8	186.9

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's trade payables balance includes £215.6m (last year: £200.0m) relating to payments due to M&S suppliers under these arrangements. The substance of the contractual terms of the arrangements do not differ to those under the original contract and therefore the Group considers the amounts owed to the finance provider are akin to amounts owed to the supplier. During the year ended 28 March 2020, the arrangements were used by 157 suppliers (last year: 183 suppliers), with a maximum facility available of £299.0m (last year: £381.0m).

19 Borrowings and other financial liabilities

	2020 £m	2019 (Restated) £m
Current		
Bank loans and overdrafts	84.3	72.3
Lease liabilities	197.2	181.6
6.125% £400m Medium Term Notes 2019[1]	-	399.8
Interest accrued on Medium Term Notes	35.1	37.0
Revaluation of Medium Term Notes[6]	-	3.7
	316.6	694.4
Non-current		
6.125% £300m Medium Term Notes 2021[1]	299.2	298.7
3.00% £300m Medium Term Notes 2023[1]	298.0	297.4
4.75% £400m Medium Term Notes 2025[1,5]	399.4	399.3
3.25% £250m Medium Term Notes 2027[1,4]	247.6	-
7.125% US$300m Medium Term Notes 2037[2,3]	192.1	192.1
Revaluation of Medium Term Notes[6]	64.8	45.8
Lease liabilities	2,364.8	2,395.2
	3,865.9	3,628.5
Total	4,182.5	4,322.9

[1] These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.
[2] Interest on these bonds is payable semi-annually.
[3] US$300m Medium Term Note exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
[4] In July 2019 a £250m 3.25% Medium Term Note was issued which matures in July 2027.
[5] The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £175m (last year £375m) was swapped from fixed to floating rate.
[6] Revaluation consists of fair value hedge adjustment of £13.6m (last year: £13.8m) and foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £50.8m (last year: £35.6m).

NOTES TO THE FINANCIAL STATEMENTS

19 Borrowings and other financial liabilities continued

Leases

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 28 for the accounting policy and restatements respectively. The lease liabilities recognised on adoption of the new leasing standard are reflected in borrowings.

The Group also 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.

	2020 £m	2019 (Restated) £m
Opening lease liabilities	2,576.8	2,589.9
Additions	204.1	150.4
Interest expense relating to lease liabilities	141.3	148.2
Payments	(335.7)	(312.7)
Disposals	(25.7)	-
Exchange difference	1.2	1.0
	2,562.0	2,576.8
Current	197.2	181.6
Non-current	2,364.8	2,395.2

The maturity analysis of lease liabilities are disclosed in note 20 (a).

The following amounts were recognised in profit or loss

	2020 £m	2019 (Restated) £m
Expenses relating to short-term leases	1.0	0.2
Expenses relating to low-value assets	2.4	4.1
Expenses relating to variable consideration	6.0	4.6

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments

Treasury policy

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

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

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

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

Financial risk management

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

(a) Liquidity and funding risk

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

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

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

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax or remove the covenant conditions for the tests arising in September 2020, March 2021, and September 2021.

The Group also has a number of uncommitted facilities available to it. At year end, these amounted to £50m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £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.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables of £1,326,7m (last year: £1,349.6m) (see note 18) and derivatives is as follows:

	Bank loans and overdrafts £m	Medium Term Notes £m	Lease liabilities (Restated) £m	Partnership liability to the Marks & Spencer UK Pension Scheme (note 11) £m	Total borrowings and other financial liabilities (Restated) £m	Cash inflow on derivatives[1] £m	Cash outflow on derivatives[1] £m	Total derivative assets and liabilities £m
Timing of cash flows								
Within one year	(72.3)	(487.2)	(312.2)	(71.9)	(943.6)	1,591.0	(1,564.6)	26.4
Between one and two years	-	(62.7)	(320.4)	(71.9)	(455.0)	228.6	(217.0)	11.6
Between two and five years	-	(751.3)	(846.4)	(143.6)	(1,741.3)	282.4	(241.4)	41.0
More than five years	-	(895.5)	(3,814.7)	-	(4,710.2)	230.8	(191.5)	39.3
	(72.3)	(2,196.7)	(5,293.7)	(287.4)	(7,850.1)	2,332.8	(2,214.5)	118.3
Effect of discounting	-	572.4	2,716.9	15.0	3,304.3			
At 30 March 2019	(72.3)	(1,624.3)	(2,576.8)	(272.4)	(4,545.8)			
Timing of cash flows								
Within one year	(84.3)	(71.9)	(340.2)	(71.9)	(568.3)	1,972.0	(1,898.0)	74.0
Between one and two years	-	(371.9)	(329.4)	(71.9)	(773.2)	183.5	(167.2)	16.3
Between two and five years	-	(451.6)	(834.2)	(71.9)	(1,357.7)	296.8	(238.4)	58.4
More than five years	-	(1,164.0)	(3,674.2)	-	(4,838.2)	235.3	(188.3)	47.0
Total undiscounted cash flows	(84.3)	(2,059.4)	(5,178.0)	(215.7)	(7,537.4)	2,687.6	(2,491.9)	195.7
Effect of discounting	-	523.2	2,616.0	8.3	3,147.5			
At 28 March 2020	(84.3)	(1,536.2)	(2,562.0)	(207.4)	(4,389.9)			

[1]Derivative cash flows are disclosed on a gross basis and comparative amounts have been adjusted to reflect this.

(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 below credit ratings are at the reporting date. Senior management performs a daily review of all counterparty positions and as of August 2020 there have been no breaches to any counterparty limits.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

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

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

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

[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 £139.0m (last year £157.9m).

[2] Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £146.8m (last year: £121.8m), lease receivables £69.3m (last year: £72.5m), other receivables £31.7m (last year: £32.5m), cash and cash equivalents £248.4m (last year: £285.4m) and derivatives £172.2m (last year: £50.0m).

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

The forward-looking macro-economic data incorporated into the UK and International calculations represented the best available relevant information at the reporting date. This resulted in increased provisions for the financial year by £0.9m to reflect a lower expected recovery of trade receivables.

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.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

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

As at 30 March 2019	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount - trade receivables	111.9	3.9	0.8	1.6	1.7	1.9	121.8
Expected loss rate	0.51%	2.69%	6.49%	11.34%	20.41%	100.0%	2.62%
Lifetime expected credit loss	0.5	0.1	0.1	0.2	0.4	1.9	3.2
Net carrying amount	111.4	3.8	0.7	1.4	1.3	-	118.6

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

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

Trade receivables expected loss provision	2020 £m	2019 £m
Opening loss allowance as at 31 March 2019	3.2	1.0
Increase in loss allowance recognised in profit and loss during the year	0.9	2.4
Receivables written off during the year as uncollectable	(0.1)	(0.2)
Closing loss allowance as at 28 March 2020	4.0	3.2

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

Lease receivables expected loss provision	2020 £m	2019 £m
Opening loss allowance as at 31 March 2019	-	-
Increase in loss allowance recognised in profit and loss during the year	4.7	-
Receivables written off during the year as uncollectable	-	-
Closing loss allowance as at 28 March 2020	4.7	-

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 15 months ahead of the start of the season, with between 80% and 100% of the risk hedged nine months before the start of the season.

Other exposures arising from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,872.9m (last year: £1,755.6m) with a weighted average maturity date of 11 months (last year: seven months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 28 March 2020 will be reclassified to the income statement at various dates over the following 18 months (last year: 17 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.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

As a result of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures, the Group has reviewed the FX hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over hedging or ineffectiveness would result in immediate recycling to the Income Statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group's treasury policy hedges are entered into by business line and by season. At the time of reporting, management had identified over-hedging in Clothing & Home stock purchases resulting in a gain of £2.9m in profit and loss this financial year.

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 are excluded from the hedge designation and recognised in other comprehensive income – cost of hedging reserve. Effectiveness is measured using the hypothetical derivative approach. The contractual terms of the cross-currency swaps include break clauses every five years which allow for the interest rates to be reset (last reset December 2017). The hypothetical derivative is based on the original critical terms and so ineffectiveness may result. In order to more closely align the hedging instrument with the original hypothetical the Group successfully renegotiated the cross-currency swaps portfolio during the year, receiving £7.7m cash settlement from the counterparty banks, and increasing the average pay fixed GBP leg from 7.3% to 7.5%.

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

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as fair value through profit and loss. The corresponding fair value movement of the intercompany loan balance resulted in a £3.4m gain (last year: £3.9m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £157.0m (last year: £129.0m).

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:

	2020					2019
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	(restated) Total £m
Currency						
Sterling	3,672.2	274.4	3,946.6	3,646.4	447.2	4,093.6
Euro	109.8	-	109.8	110.9	-	110.9
Other	126.1	-	126.1	118.4	-	118.4
	3,908.1	274.4	4,182.5	3,875.7	447.2	4,322.9

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

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

There were no significant changes in hedge accounting when compared with the prior year.

(d) Interest rate risk

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

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

At the balance sheet date, fixed rate borrowings amounted to £3,908.1m (last year: £3,875.7m) representing the public bond issues and lease liabilities, amounting to 93% (last year: 90%) of the Group's gross borrowings.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

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

	2020 %	2019 %
Committed and uncommitted borrowings	N/A	N/A
Medium Term Notes	4.6%	4.8%
Leases	5.5%	5.6%

The interest rate swaps are recognised at fair value. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six-monthly compared with 12-monthly on the receive fixed legs and related debt. This will cause ineffectiveness of the hedging relationship.

The Group is exposed to GBP LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform.

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). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has identified where LIBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The Group aims to have its transition and fallback plans in place by the end of 2020.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks with the aim of implementing this language into its ISDA agreements.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Fair value hedge	*Pay six-month GBP LIBOR, receive* sterling fixed interest rate swaps	2025	£175m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

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

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

Derivative financial instruments

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

30 March 2019

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

28 March 2020

	Current			Non Current		
	Forward foreign exchange contracts	Forward foreign exchange contracts	Interest rate swaps	Cross-currency swaps	Forward foreign exchange contracts	Interest rate swaps
	£m	£m	£m	£m	£m	£m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,699.3	157.0	-	193.5	173.6	175.0
Carrying amount assets / (liabilities)	60.8	(0.3)	-	83.8	9.5	18.4
Maturity date	to Feb 2021	to Oct 2020	-	Dec 2037	to Aug 2021	Jun 2025
Hedge ratio	100%	100%	-	100%	100%	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/deposits	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probably transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[1]	33.4	(0.6)	-	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness[1]	(30.5)	4.0	-	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBPUSD 1.3; GBPEUR1.15	N/A	-	7.5%	GBPUSD 1.32; GBPEUR1.15	3.3%
Amounts recognised within finance costs in profit and loss	2.9	3.4	-	5.9[2]	-	-
Balance on cash flow hedge reserve at 28 March 2020	(37.3)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	-	N/A	N/A	(7.1)	-	N/A

[1]The £(0.6)m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge for certain intercompany loans/deposits which are represented in the £4.0m as the net foreign exchange gains and losses under this strategy.

[2]The £5.9m gain represents previously recognised hedge ineffectiveness that reversed out during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

		28 March 2020				30 March 2019			
		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	1,385.0	314.3	71.0	(10.2)	1,073.8	349.8	34.3	(6.9)
	- held for trading	61.9	95.1	2.5	(2.8)	53.9	75.1	0.7	(0.4)
Interest rate swaps	- fair value hedges	-	-	-	-	200.0	-	5.3	-
		1,446.9	409.4	73.5	(13.0)	1,327.7	424.9	40.3	(7.3)
Non-current									
Cross currency swaps	- cash flow hedges	193.5	-	83.8	-	-	193.5	4.7	(0.7)
Forward foreign exchange contracts	- cash flow hedges	153.1	20.5	10.2	(0.7)	84.8	118.2	0.5	(2.1)
Interest rate swaps	- fair value hedges	175.0	-	18.4	-	175.0	-	14.6	-
		521.6	20.5	112.4	(0.7)	259.8	311.7	19.8	(2.8)

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

	Cost of hedging reserve FX derivatives	Cost of hedging reserve CCIRS[1]	Deferred tax	Total cost of hedging reserve	Hedge reserve FX derivatives	Hedge reserve CCIRS	Hedge reserve gilt locks	Deferred tax	Total hedge reserve
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance 1 April 2018	0.8	(13.9)	2.4	(10.7)	57.5	35.9	0.4	(17.8)	76.0
Add: Change in fair value of hedging instrument recognised in OCI[2]	-	-	-	-	(111.3)	(19.2)	-	-	(130.5)
Add: Costs of hedging deferred and recognised in OCI	(0.8)	(0.7)	-	(1.5)	-	-	-	-	-
Less: Reclassified to the cost of inventory	-	-	-	-	42.7	-	-	-	42.7
Less: Reclassified from OCI to profit or loss	-	-	-	-	-	15.8	-	-	15.8
Less: Reclassified from OCI to profit or loss - included in finance costs	-	-	-	-	-	0.4	(0.2)	10.4	10.6
Less: Deferred tax	-	-	0.5	0.5	-	-	-	-	-
Closing balance 30 March 2019	-	(14.6)	2.9	(11.7)	(11.1)	32.9	0.2	(7.4)	14.6
Opening balance 31 March 2019	-	(14.6)	2.9	(11.7)	(11.1)	32.9	0.2	(7.4)	14.6
Add: Change in fair value of hedging instrument recognised in OCI	-	-	-	-	(59.2)	(88.6)	-	-	(147.8)
Add: Costs of hedging deferred and recognised in OCI	-	7.5	-	7.5	-	-	-	-	-
Less: Reclassified to the cost of inventory	-	-	-	-	21.8	-	-	-	21.8
Less: Reclassified from OCI to profit or loss - included in finance costs	-	-	-	-	2.9	15.6	(0.1)	-	18.4
Less: Deferred tax	-	-	(1.5)	(1.5)	-	-	-	24.4	24.4
Closing balance 28 March 2020	-	(7.1)	1.4	(5.7)	(45.6)	(40.1)	0.1	17.0	(68.6)

[1]Cross-currency interest rate swaps
[2] Other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

In incorporating the effects of the Covid-19 pandemic on the Group forecast hedged transactions, management has identified some resulting over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases no longer expected to occur amounts to a £2.9m gain (last year: £nil). The applicable cash flow hedges have been discontinued prospectively; derivatives with the notional value of US$76.6m will be subsequently accounted for at fair value through profit and loss.

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges (see note 19 for details of fair value adjustment). The ineffective portion recognised in profit or loss that arises from fair value hedges amounts to a £nil gain or loss (last year: £0.1m gain) as the gain on the hedged items was £3.8m (last year: £4.6m gain) and the movement on the hedging instruments was £3.8m loss (last year: £4.5m loss).

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net loss in fair value of interest rate swap	(3.8)	(4.5)
Net gain on hedged items	3.8	4.6
Ineffectiveness	-	0.1

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. Nil ineffectiveness (last year: £3.5m loss) was recognised in the profit and loss arising from the cash flow hedge amounts as the loss on the hedged items was £79.7m (last year: £4.4m gain) and the movement on the hedging instruments was £79.7m gain (last year: £7.9m loss). A gain of £5.9m was recognised in the profit and loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments	2020 £m	2019 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	79.7	(7.9)
Net (loss)/gain on hedged items	(79.7)	4.4
Ineffectiveness	-	(3.5)

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 30 March 2019				
Impact on income statement: gain/(loss)	5.4	(4.0)	-	-
Impact on other comprehensive income: (loss)/gain	(4.3)	2.5	226.8	(226.8)
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	-	-
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

Offsetting of financial assets and liabilities

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

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	-	4.3
Derivative financial assets	185.9	-	185.9	(13.7)	172.2
Cash and cash equivalents	13.2	(13.2)	-	-	-
	217.7	(27.5)	190.2	(13.7)	176.5
Trade and other payables	(272.8)	14.3	(258.5)	-	(258.5)
Derivative financial liabilities	(13.7)	-	(13.7)	13.7	-
Bank loans and overdrafts	(97.5)	13.2	(84.3)	-	(84.3)
	(384.0)	27.5	(356.5)	13.7	(342.8)

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

Fair value hierarchy

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

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

NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments continued

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

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
- trading derivatives	-	2.5	-	2.5	-	0.7	-	0.7
Derivatives used for hedging	-	183.4	-	183.4	-	59.5	-	59.5
Short-term investments	-	11.7	-	11.7	-	141.8	-	141.8
Unlisted investments[1]	-	-	9.7	9.7	-	-	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- trading derivatives	-	(2.8)	-	(2.8)	-	(0.4)	-	(0.4)
Derivatives used for hedging	-	(10.9)	-	(10.9)	-	(9.7)	-	(9.7)

[1]There were no transfers between the levels of the fair value hierarchy. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m) (see note 16) which is a level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third party property valuation.

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

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

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

Fair value of financial instruments

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

The carrying value of the Group's Medium Term Notes (level 1 equivalent) was £1,536.2m (last year £1,673.8m), the fair value of this debt was £1,531.4m (last year £1,724.0m).

Capital policy

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

In doing so, the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was six years (last year: five years). As one of several actions taken by rating agencies in response to the Covid-19 pandemic, the Group credit rating was reduced to Ba1 (negative outlook) with Moody's and BB+ (negative watch) with Standard & Poor's.

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

NOTES TO THE FINANCIAL STATEMENTS

21 Provisions

	Property	Restructuring	Other	2020	2019 (Restated)
	£m	£m	£m	£m	£m
At 30 March 2019	120.5	21.5	7.3	149.3	148.0
Provided in the year	32.7	10.9	0.7	44.3	98.5
Released in the year	(65.7)	(2.5)	(0.9)	(69.1)	(57.5)
Utilised during the year	(15.5)	(17.9)	(1.7)	(35.1)	(67.1)
Exchange differences	-	0.6	-	0.6	(0.3)
Discount rate unwind	4.9	-	-	4.9	7.9
Reclassification to trade and other payables	(16.9)	-	-	(16.9)	19.8
At 28 March 2020	60.0	12.6	5.4	78.0	149.3
Analysed as:					
Current				21.5	76.6
Non-current				56.5	72.7

Property provisions relate to dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one building. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

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

Other provisions include amounts in respect of potential liabilities for employee-related matters. The release during the prior year related to the finalisation of charges for certain employee-related matters provided for during 2018.

See note 5 for further information on these provisions.

22 Deferred tax

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

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

Deferred tax assets/(liabilities)

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 1 April 2018	(33.9)	(30.2)	(208.0)	109.8	(162.3)	(3.7)	(166.0)
Credited/(charged) to income statement	3.8	24.1	(1.6)	8.1	34.4	5.3	39.7
Credited/(charged) to equity/other comprehensive income	-	-	14.4	(11.7)	2.7	(0.2)	2.5
At 30 March 2019	(30.1)	(6.1)	(195.2)	106.2	(125.2)	1.4	(123.8)
At 31 March 2019	(30.1)	(6.1)	(195.2)	106.2	(125.2)	1.4	(123.8)
Credited/(charged) to income statement	1.8	5.9	(7.1)	13.4	14.0	(2.2)	11.8
Credited/(charged) to equity/other comprehensive income	-	-	(196.5)	(24.4)	(220.9)	0.5	(220.4)
At 28 March 2020	(28.3)	(0.2)	(398.8)	95.2	(332.1)	(0.3)	(332.4)

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 £335.7m (last year: £321.7m) and a tax value of £63.8m (last year: £61.1m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m p.a. were extended to include capital losses. It is considered that the full benefit of the losses will continue to be recoverable due to the quantum of the gains and the group's ability to exercise a level of control over when gains are crystallised. 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 £9.5m (last year: £70.5m) and a tax value of £2.6m (last year: £14.5m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £27.0m (last year: £44.5m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £2.6m (last year: £2.7m) however this has not been recognised on the basis that the distribution can be controlled by the Group.

NOTES TO THE FINANCIAL STATEMENTS

23 Ordinary share capital

	Shares	2020 £m	Shares	2019 £m
Issued and fully paid ordinary shares of 25p each	2,850,039,477	712.5	2,850,039,477	712.5

24 Contingencies and commitments

A. Capital commitments

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

B. Other material contracts

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

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

25 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2020 £m	2019 (Restated) £m
Profit on ordinary activities after taxation	24.1	66.1
Income tax expense	36.1	42.2
Finance costs	231.6	248.7
Finance income	(46.9)	(34.8)
Operating profit	244.9	322.2
(Increase)/decrease in inventories	(29.3)	73.8
Increase in receivables	(9.2)	(81.7)
(Decrease)/increase in payables	(10.0)	69.0
Adjusting items net cash outflows[1,2]	(74.8)	(99.3)
Depreciation, amortisation and write-offs	632.5	702.6
Non-cash share based payment expense	18.5	19.2
Defined benefit pension funding	(37.9)	(37.9)
Adjusting items M&S Bank[3]	(12.6)	(20.9)
Adjusting operating profit items	342.6	403.4
Cash generated from operations	1,064.7	1,350.4

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

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

[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.

NOTES TO THE FINANCIAL STATEMENTS

26 Analysis of net debt

A. Reconciliation of movement in net debt

	At 1 April 2018 (Restated) £m	Cash flow (Restated) £m	Exchange and other non-cash movement (Restated) £m	At 30 March 2019 (Restated) £m
Net cash/(debt)				
Bank loans, overdrafts and syndicated bank facility (see note 19)	(88.4)	11.1	5.0	(72.3)
Less: amounts treated as financing (see below)	51.7	(46.7)	(5.0)	-
	(36.7)	(35.6)	-	(72.3)
Cash and cash equivalents (see note 17)	207.7	77.9	(0.2)	285.4
Net cash per statement of cash flows	171.0	42.3	(0.2)	213.1
Current financial assets (see note 15)	2,564.3	126.0	-	2,690.3
Liabilities from financing activities				
Bank loans, and overdrafts treated as financing (see above)	(51.7)	46.7	5.0	-
Medium Term Notes (see note 19)	(1,622.9)	(1.4)	(12.5)	(1,636.8)
Lease liabilities (see note 19)	(2,589.9)	170.1	(157.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(327.8)	61.6	-	(266.2)
Derivatives held to hedge Medium Term Notes	-	-	23.9	23.9
Liabilities from financing activities	(4,592.3)	277.0	(140.6)	(4,455.9)
Less: Derivative instruments and cash flows related to interest	38.2	-	(12.6)	25.6
Net debt	(1,818.8)	445.3	(153.4)	(1,526.9)

	At 31 March 2019 (Restated) £m	Cash flow £m	Exchange and other non-cash movements £m	At 28 March 2020 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 19)	(72.3)	(12.0)	-	(84.3)
	(72.3)	(12.0)	-	(84.3)
Cash and cash equivalents (see note 17)	285.4	(37.5)	0.5	248.4
Net cash per statement of cash flows	213.1	(49.5)	0.5	164.1
Current financial assets (see note 15)	2,690.3	(129.5)	4.8	2,565.6
Liabilities from financing activities				
Medium Term Notes (see note 19)	(1,636.8)	150.0	(14.3)	(1,501.1)
Lease liabilities (see note 19)	(2,576.8)	201.4	(186.6)	(2,562.0)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11)	(266.2)	63.5	-	(202.7)
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	102.2
Liabilities from financing activities	(4,455.9)	407.2	(114.9)	(4,163.6)
Less: Derivative instruments and cash flows related to interest	25.6	7.7	(70.7)	(37.4)
Net debt	(1,526.9)	235.9	(180.3)	(1,471.3)

NOTES TO THE FINANCIAL STATEMENTS

26 Analysis of net debt continued

B. Reconciliation of net debt to statement of financial position

	2020 £m	2019 (Restated) £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 17)	248.4	285.4
Current financial assets (see note 15)	2,565.6	2,690.3
Bank loans and overdrafts (see note 19)	(84.3)	(72.3)
Medium Term Notes – net of hedging derivatives	(1,471.4)	(1,624.3)
Lease liabilities (see note 19)	(2,562.0)	(2,576.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 11 and 20)	(207.4)	(272.4)
	(1,511.1)	(1,570.1)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	39.8	43.2
Total net debt	(1,471.3)	(1,526.9)

27 Related party transactions

A. Subsidiaries

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

B. Marks & Spencer UK Pension Scheme

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

C. Key management compensation

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

	2020 £m	2019 £m
Salaries and short-term benefits	4.8	7.0
Share-based payments	1.7	1.1
Total	6.5	8.1

D. Other related party transactions

During the year, the Company increased its loans to a fellow subsidiary of its parent company by £10.5m (last year: £nil). The outstanding balance was £10.5m (last year: £nil). There were no related party transactions during the year to 30 March 2019.

E. Transactions with parent company

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £193.8m (last year: £305.0m) and has decreased its loan to its parent company by £5.1m (last year: decrease of £2.1m). The outstanding balance was £2,543.4m (last year: £2,548.5m) and was non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

28 Impact of new accounting standards adopted in the year

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

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

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

Consolidated income statement

	52 weeks ended 30 March 2019 (Restated)								
	Profit before adjusting items			Adjusting items			Total		
	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	Restated £m	As reported £m	Impact of IFRS 16 £m	Restated £m
Revenue	10,377.3	-	10,377.3	-	-	-	10,377.3	-	10,377.3
Operating profit	601.0	124.6	725.6	(414.5)	11.1	(403.4)	186.5	135.7	322.2
Finance income	33.8	1.0	34.8	-	-	-	33.8	1.0	34.8
Finance costs	(111.6)	(137.1)	(248.7)	-	-	-	(111.6)	(137.1)	(248.7)
Profit before tax	523.2	(11.5)	511.7	(414.5)	11.1	(403.4)	108.7	(0.4)	108.3
Income tax expense	(105.1)	-	(105.1)	54.5	8.4	62.9	(50.6)	8.4	(42.2)
Profit for the year	418.1	(11.5)	406.6	(360.0)	19.5	(340.5)	58.1	8.0	66.1
Attributable to:									
Owners of the parent	414.3	(11.3)	403.0	(360.0)	19.5	(340.5)	54.3	8.2	62.5
Non-controlling interest	3.8	(0.2)	3.6	-	-	-	3.8	(0.2)	3.6
	418.1	(11.5)	406.6	(360.0)	19.5	(340.5)	58.1	8.0	66.1

NOTES TO THE FINANCIAL STATEMENTS

28 Impact of new accounting standards adopted in the year continued

Consolidated statement of comprehensive income

	52 weeks ended 30 March 2019		
	As reported	Impact of IFRS 16	Restated
	£m	£m	£m
Profit for the year	58.1	8.0	66.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	(79.9)	-	(79.9)
Tax credit on items that will not be reclassified	14.0	-	14.0
	(65.9)	-	(65.9)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences			
- movements recognised in other comprehensive income	(15.4)	0.8	(14.6)
Cash flow hedges			
- fair value movements in other comprehensive income	132.0	-	132.0
- reclassified and reported in profit or loss	(16.0)	-	(16.0)
Tax charge on cash flow hedges	(19.0)	-	(19.0)
	81.6	0.8	82.4
Other comprehensive income for the year, net of tax	15.7	0.8	16.5
Total comprehensive income for the year	73.8	8.8	82.6
Attributable to:			
Owners of the parent	70.0	9.0	79.0
Non-controlling interests	3.8	(0.2)	3.6
	73.8	8.8	82.6

NOTES TO THE FINANCIAL STATEMENTS

28 Impact of new accounting standards adopted in the year continued

Consolidated statement of financial position

	As at 30 March 2019			As at 1 April 2018		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Assets						
Non-current assets						
Property, plant and equipment	4,028.5	1,633.8	5,662.3	4,393.9	1,795.7	6,189.6
Trade and other receivables	200.7	72.3	273.0	209.0	0.5	209.5
Other non-current assets	1,485.4	-	1,485.4	1,635.5	-	1,635.5
	5,714.6	1,706.1	7,420.7	6,238.4	1,796.2	8,034.6
Current assets						
Trade and other receivables	322.5	(55.3)	267.2	308.4	(56.0)	252.4
Other current assets	3,716.4	-	3,716.4	3,560.1	-	3,560.1
	4,038.9	(55.3)	3,983.6	3,868.5	(56.0)	3,812.5
Total assets	9,753.5	1,650.8	11,404.3	10,106.9	1,740.2	11,847.1
Liabilities						
Current liabilities						
Trade and other payables	1,461.3	(36.9)	1,424.4	1,405.9	(28.8)	1,377.1
Borrowings and other financial liabilities	513.1	181.3	694.4	125.6	158.1	283.7
Provisions	124.5	(47.9)	76.6	98.8	(42.6)	56.2
Current tax liabilities	26.2	-	26.2	50.0	-	50.0
Other current liabilities	79.2	-	79.2	145.7	-	145.7
	2,204.3	96.5	2,300.8	1,826.0	86.7	1,912.7
Non-current liabilities						
Trade and other payables	322.4	(306.8)	15.6	333.8	(317.5)	16.3
Borrowings and other financial liabilities	1,279.5	2,349.0	3,628.5	1,670.6	2,383.9	4,054.5
Provisions	250.1	(177.4)	72.7	193.1	(101.3)	91.8
Deferred tax liabilities	222.6	(98.8)	123.8	256.6	(90.6)	166.0
Other non-current liabilities	220.5	-	220.5	316.8	-	316.8
	2,295.1	1,766.0	4,061.1	2,770.9	1,874.5	4,645.4
Total liabilities	4,499.4	1,862.5	6,361.9	4,596.9	1,961.2	6,558.1
Net assets	5,254.1	(211.7)	5,042.4	5,510.0	(221.0)	5,289.0
Equity						
Issued share capital	712.5	-	712.5	712.5	-	712.5
Share premium account	386.1	-	386.1	386.1	-	386.1
Capital redemption reserve	8.0	-	8.0	8.0	-	8.0
Hedging reserve	(14.6)	-	(14.6)	(76.0)	-	(76.0)
Cost of hedging reserve	11.7	-	11.7	10.7	-	10.7
Foreign exchange reserve	(44.7)	0.8	(43.9)	(29.3)	-	(29.3)
Retained earnings	4,195.2	(212.3)	3,982.9	4,500.5	(221.0)	4,279.5
Total shareholders' equity	5,254.2	(211.5)	5,042.7	5,512.5	(221.0)	5,291.5
Non-controlling interests in equity	(0.1)	(0.2)	(0.3)	(2.5)	-	(2.5)
Total equity	5,254.1	(211.7)	5,042.4	5,510.0	(221.0)	5,289.0

NOTES TO THE FINANCIAL STATEMENTS

28 Impact of new accounting standards adopted in the year continued
Consolidated statement of cash flows

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

(i) Income statement

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

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

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

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

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

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

(ii) Right-of-use asset

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

(iii) Lease liability

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

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

(iv) Working capital

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

(v) Taxation

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

(vi) Cash flow statement

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

NOTES TO THE FINANCIAL STATEMENTS

29 Subsequent events

The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on pages 12 to 19 as well as set out within note 1 and the basis of preparation on page 45 which summarises the Covid-19 scenario modelled by the Group.

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

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

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note 10 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

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 statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable with similarly-titled measures reported by other companies due to differences in the way they are calculated.

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

	52 weeks ending 28 March 2020 £m	30 March 2019 £m
UK Food		
Like-for-like	5,872.1	5,760.7
Net new space	156.1	142.7
Total UK Food revenue	**6,028.2**	**5,903.4**
UK Clothing & Home		
Like-for-like	3,196.9	3,407.0
Net new space	12.2	92.8
Total UK Clothing & Home revenue	**3,209.1**	**3,499.8**

M&S.com revenue / Online revenue	None	Not applicable	Total revenue through the Group's online platforms. These revenues are reported within the relevant UK Clothing & Home, UK Food and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report for an explanation of why this measure is used within incentive plans.
Revenue growth at constant currency	None	Not applicable	The period-on-period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.

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

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusting items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Operating Committee.
EBIT before adjusting items	EBIT[1]	Adjusting items (See note 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.
Operating profit before adjusting items	Profit before tax	Adjusting items (See note 5)	Operating profit before the impact of adjusting items, financing income/costs and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee.
Profit before tax and adjusting items	Profit before tax	Adjusting items (See note 5)	Profit before the impact of adjusting items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report on pages 81 to 92 of the Marks and Spencer Group plc Annual Report 2020 which does not form part of this report for an explanation of why this measure is used within incentive plans.
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.
Balance sheet measures			
Net debt	None	Reconciliation of net debt (see note 26)	Net debt comprises total borrowings (bank and bonds net of accrued interest and lease liabilities), net derivative financial instruments that hedge the debt and the Scottish Limited Partnership liability to the Marks and Spencer UK Pension Scheme less cash, cash equivalents and unlisted and short-term investments. Net debt does not include contingent consideration as it is conditional upon future events which are not yet certain at the balance sheet date. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Cash flow measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure, cash lease payments and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid, excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			

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

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

Company statement of financial position

	Notes	As at 28 March 2020 £m	As at 30 March 2019 (Restated) £m	As at 31 March 2018 (Restated) £m
Assets				
Non-current assets				
Intangible assets	C7	325.1	412.9	516.9
Property, plant and equipment	C8	4,584.2	4,816.4	5,310.4
Investments in group undertakings	C9	907.5	923.7	923.7
Investment in joint ventures		6.1	3.4	5.9
Other financial assets	C10	11.3	14.7	15.9
Retirement benefit asset	C4	2,369.6	1,402.2	1,517.7
Trade and other receivables	C11	162.9	169.7	91.7
Derivative financial instruments	C15	112.8	19.8	27.1
		8,479.5	7,762.8	8,409.3
Current assets				
Inventories		518.8	647.2	742.0
Other financial assets	C10	6.0	135.6	5.8
Trade and other receivables	C11	3,134.6	3,068.3	6,310.5
Derivative financial instruments	C15	77.8	40.7	7.2
Current tax assets		45.5	-	-
Cash and cash equivalents	C12	165.7	217.0	130.4
		3,948.4	4,108.8	7,195.9
Total assets		12,427.9	11,871.6	15,605.2
Liabilities				
Current liabilities				
Trade and other payables	C13	2,486.7	2,712.4	5,759.9
Borrowings and other financial liabilities	C14	331.4	714.1	338.2
Derivative financial instruments	C15	17.1	14.4	77.0
Provisions	C16	17.7	59.7	56.5
Current tax liabilities		-	4.6	27.2
		2,852.9	3,505.2	6,258.8
Non-current liabilities				
Retirement benefit deficit	C4	6.5	8.1	10.4
Trade and other payables	C13	7.7	10.4	13.3
Borrowings and other financial liabilities	C14	4,780.0	4,640.3	5,067.8
Derivative financial instruments	C15	0.9	2.8	30.8
Provisions	C16	53.3	70.1	82.0
Deferred tax liabilities	C17	385.4	172.0	208.7
		5,233.8	4,903.7	5,413.0
Total liabilities		8,086.7	8,408.9	11,671.8
Net assets		4,341.2	3,462.7	3,933.4
Equity				
Issued share capital	C18	712.5	712.5	712.5
Share premium account		386.1	386.1	386.1
Capital redemption reserve		8.0	8.0	8.0
Hedging reserve		78.1	(6.2)	(67.3)
Retained earnings		3,156.5	2,362.3	2,894.1
Total equity		4,341.2	3,462.7	3,933.4

The Company's profit for the year was £264.4m (last year: loss of £114.0m).

Comparative information has been restated for the impact of IFRS 16 (see note C23).

The financial statements were approved by the Board and authorised for issue on 17 August 2020. The financial statements also comprise the notes on pages 105 to 140.

Eoin Tonge, Chief Finance Officer

Registered number:

00214436

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Cost of Hedging Reserve £m	Retained earnings £m	Total £m
At 1 April 2018	**712.5**	**386.1**	**8.0**	**(78.0)**	**10.7**	**3,188.1**	**4,227.4**
Adjustment on initial application of IFRS 16	–	–	–	–	–	(294.0)	(294.0)
Adjusted opening shareholders' equity	**712.5**	**386.1**	**8.0**	**(78.0)**	**10.7**	**2,894.1**	**3,933.4**
Loss for the year	–	–	–	–	–	(114.0)	(114.0)
Other comprehensive (expense)/income:							
Remeasurements of retirement benefit schemes	–	–	–	–	–	(150.8)	(150.8)
Tax credit on retirement benefit schemes	–	–	–	–	–	26.0	26.0
Cash flow hedges							
– fair value movements in other comprehensive income	–	–	–	128.1	1.5	–	129.6
– reclassified and reported in profit or loss	–	–	–	(16.0)	–	–	(16.0)
Tax on cash flow hedges	–	–	–	(17.9)	(0.5)	–	(18.4)
(Loss)/gain on fair value through other comprehensive income equity investments	–	–	–	–	–	(6.8)	(6.8)
Other comprehensive (expense)/income	–	–	–	94.2	1.0	(131.6)	(36.4)
Total comprehensive (expense)/income	–	–	–	94.2	1.0	(245.6)	(150.4)
Cash flow hedges recognised in inventories	–	–	–	(42.2)	–	–	(42.2)
Tax on cash flow hedges recognised in inventories	–	–	–	8.1	–	–	8.1
Transactions with owners:							
Dividends	–	–	–	–	–	(305.0)	(305.0)
Credit for share-based payments	–	–	–	–	–	19.4	19.4
Deferred tax on share schemes	–	–	–	–	–	(0.6)	(0.6)
At 30 March 2019 (Restated)	**712.5**	**386.1**	**8.0**	**(17.9)**	**11.7**	**2,362.3**	**3,462.7**
At 31 March 2019 (Restated)	**712.5**	**386.1**	**8.0**	**(17.9)**	**11.7**	**2,362.3**	**3,462.7**
Profit for the year	–	–	–	–	–	264.4	264.4
Other comprehensive (expense)/income:							
Remeasurements of retirement benefit schemes	–	–	–	–	–	917.3	917.3
Tax charge on retirement benefit schemes	–	–	–	–	–	(199.2)	(199.2)
Cash flow hedges							
fair value movements in other comprehensive income	–	–	–	141.6	(7.5)	–	134.1
reclassified and reported in profit or loss	–	–	–	(18.4)	–	–	(18.4)
Tax on cash flow hedges	–	–	–	(26.9)	1.5	–	(25.4)
(Loss)/gain on fair value through other comprehensive income equity investments	–	–	–	–	–	(12.4)	(12.4)
Other comprehensive (expense)/income	–	–	–	96.3	(6.0)	705.7	796.0
Total comprehensive (expense)/income	–	–	–	96.3	(6.0)	970.1	1,060.4
Cash flow hedges recognised in inventories	–	–	–	(7.4)	–	–	(7.4)
Tax on cash flow hedges recognised in inventories	–	–	–	1.4	–	–	1.4
Transactions with owners:							
Dividends	–	–	–	–	–	(193.8)	(193.8)
Credit for share-based payments	–	–	–	–	–	18.3	18.3
Deferred tax on share schemes	–	–	–	–	–	(0.4)	(0.4)
At 28 March 2020	**712.5**	**386.1**	**8.0**	**72.4**	**5.7**	**3,156.5**	**4,341.2**

Comparative information has been restated for the impact of IFRS 16 (see note C23).

Company statement of cash flows

	Notes	52 weeks ended 28 March 2020 £m	52 weeks ended 30 March 2019 (Restated) £m
Cash flows from operating activities			
Cash generated from operations	C20	1,320.5	1,282.8
Income tax paid		(82.8)	(97.3)
Net cash inflow from operating activities		1,237.7	1,185.5
Cash flows from investing activities			
Purchase of property, plant and equipment		(252.9)	(211.4)
Proceeds from sale of property, plant and equipment		4.7	48.1
Purchase of intangible assets		(74.8)	(95.0)
(Purchase)/sale of non-current financial assets		(2.7)	2.5
Sale of current financial assets		129.6	17.0
Interest received		2.2	1.5
Net cash used in investing activities		(193.9)	(237.3)
Cash flows from financing activities			
Interest paid[1]		(283.9)	(293.3)
Repayment of borrowings		-	(50.0)
Issuance of Medium Term Notes		250.0	1.4
Redemption of Medium Term Notes		(400.0)	-
Movement in intercompany loans treated as financing[2]		(248.7)	(53.1)
Repayment of lease liabilities		(221.9)	(191.7)
Equity dividends paid		(193.8)	(305.0)
Purchase of shares in ultimate parent company held in employee trust		(8.9)	(5.5)
Net cash used in financing activities		(1,107.2)	(897.2)
Net cash (outflow)/inflow from activities		(63.4)	51.0
Opening net cash		144.8	93.8
Closing net cash	C12	81.4	144.8

[1] Includes interest paid on lease liabilities of £194.0m (last year: £203.7m (restated)).

[2]During the year, the Company has received and paid cash balances in relation to the rights issue by Marks and Spencer Group plc (£574.4m) and acquisition of Ocado Retail Limited by a fellow subsidiary of Marks and Spencer Group plc (£577.8m) respectively. These balances are presented on a net basis within the movement in parent in parent company and fellow subsidiary loans, detail can be seen in the Marks and Spencer Group plc Annual Report 2020.

Comparative information has been restated for the impact of IFRS 16 (see note C23).

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

General information

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

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

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.

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

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

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

New accounting standards adopted by the Company

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

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

The Company also elected to adopt the following amendments early:

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

The nature and effect of the changes to the Company's accounting policies as a result of the adoption of IFRS 16 is described in note C23. The impact of early adopting the amendments to IFRS 9 as a result of interest rate benchmark reform is described in the financial instruments accounting policy and in note C15.

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

New accounting standards in issue but not yet effective

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

- Amendment to IFRS 16: Covid-19-Related Rent Concessions
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts
- Amendments to IFRS 10 and IAS 28: Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

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

The amendment to IFRS 16 is effective for periods commencing on or after 1 June 2020. However, the Company is expected to early adopt the amendment for its reporting period commencing 29 March 2020. As a result, the Company will treat rent concessions that occur as a direct consequence of Covid-19, and that meet the relevant criteria, as variable lease payments rather than as lease modifications. The Company is expected to apply the practical expedient to all rent concessions that meet the criteria.

In most cases, this will result in a reduction in the lease liabilities and a gain recognised in profit or loss. The Company does not expect this to be material.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Critical accounting judgements and key sources of estimation uncertainty

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

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

The Company's critical accounting judgements and estimates are aligned with those disclosed in note 1 of the Group financial statements. Additional key sources of estimation uncertainty are noted below.

Impairment of investments in subsidiary undertakings

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

C2 DIVIDENDS

	2020 per share	2019 per share	2020 £m	2019 £m
Dividends on equity ordinary shares				
Paid final dividend	4.1p	6.8p	116.8	193.8
Paid interim dividend	2.7p	3.9p	77.0	111.2
	6.8p	10.7p	193.8	305.0

The Directors have not proposed a final dividend for 2019/20. In order to provide for the uncertain outlook the Directors do not, at this stage, anticipate paying a dividend for 2020/21.

C3 EMPLOYEES

A. AGGREGATE REMUNERATION

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

	2020 Total £m	2019 Total £m
Wages and salaries	1,108.0	1,133.0
Social security costs	66.9	71.6
Other pension costs	65.4	69.9
Share based payments	18.3	19.1
Employee welfare and other personnel costs	45.7	48.6
Capitalised staffing costs	(22.5)	(17.6)
Total aggregate remuneration	1,281.8	1,324.6

B. AVERAGE MONTHLY NUMBER OF EMPLOYEES

	2020	2019
Stores		
- management and supervisory categories	5,278	5,480
- other	62,027	63,957
Head office		
- management and supervisory categories	2,947	2,968
- other	764	832
Operations		
- management and supervisory categories	115	81
- other	1,302	1,066
Total average number of employees	72,433	74,384

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 49,094 (last year 50,578).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C4 RETIREMENT BENEFITS

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

The UK DB pension scheme operated on a final pensionable salary basis and is governed by a Trustee board which is independent of the Company. The UK DB scheme closed to future accrual on 1 April 2017. 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), 55,887 deferred members (last year: 58,079) and 52,165 pensioners (last year: 52,217).

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

The DC plan is a pension plan under which the Group pays contributions to an independently administered fund. Such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee. At the year end, the defined contribution arrangement had some 52,059 active members (last year: 53,536) and some 33,578 deferred members (last year: 26,709).

The total Company retirement benefit cost was £14.4m (last year £33.4m). Of this, income of £46.8m (last year £32.7m) relates to the DB pension scheme, costs of £61.7m (last year £64.9m) to the DC plan and income of £0.5m (last year costs £1.2m) relates to other retirement benefit schemes.

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

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

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

A. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

	2020 £m	2019 £m
Total market value of assets	10,986.8	10,577.0
Present value of scheme liabilities	(8,617.2)	(9,174.8)
Net funded pension plan asset	2,369.6	1,402.2
Unfunded retirement benefit	(2.5)	(2.5)
Post-retirement healthcare	(4.0)	(5.6)
Net retirement benefit asset	2,363.1	1,394.1

	2020 £m	2019 £m
Analysed in the statement of financial position as:		
Retirement benefit asset	2,369.6	1,402.2
Retirement benefit deficit	(6.5)	(8.1)
	2,363.1	1,394.1

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

B. FINANCIAL ASSUMPTIONS

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

	2020 %	2019 %
Rate of increase in pensions in payment for service	1.9-2.7%	2.1-3.3
Discount rate	2.40	2.45
Inflation rate	2.70	3.25
Long-term healthcare cost increases	6.70	7.25

C. DEMOGRAPHIC ASSUMPTIONS

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

		2020	2019
Current pensioners (at age 65)	– males	22.2	22.0
	– females	24.9	24.9
Deferred pensioners (at age 65)	– males	24.0	23.8
	– females	26.8	26.7

D SENSITIVITY ANALYSIS

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

	2020 £m	2019 £m
Increase/(decrease) in scheme surplus caused by a decrease in the discount rate of 0.25%	50.0	(70.0)
Increase in scheme surplus caused by a decrease in the discount rate of 0.50%	100.0	N/A
Increase in scheme surplus caused by a decrease in the discount rate of 1.00%	190.0	N/A
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	(50.0)	(25.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.50%	(100.0)	N/A
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	240.0	315.0

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

Given changes in inflation and discount rate assumptions over the past year, the range of reasonably possible outcomes has been updated to reflect this.

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

E. ANALYSIS OF ASSETS

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

In addition to its interest in the Scottish Limited Partnership (refer to note C5), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 106% of interest rate movements and 106% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

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

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

In addition, the Company is exposed to additional risks through its obligation to the DB pension scheme via its interest in the Scottish Limited Partnership (see note C5). In particular, under the legal terms of the Partnership, a default by the Company on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the pension scheme, or an increase in the collateral to be provided by the Company.

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

	2020			2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	3,589.3	352.0	3,941.3	4,366.7	367.2	4,733.9
– Corporate Bonds	-	728.3	728.3	–	731.8	731.8
– Asset backed securities and structured debt	-	264.4	264.4	–	296.6	296.6
Scottish Limited Partnership Interest (see note C5)	-	665.9	665.9	–	749.4	749.4
Equity investments						
– Developed markets	301.8	56.6	358.4	351.0	57.9	408.9
– Emerging markets	90.3	-	90.3	101.3	–	101.3
Growth Asset Funds						
– Global Property	-	291.4	291.4	–	328.4	328.4
– Hedge and Reinsurance	-	385.1	385.1	–	412.4	412.4
– Private Equity and Infrastructure	-	175.4	175.4	–	223.3	223.3
Derivatives						
– Interest and inflation rate swaps	(0.4)	253.7	253.3	–	148.4	148.4
– Foreign exchange contracts and other derivatives	(0.4)	162.4	162.0	0.1	127.5	127.6
Cash and Cash equivalents	95.9	181.8	277.7	36.4	122.2	158.6
Other						
– Buy In Insurance	-	2,430.0	2,430.0	–	1,273.7	1,273.7
– Secure Income Asset Funds	-	934.6	934.6	–	842.2	842.2
– Other	28.7	-	28.7	40.5	–	40.5
	4,105.2	6,881.6	10,986.8	4,896.0	5,681.0	10,577.0

1. Repurchase agreements were £820.5m (last year £1,025.1m)

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. A minority of the assets of the scheme are relatively illiquid and in the past historical pricing has been used to value these asset classes at year end (typically pricing from the most recent 31 December). Covid-19 has led to significant market falls for some asset classes. Asset values have been reduced using movements in a market index for listed private equity as a proxy for actual performance of private equity assets and information from managers for adjustments to secure income assets. 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 63,527 (last year: 41,841) ordinary shares in the Marks and Spencer Group plc through its investment in UK Equity Index Funds.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

F. ANALYSIS OF AMOUNT CHARGED AGAINST PROFITS

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

	2020 £m	2019 £m
Administration costs	4.3	3.7
Past service costs	-	18.0
Net interest income	(51.1)	(54.3)
Total	(46.8)	(32.6)
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	(467.8)	(209.2)
Actuarial (gain)/loss – experience	(41.4)	19.1
Actuarial loss/(gain) – demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss – financial assumptions	(418.1)	431.1
Components of defined benefit (gain)/loss recognised in other comprehensive income	(917.3)	150.8

G. SCHEME ASSETS

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

	2020 £m	2019 £m
Fair value of scheme assets at start of year	10,577.0	10,425.0
Interest income based on discount rate	270.6	285.6
Actual return on scheme assets excluding amounts included in net interest income	467.8	209.2
Employer contributions	4.9	5.0
Benefits paid	(329.2)	(344.1)
Administration costs	(4.3)	(3.7)
Fair value of scheme assets at end of year	10,986.8	10,577.0

H. PENSIONS AND OTHER POST-RETIREMENT LIABILITIES

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

	2020 £m	2019 £m
Present value of obligation at start of year	9,182.9	8,917.7
Past service cost	-	18.0
Interest cost	219.5	231.3
Benefits paid	(329.2)	(344.1)
Actuarial (gain)/loss – experience	(41.4)	19.1
Actuarial loss/(gain) – demographic assumptions	10.0	(90.2)
Actuarial (gain)/loss – financial assumptions	(418.1)	431.1
Present value of obligation at end of year	8,623.7	9,182.9
Analysed as:		
Present value of pension scheme liabilities	8,617.2	9,174.8
Unfunded pension plans	2.5	2.5
Post-retirement healthcare	4.0	5.6
Present value of obligation at end of year	8,623.7	9,182.9

The average duration of the defined benefit obligation at 28 March 2020 is 19 years (last year: 19 years).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

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

The partnership liability in relation to the first interest of £207.4m (last year £272.4m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 28 March 2020 an interest charge of £6.9m (last year £8.8m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the DB Pension Scheme assets, valued at £211.2m (last year £278.5m). It is also included as a liability on the Company's statement of financial position as it is a transferable financial instrument. The second partnership interest included within the DB Pension Scheme assets, valued at £454.7m (last year £470.9m) is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19 on consolidation, though is included on the Company's Statement of Financial Position. Similarly, the associated liability is not included on consolidation, rather the annual distribution is recognised as a contribution to the scheme each year.

C6 SHARE-BASED PAYMENTS

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

C7 INTANGIBLE ASSETS

	Computer software £m	Computer software under development £m	Total £m
At 31 March 2018			
Cost or valuation	1,315.5	55.9	1,371.4
Accumulated amortisation	(846.3)	(8.2)	(854.5)
Net book value	469.2	47.7	516.9
Year ended 30 March 2019			
Opening net book value	469.2	47.7	516.9
Additions	10.2	84.8	95.0
Transfers	65.3	(70.5)	(5.2)
Asset write-offs and impairments	(5.9)	(8.4)	(14.3)
Amortisation charge	(179.5)	–	(179.5)
Closing net book value	359.3	53.6	412.9
At 30 March 2019			
Cost or valuation	1,308.7	61.8	1,370.5
Accumulated amortisation	(949.4)	(8.2)	(957.6)
Net book value	359.3	53.6	412.9
Year ended 28 March 2020			
Opening net book value	359.3	53.6	412.9
Additions	-	74.8	74.8
Transfers	88.8	(89.7)	(0.9)
Asset write-offs and impairments	(0.5)	-	(0.5)
Amortisation charge	(161.2)	-	(161.2)
Closing net book value	286.4	38.7	325.1
At 28 March 2020			
Cost or valuation	1,397.0	46.9	1,443.9
Accumulated amortisation	(1,110.6)	(8.2)	(1,118.8)
Net book value	286.4	38.7	325.1

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment of £4,584.2m (last year: £4,816.4m) consists of owned assets of £2,461.3m (last year: £2,509.1m) and right-of-use assets of £2,122.9m (last year: £2,307.3m).

Property, plant and equipment – owned

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2018				
Cost	1,027.8	6,388.0	83.7	7,499.5
Accumulated depreciation and write-offs	(169.6)	(4,574.0)	(4.3)	(4,747.9)
Net book value	858.2	1,814.0	79.4	2,751.6
Year ended 30 March 2019				
Opening net book value	858.2	1,814.0	79.4	2,751.6
Additions	36.2	27.2	165.4	229.2
Transfers	3.9	131.1	(143.9)	(8.9)
Disposals	(26.2)	(0.8)	–	(27.0)
Asset impairments	(41.2)	(28.2)	–	(69.4)
Asset write-offs	(29.2)	(13.0)	–	(42.2)
Depreciation charge	(104.3)	(219.9)	–	(324.2)
Closing net book value	697.4	1,710.8	100.9	2,509.1
At 30 March 2019				
Cost	985.5	5,093.9	105.2	6,184.6
Accumulated depreciation and write-offs	(288.1)	(3,383.1)	(4.3)	(3,675.5)
Net book value	697.4	1,710.8	100.9	2,509.1
Year ended 28 March 2020				
Opening net book value	697.4	1,710.8	100.9	2,509.1
Additions	9.4	22.2	242.2	273.8
Transfers	22.2	181.7	(202.9)	1.0
Disposals	(3.5)	–	–	(3.5)
Asset impairments	(1.1)	(23.7)	–	(24.8)
Asset write-offs	(1.5)	(7.1)	–	(8.6)
Depreciation charge	(20.4)	(265.3)	–	(285.7)
Closing net book value	702.5	1,618.6	140.2	2,461.3
At 28 March 2020				
Cost	994.0	4,870.7	144.5	6,009.2
Accumulated depreciation and write-offs	(291.5)	(3,252.1)	(4.3)	(3,547.9)
Net book value	702.5	1,618.6	140.2	2,461.3

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Right-of-use assets

From 31 March 2019, the Company has adopted IFRS 16 Leases. Refer to note 1 of the Group financial statements and note C23 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

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

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 31 March 2018	2,512.4	46.4	2,558.8
Additions	166.4	1.2	167.6
Transfers and reclassifications	4.6	–	4.6
Disposals	(68.6)	–	(68.6)
Right-of-use asset impairments	(133.5)	–	(133.5)
Depreciation charge	(211.5)	(10.1)	(221.6)
As at 30 March 2019	2,269.8	37.5	2,307.3
Additions	122.2	38.2	160.4
Disposals	(53.2)	(0.2)	(53.4)
Right-of-use asset impairments	(73.1)	–	(73.1)
Depreciation charge	(200.8)	(17.5)	(218.3)
As at 28 March 2020	2,064.9	58.0	2,122.9

Impairment of property, plant and equipment

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

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

The value in use of each CGU is calculated based on the Company'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 Company'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 Company's retail businesses in the relevant territory. If the CGU relates to a store which the Company 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. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C8 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

During the year, the Company has recognised an impairment charge of £72.0m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £123.8m (restated)). These stores were impaired to their 'value in use' recoverable amount of £182.8m, which is their carrying value at year end.

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

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

A reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £104.9m and a 20 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £6.3m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £9.4m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

Impairments – UK store estate programme

During the year, the Company has recognised an impairment charge of £52.8m and impairment reversals of £26.8m relating to the on-going UK store estate programme (last year: £79.1m (restated)). These stores were impaired to their 'value in use' recoverable amount of £330.0m, which is their carrying value at year end.

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

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

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £21.6m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £17.2m. Neither a 50 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS

A. INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in Group undertakings £m	Loans to Group undertakings £m	Total £m
At 31 March 2018			
Cost	1,153.9	0.5	1,154.4
Provision for impairment	(230.7)	–	(230.7)
Net book value	923.2	0.5	923.7
Year ended 30 March 2019			
Opening net book value	923.2	0.5	923.7
Additions	46.0	–	46.0
Provision for impairment	(46.0)	–	(46.0)
Closing net book value	923.2	0.5	923.7
At 30 March 2019			
Cost	1,199.9	0.5	1,200.4
Provision for impairment	(276.7)	–	(276.7)
Net book value	923.2	0.5	923.7
Year ended 28 March 2020			
Opening net book value	923.2	0.5	923.7
Provision for impairment	(16.2)	–	(16.2)
Closing net book value	907.0	0.5	907.5
At 28 March 2020			
Cost	1,199.9	0.5	1,200.4
Provision for impairment	(292.9)	–	(292.9)
Net book value	907.0	0.5	907.5

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

B. SUBSIDIARY UNDERTAKINGS

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 28 March 2020 is disclosed below.

				Proportion of shares held by:	
	Registered address	Country of incorporation	Share Class	Company	A subsidiary
Amethyst Leasing (Holdings) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Amethyst Leasing (Properties) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Aprell Limited[1]	24/29 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	–	100%
Busyexport Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Founders Factory Retail Limited	Northcliffe House, Young Street, London, England, W8 5EH	United Kingdom	£0.0001 ordinary	0.004%	–
			£0.0001 preferred	100%	–
Hedge End Park Limited	33 Holborn, London, EC1N 2HT	United Kingdom	£1 ordinary B	50%	–
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	–	99.99%
M&S (Spain) S.L.	Calle Fuencarrel No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	–	100%
M&S Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	Proportion of shares held by: A subsidiary
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	Registered Capital	-	100%
Manford (Textiles) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	-
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	-	100%
Marks & Spencer Company Archive CIC	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	Membership	-	-
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	CAD 1 Common	100%	-
Marks & Spencer Outlet Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	-
Marks and Sparks Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	-
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney, Guernsey	Guernsey	£1 Ordinary	100%	-
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100%	-
Marks and Spencer (Belgium) SPRL	4th floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	-	100%
Marks and Spencer (Bradford) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	-
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6 The Gateway, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	-	100%
Marks and Spencer (Hungary) Kft (in liquidation)	1103 Budapest, Kőér utca 2/A C. ép	Hungary	HUF280,500,000 Quota	-	100%
Marks and Spencer (India) Pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	-	100%
Marks and Spencer (Ireland) Limited[1]	24-27 Mary Street, Dublin 1, Ireland	Republic of Ireland	€1.25 Ordinary	-	100%
Marks and Spencer (Israel) Limited	31 Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	100%	-
Marks and Spencer (Jersey) Limited	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 Ordinary	100%	-
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	The Netherlands	€450 Ordinary	-	100%
Marks and Spencer (Northern Ireland) Limited	Waterfront Plaza, 8 Laganbank Road, Belfast, BT1 3LR	United Kingdom	£1 Ordinary	100%	-
Marks and Spencer (Property Ventures) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	-
Marks and Spencer (Shanghai) Limited	Unit 03-04 6/F, Eco City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	-	100%
Marks and Spencer (Singapore) Investments Pte. Ltd	77 Robinson Road, Singapore #13-00 Robinson 77, Singapore 068896, Singapore	Singapore	No Par Value Ordinary	-	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Marks and Spencer 2005 (Brooklands Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Satellite Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Chester Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Hedge End Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kensington Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Parman House Kingston Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Pudsey Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer 2005 (Warrington Gemini Store) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Chester Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Clothing Textile Trading J.S.C.	Havalani Karsisi Istanbul Dunya Ticaret Merkezi A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul Turkey	Turkey	TRL 25.00 Ordinary	–	100%
Marks and Spencer Commercial (Shanghai) Limited	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	–	100%
Marks and Spencer Czech Republic a.s	Vyskocilova 1481/4, Michle, 140 00, Praha 4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	–	100%
			CZK 100,000 Ordinary	–	100%
			CZK 1,000,000 Ordinary	–	100%
Marks and Spencer Guernsey Investments LLP	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	Partnership interest	–	100%[3]
Marks and Spencer Hungary Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer International Holdings Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Investments	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

	Registered address	Country of incorporation	Share Class	Proportion of shares held by: Company	A subsidiary
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	–	80%
Marks and Spencer Romania SA (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	–	100%
Marks and Spencer Property Developments Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer (Property Investments) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Marks and Spencer Property Holdings Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Reliance India Pvt Limited	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	–	51%
			INR 10 Class B	–	100%
			INR 5 Class C	–	–[4]
Marks and Spencer Scottish Limited Partnership	2-28 St Nicholas Street, Aberdeen, AB10 1BU	United Kingdom	Partnership interest	–[5]	–
Marks and Spencer Simply Foods Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	The Netherlands	€450 Ordinary	–	100%
M.S. General Insurance L.P.	*Heritage Hall, Le Marchant* Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	Partnership interest	100%	–
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town, 8001, South Africa	South Africa	ZAR 2 Ordinary	100%	–
M & S Mode International B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	The Netherlands	€100 Ordinary	–	100%
Marks and Spencer France Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	€1.14 Ordinary	100%	–
Minterton Services Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Cumbernauld) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Hardwick) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Long Eaton) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Thorncliffe) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Ruby Properties (Tunbridge) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Simply Food (Property Investments)	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
Simply Food (Property Ventures) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C9 INVESTMENTS CONTINUED

B. SUBSIDIARY UNDERTAKINGS

				Proportion of shares held by:	
	Registered address	Country of incorporation	*Share Class*	*Company*	*A subsidiary*
St. Michael (Textiles) Limited	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	–	100%
St Michael Finance plc	Waterside House, 35 North Wharf Road, London, W2 1NW	United Kingdom	£1 Ordinary	100%	–
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	–	99.99%
UAB MSF Lithuania	A. Goštauto g. 40B, Viliniaus m., Lithuania	Lithuania	LTL 100 Ordinary	–	100%

1. The Company has guaranteed all of the liabilities and commitments referred to in Section 357(1) (b) of the Companies Act 2014 in respect of the whole of the financial year ending 28 March 2020 for Marks and Spencer (Ireland) Limited and Aprell Limited. These subsidiaries are availing of the exemption under Section 357 of the Companies Act 2014 not to file their statutory financial statements.
2. The company is a Community Interest Company, not established or conducted for private gain. It is limited by guarantee of its members and does not have any share capital. Marks and Spencer plc is the sole member.
3. The designated members of the LLP are Teranis Limited, Ignazia Limited, Aprell Limited and Marks and Spencer (Ireland) Limited.
4. INR 5 Class C shares 100% owned by JV partner.
5. Marks and Spencer plc is the General Partner.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C10 OTHER FINANCIAL ASSETS

	2020 £m	2019 £m
Non-current		
Unlisted investments	9.7	9.9
Other investments[1]	1.6	4.8
	11.3	14.7
Current		
Other investments	6.0	135.6

1. Non-current other investments are £1.6m (last year £4.8m) shares in Marks and Spencer Group plc held for employee share schemes.

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

C11 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 (Restated) £m
Non-current		
Prepayments	93.7	97.4
Lease receivables - net	69.2	72.3
	162.9	169.7
Current		
Trade receivables	148.0	118.8
Less: Provision for impairment of receivables	(3.7)	(3.0)
Trade receivables – net	144.3	115.8
Lease receivables - net	0.1	0.2
Other receivables	14.3	14.3
Prepayments	95.5	117.3
Amounts owed by parent company	2,543.4	2,562.7
Amounts owed by subsidiary companies	337.0	258.0
	3,134.6	3,068.3

As at 28 March 2020, £293.2m (last year: £192.9m) of the amounts owed by group companies is interest bearing. Overall the interest receivable during the year was £4.7m (last year: £8.8m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £2,587.2m (last year (restated): £2,627.8m) of the amounts owed by group companies are interest-free. Amounts owed by group companies are repayable on demand.

The directors consider that the carrying amount of trade and other receivables approximates their fair value. These balances are subject to an assessment of expected credit loss (see note C15). Included in accrued income is £17.4m (last year: £21.9m) of accrued supplier income relating to rebates that have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

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

	2020 £m	2019 £m
Timing of cash flows		
Within one year	7.1	1.2
Between one and two years	4.7	3.5
Between two and three years	4.7	4.8
Between three and four years	4.7	4.8
Between four and five years	4.7	4.8
More than five years	135.0	144.5
Total undiscounted cash flows	160.9	163.6
Effect of discounting	(86.9)	(91.1)
Present value of lease payments receivable	74.0	72.5
Less: provision for impairment of receivables	(4.7)	-
Net investment in the lease	69.3	72.5

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £81.5m (last year £144.8m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.30% (last year: 0.71%). These deposits have an average maturity of 2 days (last year: 2 days).

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

	2020 £m	2019 £m
Cash at bank and in hand	165.7	217.0
Bank loans and overdrafts	(84.3)	(72.2)
	81.4	144.8

C13 TRADE AND OTHER PAYABLES

	2020 £m	2019 (Restated) £m
Current		
Trade and other payables	968.5	938.7
Social security and other taxes	46.0	29.4
Accruals	373.8	438.4
Deferred income	37.6	30.7
Amounts owed to subsidiaries	1,060.8	1,275.2
	2,486.7	2,712.4
Non-current		
Other payables	1.6	3.0
Deferred income	6.1	7.4
Other payables and deferred income	7.7	10.4

As at 28 March 2020, £309.7m (last year: £627.5m) of the amounts owed to subsidiaries is interest bearing. Overall the interest payable during the year was £7.5m (last year: £14.4m). Interest rates are set within individual intercompany loan agreements however are approximately in line with LIBOR. The remaining £751.1m (last year (restated): £647.7m) of the amounts owed to subsidiaries are interest-free. Amounts owed to subsidiaries are repayable on demand.

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:

	2020 £m	2019 £m
Year ended 28 March 2020		
Opening balance	182.0	194.2
Issues	417.5	408.5
Released to the income statement	(424.2)	(420.7)
Closing balance	175.3	182.0

The Company 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 Company's suppliers by giving them early access to funding. The Company settles these amounts in accordance with each supplier's agreed payment terms.

The Company's trade payables balance includes £215.6m (last year: £200.0m) relating to payments due to M&S suppliers under these arrangements. The substance of the contractual terms of the arrangements do not differ to those under the original contract and therefore the Company considers the amounts owed to the finance provider are akin to amounts owed to the supplier. During the year ended 28 March 2020, the arrangements were used by 157 suppliers (last year: 183 suppliers), with a maximum facility available of £299.0m (last year: £381.0m).

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C14 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2020 £m	2019 £m
Current		
Bank loans and overdrafts	84.3	72.2
Lease liabilities	212.0	201.4
6.125% £400m Medium Term Notes 2019[1]	–	399.8
Interest accrued on Medium Term Notes	35.1	37.0
Revaluation of Medium Term Notes[6]	–	3.7
	331.4	714.1
Non-current		
6.125% £300m Medium Term Notes 2021[1]	299.2	298.7
3.00% £300m Medium Term Notes 2023[1]	298.0	297.4
4.75% £400m Medium Term Notes 2025[1,5]	399.4	399.3
3.25% £250m medium-term notes 2027[1,4]	247.6	–
7.125% US$300m Medium Term Notes 2037[2,3]	192.1	192.1
Revaluation of Medium Term Notes[6]	64.8	45.8
Lease liabilities	3,278.9	3,407.0
	4,780.0	4,640.3
Total	5,111.4	5,354.4

1. These notes are issued under Marks and Spencer plc's £3bn European Medium Term Note programme and all pay interest annually.
2. Interest on these bonds is payable semi-annually.
3. US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross currency interest rate swaps).
4. In July 2019, a £250m 3.25% Medium Term Note was issued which matures in July 2027.
5. The Group occasionally enters into interest rate swaps to manage interest rate exposure. At year end, £175m (last year: £375m) was swapped from fixed to floating rate.
6. Revaluation consists of fair value hedge adjustment of £13.6m (last year: £13.8m) and foreign exchange loss on revaluation of the 7.125% US$300m Medium Term Notes 2037 of £50.8m (last year: £35.6m).

Leases

From 31 March 2019, the Company has adopted IFRS 16 Leases. Refer to notes C1 and C23 for the accounting policy and restatements respectively. The lease liabilities recognised on adoption of the new leasing standard are reflected in borrowings.

The Company also has certain leases with lease terms of 12 months or less and leases of assets with low values. The Company 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.

	2020 £m	2019 (Restated) £m
Opening lease liabilities	3,608.4	3,659.6
Additions	176.9	167.9
Interest expense relating to lease liabilities	199.7	211.1
Payments	(406.2)	(395.4)
Disposals	(87.7)	(40.9)
Exchange and other movements	(0.2)	6.1
	3,490.9	3,608.4
Current	212.0	201.4
Non-current	3,278.9	3,407.0

The maturity analysis of lease liabilities are disclosed in note C15.

The following amounts were recognised in profit or loss

	2020 £m	2019 (Restated) £m
Expenses relating to short-term leases	0.9	0.2
Expenses relating to low-value assets	2.4	3.8
Expenses relating to variable consideration	4.2	4.6

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS

Treasury policy

Marks and Spencer plc is the main treasury entity of the Group and as a result the treasury function is managed through this company. The terms Company and Group are therefore interchangeable in the risk analysis below. The Company operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

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

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

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

Financial risk management

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

(a) Liquidity and funding risk

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

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

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

Due to uncertainty around the ramifications of the Covid-19 pandemic on the reported covenant, formal agreement has been reached with the lending syndicate of banks to substantially relax or remove the covenant conditions for the tests arising in September 2020, March 2021, and September 2021.

The Company also has a number of uncommitted facilities available to it. At year end, these amounted to £50m (last year: £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year: £nil) was drawn under the committed facilities and £nil (last year: £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Company has a Euro Medium Term Note programme of £3.0bn, of which £1.3bn (last year: £1.4bn) was in issuance as at the balance sheet date.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

The contractual maturity of the Company's non-derivative financial liabilities (excluding trade and other payables (see note C13)) and derivatives is as follows:

	Bank loans and overdrafts £m	Medium-term notes £m	Lease liabilities (Restated) £m	Total £m	Cash inflow on derivatives[1] £m	Cash outflow on derivatives[1] £m	Total £m
Timing of cash flows							
Within one year	(72.2)	(487.2)	(382.0)	(941.4)	1,798.0	(1,768.4)	29.6
Between one and two years	–	(62.7)	(384.9)	(447.6)	228.6	(217.0)	11.6
Between two and five years	–	(751.3)	(1,098.0)	(1,849.3)	282.4	(241.4)	41.0
More than five years	–	(895.5)	(4,742.6)	(5,638.1)	230.8	(191.5)	39.3
	(72.2)	(2,196.7)	(6,607.5)	(8,876.4)	2,539.8	(2,418.3)	121.5
Effect of discounting and foreign exchange	–	522.9	2,999.1	3,522.0			
At 30 March 2019	(72.2)	(1,673.8)	(3,608.4)	(5,354.4)			
Timing of cash flows							
Within one year	(84.3)	(71.9)	(394.7)	(550.9)	2,227.0	(2,154.2)	72.8
Between one and two years	-	(371.9)	(388.9)	(760.8)	183.5	(167.2)	16.3
Between two and five years	-	(451.6)	(1,088.5)	(1,540.1)	296.8	(238.4)	58.4
More than five years	-	(1,164.0)	(4,485.0)	(5,649.0)	235.3	(188.3)	47.0
	(84.3)	(2,059.4)	(6,357.1)	(8,500.8)	2,942.6	(2,748.1)	194.5
Effect of discounting and foreign exchange	-	523.2	2,866.1	3,389.3			
At 28 March 2020	(84.3)	(1,536.2)	(3,491.0)	(5,111.5)			

1. Derivative cash flows are disclosed on a gross basis and comparative amounts have been adjusted to reflect this.

(b) Counterparty risk

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

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (S&P)/Moody's A-/A3 (BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different 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 below credit ratings are at the reporting date. Senior management performs a daily review of all counterparty positions and as of May 2020 there have been no breaches to any counterparty limits.

	Credit rating of counterparty							
	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	–	–	0.5	145.0	80.0	–	–	225.5
Derivative assets[2]	–	–	17.3	21.0	11.8	–	0.3	50.4
At 30 March 2019	–	–	17.8	166.0	91.8	–	0.3	275.9

	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total
Short-term investments[1]	-	-	27.5	50.3	-	-	-	77.8
Derivative assets[2]	-	-	79.6	66.2	26.8	-	-	172.6
At 28 March 2020	-	-	107.1	116.5	26.8	-	-	250.4

1. Includes cash on deposit held by Marks & Spencer plc.
2. Standard & Poor's Global Ratings equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's Global Ratings, Moody's or Fitch where applicable.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £148.0m (last year £118.8m), other receivables £14.3m (£14.3m), cash and cash equivalents £165.7m (last year £217.0m) and derivatives £172.6m (last year £43.3m).

Impairment of financial assets

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

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

To measure expected credit losses, trade receivables have been grouped by shared credit risk characteristics along the lines of differing revenue streams such as international franchise, food, UK franchise, corporate and sundry, as well as by geographical location and days past due. 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 expected loss rates are determined based on the average write-offs as a proportion of average debt over a period of 36 months prior to the reporting date. The historical loss rates are adjusted for current and forward-looking information where significant. The Group considers GDP growth, unemployment, sales growth and bankruptcy rates of the countries in which goods are sold to be the most relevant factors, and where the impact of these is significant adjusts the historical loss rates based on expected changes in these factors.

The forward-looking macro-economic data incorporated into the UK and International calculations represented the best available relevant information at the reporting date. This resulted in increased provisions for the financial year by £0.8m to reflect a lower expected recovery of trade receivables.

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 30 March 2019	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount - trade receivables	111.5	3.0	0.6	0.9	1.1	1.7	118.8
Expected loss rate	0.62%	3.18%	9.20%	18.17%	28.45%	100.0%	2.52%
Lifetime expected credit loss	0.7	-	0.1	0.2	0.3	1.7	3.0
Net carrying amount	**110.8**	**3.0**	**0.5**	**0.7**	**0.8**	**-**	**115.8**

As at 28 March 2020	Current £m	Up to 30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-180 days past due £m	181 days or more past due £m	Total £m
Gross carrying amount - trade receivables	125.9	19.2	1.5	0.4	0.3	0.7	148.0
Expected loss rate	2.01%	0.04%	29.06%	1.66%	3.40%	100.0%	2.50%
Lifetime expected credit loss	2.6	-	0.4	-	-	0.7	3.7
Net carrying amount	**123.3**	**19.2**	**1.1**	**0.4**	**0.3**	**-**	**144.3**

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

The closing loss allowances for trade receivables as at 28 March 2020 reconciles to the opening loss allowances as follows:

Trade receivables expected loss provision	2020 £m	2019 £m
Opening loss allowance as at 30 March 2019	3.0	1.6
Increase in loss allowance recognised in profit and loss during the year	0.8	1.6
Receivables written off during the year as uncollectable	(0.1)	(0.2)
At 28 March 2020	3.7	3.0

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

Lease receivables expected loss provision	2020 £m	2019 £m
Opening loss allowance as at 30 March 2019	-	-
Increase in loss allowance recognised in profit and loss during the year	4.7	-
Receivables written off during the year as uncollectable	-	-
At 28 March 2020	4.7	-

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 exposures arise primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar incurred in the sourcing of Clothing and Home products from Asia.

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

At the balance sheet date the gross notional value in sterling terms of forward foreign exchange contracts amounted to £2,127.2m (last year: £1,985.1m) with a weighted average maturity date of six months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 28 March 2020 will be released to the income statement at various dates over the following 18 months (last year: 17 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.

As a result of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures, the Group has reviewed the FX hedging portfolio to confirm whether the underlying transactions remain highly probable. Any identified instance of over-hedging or ineffectiveness would result in immediate recycling to the income statement. A change in the timing of a forecast item does not disqualify a hedge relationship nor the assertion of "highly probable" as there remains an economic relationship between the underlying transaction and the derivative. In accordance with the Group's treasury policy, hedges are entered into by business line and by season. At the time of reporting, management had identified over-hedging in Clothing& Home stock purchases resulting in a gain of £2.9m in profit and loss this financial year.

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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

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

After taking into account the hedging derivatives entered into by the Company, the currency and interest rate exposure of the Company's financial liabilities excluding short-term, is set out below:

	2020			2019 (Restated)		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	4,837.0	274.4	5,111.4	4,907.2	447.2	5,354.4
	4,837.0	274.4	5,111.4	4,907.2	447.2	5,354.4

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

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

(d) Interest rate risk

The Company is exposed to interest rate risk in relation to sterling variable rate financial assets and liabilities.

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

At the balance sheet date, fixed rate borrowings amounted to £4,837.1m (last year £4,907.2m) representing the public bond issues and finance leases, amounting to 95% (last year 92%) of the Group's gross borrowings.

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

	2020 %	2019 %
Committed and uncommitted borrowings	N/A	N/A
Medium-term notes	4.6	4.8
Finance leases	4.4	4.5

The interest rate swaps are recognised at fair value. The Group has considered and elected to apply credit/debit valuation adjustments, owing to the swaps' relative materiality and longer dated nature. The contractual terms on £150m of the £175m notional of interest rate swaps relating to the 2025 debt allow for early termination every five years (next optional termination date April 2023). Variable interest periods on the pay legs are six-monthly compared with 12-monthly on the receive fixed legs and related debt. This will cause ineffectiveness of the hedging relationship.

The Group is exposed to GBP LIBOR within a fair value hedge accounting relationship, which is subject to interest rate benchmark reform.

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). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has identified where LIBOR exposures are within the business and will prepare and deliver an action plan to enable the smooth transition to alternative benchmark rates under the governance of the Head of Treasury. The Group aims to have its transition and fallback plans in place by the end of 2020.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussions with its banks with the aim of implementing this language into its ISDA agreements.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Fair value hedge	Pay six-month GBP LIBOR, receive sterling fixed interest rate swaps	2025	£175m	Sterling fixed rate issued debt of the same maturity and nominal of the swap

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

Derivative financial instruments

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

	30 March 2019					
	Current			Non-current		
	Forward foreign exchange contracts	Forward foreign exchange contracts	Interest rate swaps	Cross-currency swaps	Forward foreign exchange contracts	Interest rate swaps
	£m	£m	£m	£m	£m	£m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,194.0	588.1	200.0	193.5	203.0	175.0
Carrying amount assets / (liabilities)	20.7	0.3	5.3	4.0	(1.6)	14.6
Maturity date	to Mar 2020	to Mar 2020	Dec 2019	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%[1]	100%	100%	100%	100%[1]	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits & subsidiary FX exposures	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[2]	92.3	(1.5)	(5.0)	(7.9)	2.0	0.5
Change in fair value of hedged item used to determine hedge effectiveness[2]	(92.3)	5.4	5.0	4.4	(2.0)	(0.4)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	3.4%	7.3%	GBP/EUR 1.12, GBP/USD 1.32	3.2%
Amounts recognised within finance costs in profit and loss	–	3.9	–	(3.5)	–	0.1
Balance on cash flow hedge reserve at 30 March 2019	(7.9)	N/A	N/A	(8.4)	1.0	N/A
Balance on cost of hedging reserve at 30 March 2019	–	N/A	N/A	(14.6)	–	N/A

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

	28 March 2020					
	Current			Non-current		
	Forward foreign exchange contracts £m	Forward foreign exchange contracts £m	Interest rate swaps £m	Cross-currency swaps £m	Forward foreign exchange contracts £m	Interest rate swaps £m
Hedging risk strategy	Cash flow hedges	Held for trading	Fair value hedges	Cash flow hedges	Cash flow hedges	Fair value hedges
Notional / currency legs	1,953.5	157.0	-	193.5	173.6	175.0
Carrying amount assets / (liabilities)	61.0	(0.3)	-	83.8	9.5	18.4
Maturity date	to Mar 2020	to Mar 2020	-	Dec 2037	to Sep 2020	Jun 2025
Hedge ratio	100%	100%	100%	100%	100%[1]	100%
Description of hedged item	Highly probable transactional FX exposures	Inter-company loans/ deposits & subsidiary FX exposures	GBP fixed rate borrowing	USD fixed rate borrowing	Highly probable transactional FX exposures	GBP fixed rate borrowing
Change in fair value of hedging instrument[1]	33.6	(0.6)	-	79.7	11.1	3.8
Change in fair value of hedged item used to determine hedge effectiveness[2]	(30.7)	-	-	(79.7)	(11.1)	(3.8)
Weighted average hedge rate for the year	GBP/EUR 1.12, GBP/USD 1.35	N/A	0.0%	7.5%	GBP/EUR 1.12, GBP/USD 1.32	3.3%
Amounts recognised within finance costs in profit and loss	2.9	(0.6)	–	5.9[2]	–	-
Balance on cash flow hedge reserve at 28 March 2020	(37.2)	N/A	N/A	(40.1)	(9.8)	N/A
Balance on cost of hedging reserve at 28 March 2020	–	N/A	N/A	(7.2)	–	N/A

1. The £(0.6)m fair value change represented in the fair value movement of the forward contracts under the held for trading strategy is used to economically hedge for certain intercompany loans/deposits which are represented in the £4.0m as the net foreign exchange gains and losses under this strategy.
2. The £5.9m gain represents previously recognised hedge ineffectiveness that reversed out during the financial year.

		30 March 2019			
		Notional Value		Fair Value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	- cash flow hedges	865.4	328.6	26.7	(6.0)
	- held for trading	283.4	304.7	8.7	(8.4)
Interest rate swaps	- fair value hedges	200.0	–	5.3	-
		1,348.8	633.3	40.7	(14.4)
Non-current					
Cross currency swaps	- cash flow hedges	-	193.5	4.7	(0.7)
Forward foreign exchange contracts	- cash flow hedges	84.8	118.2	0.5	(2.1)
Interest rate swaps	- fair value hedges	175.0	–	14.6	–
		259.8	311.7	19.8	(2.8)

		28 March 2020			
		Notional Value		Fair Value	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	- cash flow hedges	1,534.7	418.8	75.3	(14.3)
	- held for trading	61.9	95.1	2.5	(2.8)
Interest rate swaps	- fair value hedges	-	–	-	-
		1,596.6	513.9	77.8	(17.1)
Non-current					
Cross currency swaps	- cash flow hedges	193.5	-	83.8	-
Forward foreign exchange contracts	- cash flow hedges	153.1	20.5	10.6	(0.9)
Interest rate swaps	- fair value hedges	175.0	–	18.4	–
		521.6	20.5	112.8	(0.9)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	Cost of hedging reserve FX derivatives £m	Cost of hedging reserve CCIRS[1] £m	Deferred tax £m	Total cost of hedging reserve £m	Hedge reserve FX derivatives £m	Hedge reserve CCIRS £m	Hedge reserve gilt locks £m	Deferred tax £m	Total hedge reserve £m
Opening Balance 1 April 2018	0.8	(13.9)	2.4	(10.7)	59.9	35.9	0.4	(18.2)	78.0
Add: Change in fair value of hedging instrument recognised in OCI	–	–	–	–	(108.9)	(19.2)	–	–	(128.1)
Add: Costs of hedging deferred and recognised in OCI[2]	(0.8)	(0.7)	–	(1.5)	–	–	–	–	–
Less: Reclassified to the cost of inventory	–	–	–	–	42.2	–	–	–	42.2
Less: Reclassified from OCI to profit or loss	–	–	–	–	–	15.8	–	–	15.8
Less: Reclassified from OCI to profit or loss - included in finance costs	–	–	–	–	–	0.4	(0.2)	–	0.2
Less: Deferred tax	–	–	0.5	0.5	–	–	–	9.8	9.8
Closing Balance 30 March 2019	–	(14.6)	2.9	(11.7)	(6.8)	32.9	0.2	(8.4)	17.9
Opening balance 31 March 2019	-	(14.6)	2.9	(11.7)	(6.8)	32.9	0.2	(8.4)	17.9
Add: Change in fair value of hedging instrument recognised in OCI	-	-	-	-	(53.0)	(88.6)	-	-	(141.6)
Add: Costs of hedging deferred and recognised in OCI	-	7.5	-	7.5	-	-	-	-	-
Less: Reclassified to the cost of inventory	-	-	-	-	7.4	-	-	-	7.4
Less: Reclassified from OCI to profit or loss	-	-	-	-	-	-	-	-	-
Less: Reclassified from OCI to profit or loss - included in finance costs	-	-	-	-	2.9	15.6	(0.1)	-	18.4
Less: Deferred tax	-	-	(1.5)	(1.5)	-	-	-	25.5	25.5
Closing balance 28 March 2020	-	(7.1)	1.4	(5.7)	(49.5)	(40.1)	0.1	17.1	(72.4)

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

In incorporating the effects of the Covid-19 pandemic on the Group forecast hedged transactions, management has identified some resulting over-hedging in Clothing & Home stock purchases. The portion transferred from the cash flow hedge reserve and recognised in profit or loss in relation to forecast purchases no longer expected to occur amounts to a £2.9m gain (last year: £nil). The applicable cash flow hedges have been discontinued prospectively; derivatives with the notional value of US$76.6m will be subsequently accounted for at fair value through profit and loss.

The Group holds a number of interest rate swaps to designate its sterling fixed debt to floating debt. These are reported as fair value hedges (see note C14 for details of fair value adjustment). The ineffective portion recognised in profit or loss that arises from fair value hedges amounts to a £nil gain or loss (last year: £0.1m gain) as the gain on the hedged items was £3.8m (last year: £4.6m gain) and the movement on the hedging instruments was £3.8m loss (last year: £4.5m loss).

Movement in hedged items and hedging instruments

	2020 £m	2019 £m
Net loss in fair value of interest rate swap	(3.8)	(4.5)
Net gain on hedged items	3.8	4.6
Ineffectiveness	-	0.1

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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. Nil ineffectiveness (last year: £3.5m loss) was recognised in the profit and loss arising from the cash flow hedge amounts as the loss on the hedged items was £79.7m (last year: £4.4m gain) and the movement on the hedging instruments was £79.7m gain (last year: £7.9m loss). A gain of £5.9m was recognised in the profit and loss as previously realised ineffectiveness reversed out.

Movement in hedged items and hedging instruments

	2020 £m	2019 £m
Net gain/(loss) in fair value of cross-currency interest rate swap	79.7	(7.9)
Net (loss)/gain on hedged items	(79.7)	4.4
Ineffectiveness	-	(3.5)

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 transactional foreign exchange cash flow hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

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

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 30 March 2019				
Impact on income statement: gain/(loss)	5.5	(4.3)	–	–
Impact on other comprehensive income: (loss)/gain	(4.3)	2.6	262.4	(262.4)
At 28 March 2020				
Impact on income statement: gain/(loss)	3.1	(1.7)	-	-
Impact on other comprehensive income: gain/(loss)	26.8	(19.7)	212.7	(212.7)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

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

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

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2019					
Trade and other receivables	24.9	(21.7)	3.2	-	3.2
Derivative financial assets	60.6	-	60.6	(17.2)	43.4
Cash and cash equivalents	34.8	(34.8)	-	-	-
	120.3	(56.5)	63.8	(17.2)	46.6
Trade and other payables	(264.6)	21.7	(242.9)	-	(242.9)
Derivative financial liabilities	(17.2)	-	(17.2)	17.2	-
Bank loans and overdrafts	(107.1)	34.8	(72.3)	-	(72.3)
	(388.9)	56.5	(332.4)	17.2	(315.2)

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2020					
Trade and other receivables	18.6	(14.3)	4.3	-	4.3
Derivative financial assets	190.6	-	190.6	(18.0)	172.6
Cash and cash equivalents	13.2	(13.2)	-	-	-
	222.4	(27.5)	194.9	(18.0)	176.9
Trade and other payables	(272.8)	14.3	(258.5)	-	(258.5)
Derivative financial liabilities	(18.0)	-	(18.0)	18.0	-
Bank loans and overdrafts	(97.5)	13.2	(84.3)	-	(84.3)
	(388.3)	27.5	(360.8)	18.0	(342.8)

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

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments 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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C15 FINANCIAL INSTRUMENTS CONTINUED

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

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	-	2.5	-	2.5	–	8.7	–	8.7
Derivatives used for hedging	-	183.2	-	183.2	–	51.8	–	51.8
Short- term investments	-	6.0	-	6.0	–	135.6	–	135.6
Unlisted investments[1]	-	-	9.7	9.7	–	–	9.9	9.9
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	-	(2.8)	-	(2.8)	–	(8.4)	–	(8.4)
Derivatives used for hedging	-	(10.3)	-	(10.3)	–	(8.8)	–	(8.8)

1. There were no transfers between the levels of the fair value hierarchy. The Group holds £9.7m in unlisted equity securities measured at fair value through other comprehensive income (last year: £9.9m) (see note 16) which is a Level 3 instrument. The fair value of this investment is determined with reference to the net asset value of the entity in which the investment is held, which in turn derives the majority of its net asset value through a third-party property valuation.

The Marks & Spencer DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,653.8m (last year £10,577.0m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £6,328.7m (last year £7,008.6m). Additionally, the pension scheme assets include £4,325.1m (last year £3,216.m) of Level 3 financial assets. See note C4 for information on the Group's retirement benefits.

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

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

Fair value of financial instruments

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

The carrying value of the Group's Medium Term Notes was £1,536.2m (last year £1,673.8m), the fair value of this debt was £1,531.4m (last year £1,724.0m).

Capital policy

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

In doing so, the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy, the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date, the Group's average debt maturity profile was six years (last year: five years). As one of several actions taken by rating agencies in response to the Covid-19 pandemic, the Group credit rating was reduced to Ba1 (negative outlook) with Moody's and BB+ (negative watch) with Standard & Poor's.

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

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C16 PROVISIONS

	Property £m	Restructuring £m	Other £m	2020 Total £m	2019 Total £m
At start of year	117.2	6.3	6.3	129.8	138.5
Provided in the year	31.2	10.7	0.1	42.0	83.2
Released in the year	(65.7)	(2.1)	(1.0)	(68.8)	(64.3)
Utilised during the year	(15.5)	(3.9)	(0.5)	(19.9)	(55.4)
Discount rate unwind	4.8	-	-	4.8	8.2
Transfer	(16.9)	-	-	(16.9)	19.6
At end of year	55.1	11.0	4.9	71.0	129.8
Analysed as:					
Current				17.7	59.7
Non-current				53.3	70.1

Property provisions relate to dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one building. These provisions are expected to be utilised over the period to the end of each specific lease (up to 10 years).

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

Other provisions include amounts in respect of potential liabilities for employee-related matters. The release during the prior year related to the finalisation of charges for certain employee-related matters provided for during 2018.

C17 DEFERRED TAX

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

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

Deferred tax (liabilities)/assets

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m
At 1 April 2018	(25.5)	(30.0)	(256.7)	103.5	(208.7)
Credited/(charged) to the income statement	2.5	22.7	(6.4)	2.8	21.6
Charged to equity	–	–	26.0	(10.9)	15.1
At 30 March 2019	(23.0)	(7.3)	(237.1)	95.4	(172.0)
At 31 March 2019	(23.0)	(7.3)	(237.1)	95.4	(172.0)
Credited/(charged) to the income statement	1.8	8.7	(12.8)	12.5	10.2
Charged to equity	-	-	(199.2)	(24.4)	(223.6)
At 28 March 2020	(21.2)	1.4	(449.1)	83.5	(385.4)

Other short-term 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 £335.7m (last year: £321.7m) and a tax value of £63.8m (last year: £61.1m). From 1 April 2020, the UK rules restricting the use of brought forward losses to 50% of profits or gains in excess of £5m p.a. were extended to include capital losses. It is considered that the full benefit of the losses will continue to be recoverable due to the quantum of the gains and the Company's ability to exercise a level of control over when gains are crystallised.

C18 ORDINARY SHARE CAPITAL

	2020 Shares	2020 £m	2019 Shares	2019 £m
Issued and fully paid ordinary shares of 25p each	2,850,039,477	712.5	2,850,039,477	712.5

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C19 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2020 £m	2019 £m
Commitments in respect of properties in the course of construction	77.9	89.7
Commitments in respect of computer software under development	8.6	5.4
	86.5	95.1

B. Other material contracts

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

See note C5 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C20 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2020 £m	2019 £m
Profit on ordinary activities after taxation	264.4	74.3
Income tax expense	7.6	37.4
Finance costs	285.2	318.6
Finance income	(65.1)	(65.7)
Operating profit	**492.1**	**364.6**
Decrease in inventories	284.8	99.0
(Increase)/decrease in receivables	(0.9)	8.8
(Decrease) in payables	(323.9)	(163.6)
Adjusting items net cash outflows[1,2]	(74.2)	(99.9)
Depreciation, amortisation and asset impairments	653.1	716.3
Non-cash share-based payment charges	18.3	19.1
Defined benefit pension funding	(37.4)	(37.8)
Adjusting operating profit items	308.6	376.3
Cash generated from operations	**1,320.5**	**1,282.8**

1. Excludes £9.8m (last year: £nil) of surrender payments included within repayment of lease liabilities in the consolidated statement of cash flows relating to leases within the UK store estate programme
2. Adjusting items net cash outflows relate to the utilisation of the provisions for strategic programme costs associated with the UK store estate, organisation, operational transformation, UK logistics, IT restructure, changes to pay and pensions, store impairments and property charges, GMP and other pension equalisation and M&S Bank.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C21 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 1 April 2018 (Restated) £m	Cash flow (Restated) £m	Exchange and other non-cash movement (Restated) £m	At 30 March 2019 (Restated) £m
Net cash/(debt)				
Bank loans, overdrafts and syndicated bank facility (see note C14)	(86.6)	9.4	5.0	(72.2)
Less: amounts treated as financing (see below)	50.0	(45.0)	(5.0)	-
	(36.6)	(35.6)	-	(72.2)
Cash and cash equivalents (see note C12)	130.4	86.6	-	217.0
Net cash per statement of cash flows	93.8	51.0	-	144.8
Current financial assets (see note C10)	5.8	(17.0)	146.8	135.6
Liabilities from financing activities				
Bank loans, and overdrafts treated as financing (see above)	(50.0)	45.0	5.0	-
Medium Term Notes (see note C14)	(1,622.9)	(1.4)	(12.5)	(1,636.8)
Lease liabilities (see note C14)	(3,658.4)	395.4	(345.4)	(3,608.4)
Derivatives held to hedge Medium Term Notes	-	-	23.9	23.9
Liabilities from financing activities	(5,331.3)	439.0	(329.0)	(5,221.3)
Less: Derivative instruments and cash flows related to interest	38.2	-	(12.6)	25.6
Net debt	(5,193.5)	473.0	(194.8)	(4,915.3)

	At 31 March 2019 (Restated) £m	Cash flow £m	Exchange and other non-cash movements £m	At 28 March 2020 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note C14)	(72.2)	(12.1)	-	**(84.3)**
Cash and cash equivalents (see note C12)	217.0	(51.3)	-	**165.7**
Net cash per statement of cash flows	144.8	(63.4)	-	**81.4**
Current financial assets (see note C10)	135.6	(129.6)	-	**6.0**
Liabilities from financing activities				
Medium Term Notes (see note C14)	(1,636.8)	150.0	(14.3)	**(1,501.1)**
Lease liabilities (see note C14)	(3,608.4)	406.2	(288.7)	**(3,490.9)**
Derivatives held to hedge Medium Term Notes	23.9	(7.7)	86.0	**102.2**
Liabilities from financing activities	(5,221.3)	548.5	(217.0)	**(4,889.8)**
Less: Derivative instruments and cash flows related to interest	25.6	7.7	(70.7)	**(37.4)**
Net debt	(4,915.3)	363.2	(287.7)	**(4,839.8)**

B. Reconciliation of net debt to statement of financial position

	2020 £m	2019 (Restated) £m
Statement of financial position and related notes		
Cash and cash equivalents (see note C12)	**165.7**	217.0
Current financial assets (see note)	**6.0**	135.6
Bank loans and overdrafts (see note C14)	**(84.3)**	(72.2)
Medium Term Notes – net of hedging derivatives	**(1,471.4)**	(1,624.3)
Lease liabilities (see note C14)	**(3,490.9)**	(3,608.4)
	(4,874.9)	(4,952.3)
Interest payable included within related borrowing	**35.1**	37.0
Total net debt	**(4,839.8)**	(4,915.3)

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C22 RELATED PARTY TRANSACTIONS

A. Marks and Spencer Group plc

During the year, the Company paid dividends to its parent company, Marks and Spencer Group plc of £193.8m (last year £305.0m) and has decreased its loan to its parent company by £5.1m (last year decrease of £2.1m). The outstanding balance was £2,543.4m (last year £2,548.5m) and was non-interest bearing.

Transactions between the Company and its subsidiaries, which are related parties, are summarised below:

	2020 Transactions £m	2019 Transactions £m
Trading sales	(315.2)	(324.5)
IFRS 16 depreciation	75.5	89.3
IFRS 16 interest	79.6	85.7
Loan interest	2.8	5.7

B. Hedge End joint venture

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

C. Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes C4 and C5.

D. Key management compensation

Payments and benefits relating to key management are set out in note 27 of the Group financial statements.

C23 RESTATEMENTS

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

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

The impact of adopting IFRS 16 on the Company's statement of financial position and statement of cash flows is presented in the following tables.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 RESTATEMENTS CONTINUED

Company statement of financial position

	As at 30 March 2019			As at 1 April 2018		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Assets						
Non-current assets						
Property, plant and equipment	2,519.0	2,297.4	4,816.4	2,713.6	2,596.8	5,310.4
Trade and other receivables	96.2	73.5	169.7	91.2	0.5	91.7
Other non-current assets	2,776.7	-	2,776.7	3,007.2	-	3,007.2
	5,391.9	2,370.9	7,762.8	5,812.0	2,597.3	8,409.3
Current assets						
Trade and other receivables	3,140.5	(72.2)	3,068.3	6,360.1	(49.6)	6,310.5
Other current assets	1,040.5	-	1,040.5	885.4	-	885.4
	4,181.0	(72.2)	4,108.8	7,245.5	(49.6)	7,195.9
Total assets	9,572.9	2,298.7	11,871.6	13,057.5	2,547.7	15,605.2
Liabilities						
Current liabilities						
Trade and other payables	2,771.5	(59.1)	2,712.4	5,782.8	(22.9)	5,759.9
Borrowings and other financial liabilities	512.9	201.2	714.1	123.6	214.6	338.2
Provisions	104.9	(45.2)	59.7	92.4	(35.9)	56.5
Current tax liabilities	4.6	-	4.6	27.2	-	27.2
Other current liabilities	14.4	-	14.4	77.0	-	77.0
	3,408.3	96.9	3,505.2	6,103.0	155.8	6,258.8
Non-current liabilities						
Trade and other payables	526.9	(516.5)	10.4	548.3	(535.0)	13.3
Borrowings and other financial liabilities	1,273.4	3,366.9	4,640.3	1,664.2	3,403.6	5,067.8
Provisions	240.1	(170.0)	70.1	187.3	(105.3)	82.0
Deferred tax liabilities	255.6	(83.6)	172.0	286.1	(77.4)	208.7
Other non-current liabilities	10.9	-	10.9	41.2	-	41.2
	2,306.9	2,596.8	4,903.7	2,727.1	2,685.9	5,413.0
Total liabilities	5,715.2	2,693.7	8,408.9	8,830.1	2,841.7	11,671.8
Net assets	3,857.7	(395.0)	3,462.7	4,227.4	(294.0)	3,933.4
Equity						
Issued share capital	712.5	-	712.5	712.5	-	712.5
Share premium account	386.1	-	386.1	386.1	-	386.1
Capital redemption reserve	8.0	-	8.0	8.0	-	8.0
Hedging reserve	(17.9)	-	(17.9)	(78.0)	-	(78.0)
Cost of hedging reserve	11.7	-	11.7	10.7	-	10.7
Retained earnings	2,757.3	(395.0)	2,362.3	3,188.1	(294.0)	2,894.1
Total equity	3,857.7	(395.0)	3,462.7	4,227.4	(294.0)	3,933.4

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C23 RESTATEMENTS CONTINUED

Company statement of cash flows

	52 weeks ended 30 March 2019		
	As previously reported £m	Impact of IFRS 16 £m	Restated £m
Cash flows from operating activities			
Cash generated from operations	894.3	388.5	1,282.8
Income tax paid	(97.3)	-	(97.3)
Net cash inflow from operating activities	**797.0**	**388.5**	**1,185.5**
Net cash used in investing activities	**(237.3)**	**-**	**(237.3)**
Cash flows from financing activities			
Interest paid	(89.6)	(203.7)	(293.3)
Decrease in obligations under leases	(2.5)	(189.2)	(191.7)
Movement in intercompany loans treated as financing	(57.5)	4.4	(53.1)
Other financing activities	(359.1)	-	(359.1)
Net cash used in financing activities	**(508.7)**	**(388.5)**	**(897.2)**
Net cash inflow from activities	**51.0**	**-**	**51.0**
Opening net cash	93.8	-	93.8
Closing net cash	**144.8**	**-**	**144.8**

(i) Income statement

The net impact of the above adjustments to loss after tax for the 52 weeks ended 30 March 2019 was a further decrease of £94.7m.

(ii) Right-of-use asset

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

(iii) Lease liability

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

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

(iv) Working capital

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

(v) Taxation

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

(vi) Cash flow statement

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

C24 ULTIMATE PARENT COMPANY

The immediate and ultimate parent undertaking and controlling party is Marks and Spencer Group plc.

Marks and Spencer Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 28 March 2020. The consolidated financial statements of Marks and Spencer Group plc are available from Waterside House, 35 North Wharf Road, London, W2 1NW.

COMPANY NOTES TO THE FINANCIAL STATEMENTS CONTINUED

C25 SUBSEQUENT EVENTS

The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on pages 12 - 19 as well as set out within note 1 and the basis of preparation on page 45 which summarises the Covid-19 scenario modelled by the Group.

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

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

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note C4 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.